

## To Creditors As Addressed

11 September 2017

Dear Sir / Madam

Stochastic Simulation Limited (Receivers & Managers Appointed) (Administrators Appointed)  
ACN 132 012 296  
(the Company)

As previously advised Bryan Hughes, Renee O'Driscoll and Daniel Bredenkamp were appointed as Joint and Several Receivers and Managers of the Company on 30 March 2017 (Receivers and Managers). The Directors of the Company subsequently appointed Richard Hughes and I as Joint & Several Administrators of the Company on 3 April 2017 pursuant to Section 436C of the Corporations Act 2001.

For your information and assistance, I attach the following:

1. Joint and Several Administrators' Report, including a report on the Company's business, property, affairs and financial circumstances. The report contains a statement setting out my opinion about each of the following matters and my reasons for those opinions:
  - a. Whether it would be in the creditors' interests for the Company to execute a Deed of Company Arrangement; or
  - b. Whether it would be in the creditors' interests for the Company to be wound up; or
  - c. Whether it would be in the creditors' interests for the administration to end.
2. An updated Declaration of Independence, Relevant Relationships and Indemnities.
3. Remuneration Report outlining the Joint and Several Administrators' current and future expected costs.
4. Notice of Meeting to be held at the offices of Deloitte Financial Advisory Pty Ltd, Tower 2, Brookfield Place, Level 9, 123 St Georges Terrace, Perth WA 6000 on Tuesday 19 September 2017 at 11:00 AM WST.
5. Informal Proof of Debt form for the Company. Any Informal Proof of Debt forms submitted for the purposes of the first meeting of creditors and accepted by the Chairperson of that meeting for voting purposes will be valid for this meeting.
6. Instrument of Proxy for voting purposes of the Company.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Should you have any queries relating to this matter please contact Jordan Basso on (08) 9365 7849 or via email on [jbasso@deloitte.com.au](mailto:jbasso@deloitte.com.au).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Jason Tracy', with a stylized, cursive script.

Jason Tracy  
Joint and Several Administrator

Encl.

**STOCHASTIC SIMULATION LIMITED  
(Administrators Appointed) (Receivers and  
Managers Appointed)  
ACN 132 012 296**

**Report to creditors pursuant to Section 439A  
of the Corporations Act 2001**

**11 September 2017**



## Contents

1	Executive summary	4
2	Background information	6
3	Historical financial performance	10
4	Directors' Report as to Affairs (RATA)	13
5	The Administrators' actions to Date	17
6	Receivers' sales process	18
7	Investigations	19
8	Estimated return from a winding up	24
9	Deed of Company Arrangement (DOCA)	27
10	Administrators' opinion	27
11	Other material information	27
12	Remuneration	28
13	Meeting	28
	Appendix A - Declaration of Independence, Relevant Relationships and Indemnities	30
	Appendix B - Information sheet – offences, recoverable transactions, etc.	37
	Appendix C - Approving fees: A guide for creditors	38
	Appendix D - Remuneration report	38
	Appendix E - Notice of Meeting	55
	Appendix F - Proof of Debt	57
	Appendix G - Form of Proxy	59

## Definitions

Administrators	Jason Tracy and Richard Hughes
All PAAP	All present and after acquired property
ANZ	Australia & New Zealand Banking Group Limited
ARITA	Australian Restructuring, Insolvency and Turnaround Association
ASIC	Australian Securities & Investments Commission
ATO	Australian Taxation Office
c.	Circa/approximately
Company/SSL	Stochastic Simulation Limited (Receivers and Managers Appointed) (Administrators Appointed)
Deloitte	Deloitte Financial Advisory Pty Ltd
Directors	Collectively Andrew Wadsley, Leo Mullins, John Davidson and Paul Kristensen
DIRRI	Declaration of Independence and Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
ERV	Estimated Realisable Value
Exploration Consultants	Exploration and Production Consultants (Australia) Pty Ltd, a company controlled and owned by Andrew Wadsley
FEG	Fair Entitlement Guarantee
FY XX	Financial Year Ended XX
GSA	General security agreement over the Company's assets entered into by the Secured Creditors and the Company on or about 3 August 2016
JMS	Joondalup Management Services Pty Ltd a company related to Leo Mullins
k.	Thousands
Loan	\$315,000 loan made by the Secured Creditors to Exploration Consultants and guaranteed by the Company
m.	Million
Management	Management of the Company
Optimiser	Optimiser Pty Ltd a company related to Leo Mullins and Andrew Wadsley
PPSR	Personal Property Securities Register
PSI	Pre-Drill Stresses International Pty Ltd, a company related to John Davidson
RATA	Report as to Affairs
Receivers/Receivers and Managers	Collectively Bryan Hughes, Renee O'Driscoll and Daniel Bredenkamp of Pitcher Partners (WA) Pty Ltd
Relation back day	The date of appointment of administrators
Secured Creditors	Collectively Daniel Colgan as Trustee for the Sette Selle Trust, Nathan Colgan and Cornelia Colgan as Trustees for the Kinsale Trust, Dorothy and Martin Colgan
The Act	Corporations Act 2001
The Court	The Supreme Court of Western Australia
The Regulations	Corporations Regulations 2001
The Subsidiary	Gasassure Pty Ltd (ACN 617 649 582)
YTD	Year to date

## 1 Executive summary

### 1.1 Appointment

On 3 April 2017 we, Richard Hughes and Jason Tracy were appointed Joint and Several Administrators of Stochastic Simulation Limited (**the Company**) by the Directors pursuant to Section 436A of the Act.

Our appointment as Joint and Several Administrators was ratified by creditors at the first meeting of creditors held on 13 April 2017.

### 1.2 Purpose of appointment and report

The purpose of the appointment of Administrators is to allow for independent insolvency practitioners to take control of and investigate the affairs of an insolvent company. Creditors' claims are put on hold as at the date of the Administrators' appointment and remain so for the duration of the administration.

We are required to provide creditors with sufficient information and recommendations to assist them in making an informed decision on the Company's future. The purpose of this report is to provide that information and recommendations, including:

- Background information about the Company
- The results of our investigations
- The estimated returns to creditors
- The options available to creditors and our opinion on each of these options.

### 1.3 First meeting of creditors

On 13 April 2017, a meeting of creditors of the Company was held in accordance with Section 436E of the Act. At this meeting, our appointment as Administrators was confirmed.

Also at that meeting, we advised that we would undertake an investigation into the affairs of the Company whilst potential restructuring options for the Company were considered.

It was resolved that no committee of creditors be formed.

We also sought and received creditor approval to extend the convening period.

### 1.4 Conduct of administration

On 30 March 2017, prior to our appointment, Bryan Hughes, Renee O'Driscoll and Daniel Bredenkamp of Pitcher Partners (WA) Pty Ltd (**Receivers and Managers/Receivers**) were appointed Receivers and Managers over the company by Daniel Colgan as Trustee for the Sette Selle Trust, Nathan Colgan & Cornelia Colgan as Trustees for the Kinsale Trust and Dorothy & Martin Colgan (**Secured Creditors**) pursuant to a general security agreement (**GSA**) entered into by the Company and the Secured Creditors on 3 August 2016.

Given the Receivers and Managers have been in control of trading the business of the Company and undertaking a sale process for the Company's business and assets, our role has been limited to undertaking investigations, considering restructuring options and overseeing the asset sale process.

Further details of our conduct and the conduct of the Receivers and Managers are detailed in Section 5 and Section 6 respectively.

### 1.5 Administrators' independence, relationships and indemnities

In accordance with Section 436DA of the Act, a Declaration of Independence, Relevant Relationships and Indemnities (**DIRRI**) was provided with the first report to creditors dated 6 April 2017 and was also tabled at the first meeting of creditors.

An updated copy of the DIRRI is attached as Appendix A. The DIRRI has been updated on 10 May 2017 and 13 July 2017 to reflect the additional funding provided to the administration. We remain of the view that we are independent and can continue to act as administrators of the Company.

## 1.6 Investigation, Offences, Voidable Transactions

Our investigations to date have revealed possible offences/voidable transactions which are discussed fully in Section 7.

## 1.7 Deed of Company Arrangement (DOCA)

No DOCA proposal had been received as at the date of this report and it is unlikely that a DOCA will be received.

## 1.8 Dividend

Subject to any recoveries on liquidation and the quantum of additional claims received, we estimate dividends for the various classes of creditors as set out below:

Creditor Class	Estimated Liquidation Dividend Low (c/\$)	Estimated Liquidation Dividend High (c/\$)
Secured Creditors	Unknown	Unknown
Priority creditors/ employees	100c	100c
Unsecured creditors	Nil	4c

As at the date of this report we are waiting upon information from the Receivers and Managers that would enable us to confirm the effective return to the Secured Creditors. We note that employees will be paid in full either from circulating asset recoveries and/or via a contribution from the Secured Creditors.

## 1.9 Extension of convening period

Administrators are required by the Act to convene a second meeting of creditors within 20 business days of the date of their appointment, and to hold this meeting within five business days of the end of the convening period. In circumstances where this timeframe is too short to provide the best outcome for creditors there exists the ability to apply to the Court for an extension. In this situation, given the sale process undertaken by the Receivers and Managers and the possibility that the sale of the Company's business may have been facilitated via a DOCA, it was considered that an extension to the convening period was in the best interests of the Company's creditors.

Accordingly, we applied to the Supreme Court of Western Australia (**the Court**) on 9 May 2017 for an Order extending the length of the convening period for a period of up to four months (to 11 September 2017). A notice dated 10 May 2017 was forwarded to all creditors advising that the extension had been awarded. A notice was also forwarded to ASIC.

## 1.10 Administrators' opinion

It is our opinion that the Company be placed in liquidation. The reasons for our opinion are discussed in Section 10.

## 1.11 Second meeting of creditors

Pursuant to Section 439A(3) of the Act a second meeting of creditors is to be held on 19 September 2017 at the offices of Deloitte Financial Advisory Pty Ltd, Level 9, Tower 2, Brookfield Place, 123 St Georges Terrace Perth WA 6000 at 11:00 AM WST. (See attached Form 529).

At this meeting creditors will be asked to make a decision by passing a resolution in respect of options that will be available to them.

We have recommended in this report that the Company be wound up.

We have detailed the reasons as to why we consider this the best option for creditors in Section 10 of this report.

At the meeting creditors will be asked to approve the remuneration of the Administrator from 3 April 2017 to 25 August 2017 in the sum of \$105,439.50, and from 26 August 2017 to conclusion of the Administration in the sum of \$14,826.00.

Creditors will also be asked to approve the remuneration of the Liquidators in the sum of \$125,367.50.



Full details of the remuneration claims are found in Section 12.

## 1.12 Electronic communication

Section 600G of the Act allows for a creditor to receive communications and notifications electronically provided the creditor has consented to receive correspondence in this manner. Electronic communication is a speedy and cost effective and reduces the expenses incurred in an administration.

If you wish to receive future correspondence electronically please send an email to Jordan Basso at jbasso@deloitte.com.au detailing the email address to which you would like future communications from us to be sent.

## 2 Background information

### 2.1 Incorporation and registered office

A search of the ASIC database disclosed that the Company was incorporated in Western Australia on 2 July 2008. The Company's registered office is shown as C/- Moore Stephens, Exchange Tower, Level 15, 2 Esplanade, Perth WA 6000.

### 2.2 Company structure

The Company has a wholly owned subsidiary Gasassure Pty Ltd (ACN 617 649 582) (**the Subsidiary**), the Directors have indicated that the Subsidiary is dormant and does not hold any assets or have any liabilities. In any event our appointment does not extend to the Subsidiary. Any further references to 'GasAssure' in this report are in relation to one of SSL's assets/products and not the Subsidiary.

### 2.3 Shareholders, officers and security interests

#### 2.3.1 Shareholders

The Company is an Australian unlisted public entity. The share registry, provided by the Directors at the date of our appointment indicated that the top 6 ordinary shareholders, holding 74.5% of the Company shares, were as follows:

Shareholder	Class	Number	% of Ord Shares
Andrew Wadsley	Ord	41,915,124	33.1
Leo Mullins	Ord	19,212,885	15.2
Predrill Stresses International Pty Ltd	Ord	11,032,104	8.7
Geoffrey Weir	Ord	8,448,958	6.7
Graham Griffiths	Ord	7,223,309	5.7
I.S.A Pty Ltd	Ord	6,468,477	5.1
All other	Ord	32,211,876	25.5

#### 2.3.2 Convertible note holders

The Company had issued a number of convertible notes prior to our appointment. The holders of these convertible notes are listed as follows:

Noteholder	Total Face Value (\$)	% of convertibles
Nathan Colgan	350,000	29%
Vemac Ascent Investments Pty Ltd	300,000	24%
Daniel Colgan	250,000	20%
Jan Klockman	100,000	8%
Vemac Ascent Super Fund	100,000	8%
Leo Mullins	100,000	8%
Andrew Wadsley	25,000	2%
<b>Total</b>	<b>1,225,000</b>	

## 2.3.3 Officers

The ASIC database indicates that during the 12 month period prior to our appointment the Company's Directors and officers were:

Name	Position	Appointed	Ceased
Andrew Wadsley	Director	02/07/2008	N/A
John Davidson	Director	13/10/2016	N/A
Leo Mullins	Director/Secretary	02/07/2008	N/A
Paul Kristensen	Director	05/12/2011	N/A
Garry Willinge	Former Director	13/02/2009	17/11/2016
Daniel Colgan	Former Director	14/08/2015	27/09/2016

## 2.3.4 Directorships

We have undertaken ASIC searches for each of the current Directors. A summary of each of the Directorships and shareholders for each current Director of the Company is outlined below:

### Andrew Wadsley:

Company Name	ACN	Date appointed	Date Ceased	Shareholder (Y/N)	Current Status
Optimiser Pty Ltd	072 540 080	18/06/1997	N/A	Y	Registered
Gasassure Pty Ltd	617 649 852	27/02/2017	N/A	N	Registered
Geostress Assure Pty Ltd	617 649 037	27/02/2017	N/A	N	Registered
Exploration and Production Consultants (Australia) Pty Ltd	009 577 502	22/11/1988	N/A	Y	Registered

### John Davidson:

Company Name	ACN	Date appointed	Date Ceased	Shareholder (Y/N)	Current Status
Gasassure Pty Ltd	617 649 852	27/02/2017	N/A	N	Registered
Geostress Assure Pty Ltd	617 649 037	27/02/2017	N/A	N	Registered
Airlie (Tas) Pty Ltd	009 552 747	06/11/1980	N/A	Y	Registered
Petrecon Australia Pty Ltd	009 543 024	14/06/2016	N/A	Y	Registered
Davidson Investment Group Pty Ltd	142 952 627	06/04/2010	N/A	N	Registered
Predrill Stresses International Pty Ltd	103 447 561	21/01/2003	N/A	N	Registered

### Leo Mullins:

Company Name	ACN	Date appointed	Date Ceased	Shareholder (Y/N)	Current Status
Gasassure Pty Ltd	617 649 852	27/02/2017	N/A	N	Registered
Geostress Assure Pty Ltd	617 649 037	27/02/2017	N/A	N	Registered
Optimiser IP Pty Ltd	148 812 284	17/01/2011	N/A	N	Registered
Optimiser Pty Ltd	072 540 080	01/02/2010	N/A	Y	Registered
Energy Resources Institute Ltd	130 043 391	07/03/2008	N/A	N	Registered
Joondalup Management Services Pty Ltd	582 569 10	01/07/1994	N/A	Y	Registered

**Paul Kristensen:**

Company Name	ACN	Date appointed	Date Ceased	Shareholder (Y/N)	Current Status
MAID IP Holdings Pty Ltd	615 615 391	20/12/2016	N/A	N	Registered
Optimiser IP Pty Ltd	148 812 284	17/01/2011	N/A	N	Registered
Lumitex Pty Ltd	075 108 566	20/11/1998	N/A	N	Registered
Capital Technologies Pty Ltd	009 192 643	03/09/1986	N/A	Y	Registered
Lindane Pty Ltd	009 083 621	12/01/1984	N/A	Y	Registered

Our investigations indicate that a number of the related parties provided services to the Company, notably Andrew Wadsley and Leo Mullins are the Directors and Shareholders of Optimiser Pty Ltd, a company that owns certain intellectual property used in the Company's models. The Company paid Optimiser Pty Ltd fees for consulting and other services.

In addition Leo Mullins is the Director and Shareholder of Joondalup Management Services Pty Ltd (**JMS**). The Company pays JMS fees for consulting, bookkeeping and administrative services.

John Davidson is a director of Predrill Stresses International Pty Ltd and this company provided consulting services to SSL.

### 2.3.5 Security interests

A search of the Personal Property Securities Register (**PPSR**) revealed the following Security Interests:

Secured Party	Note	Type	PMSI Y/N	Date Perfected
Get Capital Pty Ltd ACN 149 390 625	1	All PAAP	N	19/07/2016
Colgan, Martin James; Colgan, Dorothy Anne; The Trustee for Sette Selle Trust ABN 85 166 046 934; The Trustee for The Kinsale Trust ABN 17 874 010 573	2	All PAAP	N	03/08/2016
The Invoice Market Pty Ltd ACN 167 333 548	3	All PAAP	N	13/03/2017
The Invoice Market Pty Ltd ACN 167 333 548	3	All PAAP	N	13/03/2017

Upon our appointment we wrote to the abovenamed parties seeking particulars of their security interests. We make the following comments (based on the numbering above):

1. Security relates to a loan facility of \$40,000 of which \$23,807 was outstanding as at the date of our appointment. We understand that the Secured Creditors purported to take an assignment of Get Capital Pty Ltd's security and in so doing the amount owed to Get Capital Pty Ltd may now be owed to the Secured Creditors. This is a first ranking security interest and is required to be paid out in full from the proceeds of any sale of the business and assets of the Company in priority to any other secured party. We understand that there may now be some dispute between the Secured Creditors and Get Capital Pty Ltd as to the assignment of the security.
2. Security relates to a GSA between the Secured Creditors and the Company entered into on or about the 3 August 2016. As outlined in Section 1.4 the Secured Creditors appointed the Receivers and Managers on 30 March 2017.
3. Security relates to an undrawn debtor financing facility that the Company was in the process of establishing prior to the appointment of the Receivers and Managers.

### 2.3.6 Secured Creditors

As outlined in Section 1.4 the Secured Creditors appointed the Receivers and Managers pursuant to a GSA entered into by the Company and the Secured Creditors on or about 3 August 2016. The Secured Creditors lent \$315,000 (**the Loan**) to a company called Exploration and Production Consultants (Australia) Pty Ltd (**Exploration Consultants**) a company related to one of the Directors, Andrew Wadsley, and these funds were then transferred to the Company with the intention that the funds represent an investment of equity into the Company.

The Loan of \$315,000 by the Secured Creditors to Exploration Consultants was secured by a guarantee from SSL, supported by a GSA over all of the assets of SSL. The Secured Creditors assert that their GSA also secures \$752,474 in convertible note debt (\$600,000 principal and \$152,474 interest as at 24 August 2017). The Directors however, have advised us that it was their intention that the above security would only extend to the Loan and cover only one of the Company's assets being the GasAssure asset, but that the documentation that

was executed granted security over all of the Company's assets. The Directors claim that Daniel Colgan (a director at the time and one of the Secured Creditors) was aware of the Directors' intention but nevertheless facilitated the execution of security documents to the contrary.

The Secured Creditors claim that as at 24 August 2017 a total of \$1,734,360 is subject to the GSA, as per the following table.

Item	Amount (\$)
<b>Convertible note principal</b>	
Daniel Colgan ATF The Sette Selle Trust	250,000
Nathan and Cornelia Colgan ATF The Kinsale Trust	<u>350,000</u>
<b>Total convertible notes principal</b>	<b>600,000</b>
<b>Convertible note interest at 24 August 2017</b>	
Daniel Colgan ATF The Sette Selle Trust	65,178
Nathan and Cornelia Colgan ATF The Kinsale Trust	<u>87,296</u>
<b>Total convertible note interest</b>	<b>152,474</b>
<b>Related party debt</b>	
Principal outstanding	315,000
Interest outstanding at 24 August 2017	<u>66,300</u>
<b>Total related party debt</b>	<b>381,300</b>
<b>Total amount owed to the Secured Creditors at 24 August 2017</b>	<b>1,133,774</b>
Recovery costs to 24 August 2017	<u>600,586</u>
<b>Total amount claimed by the Secured Creditors</b>	<b><u>1,734,360</u></b>

Note: Amounts owing to Secured Creditor will increase with ongoing trading and professional fees

Source: Receivers and Managers as at 7 April 2017, 25 August 2017 and 30 August 2017

On 30 March 2017 the Secured Creditors enforced their registered security and appointed the Receivers and Managers.

There are conflicting opinions between the Directors and the Secured Creditors as to whether:

- the quantum of the debt that is secured by the GSA is only \$315,000 plus interest (on the \$315,000 Loan only) and recovery costs or whether it also includes the convertible note principal and interest amounts, being an additional \$752,474
- the GSA extends to all of the Company's assets or whether it was limited to just a fixed charge over one asset being the GasAssure product
- the Secured Creditors were to firstly seek recovery of their debt (\$315,000) against Exploration Consultants and only claim for any shortfall (after realising security provided by Exploration Consultants) against the Company.

We have sought legal advice on these matters. The above issues involve complex legal principles and factual circumstances and are therefore not straight forward and are subject to some uncertainty. The legal advice we have received indicates that there are strong arguments to support the proposition that:

- The GSA does not secure the Secured Party's convertible notes but does secure the Loan for \$315,000 plus interest on that loan and recovery costs
- There has been a potential breach of Directors' duties in the granting of the GSA (refer Section 7.4 below)
- The GSA represents a potential unfair preference (refer Section 7.4.1 below) in so far as it relates to the convertible note debt
- The GSA represents an unreasonable director related transaction (refer Section 7.4.4 below).

Our legal advice also indicated that to challenge the overall validity of the GSA and therefore the appointment of the Receivers would involve costly litigation (estimated at c.\$300k in costs) and the requirement to put into court an amount equal to the quantum of the Secured Creditors' claimed debt (c.\$1.1m plus recovery costs). Furthermore there would be no guarantee of success. Given the level of funding that litigation would require and the probability of success it was not considered in the best interests of creditors to challenge the validity of the GSA in its entirety. In any event we were without funds and no party was prepared to fund such action.

We have considered at Section 7.4.4 the potential actions and recoveries regarding the GSA that may be available if the Company was to be liquidated.

We note that the Receivers and Managers will be indemnified from the assets of the Company for costs reasonably incurred in safeguarding and realising the assets of the Company. In addition any funds advanced to the Company to facilitate ongoing trading by the Secured Creditors are afforded a priority over other secured and unsecured creditors. We estimate that the Secured Creditors have valid security for approximately \$1m (\$315k Loan + interest \$66k + further interest and recovery costs of c. \$601k).

### **2.3.7 Winding up applications**

There were no winding up applications outstanding as at the date of our appointment.

## **2.4 History of the Company**

The Company was incorporated on 2 July 2008. The Company is a developer and provider of upstream technology and consulting services to the natural resources industry. Since incorporation the Company has largely been in a phase of developing its products and only recently has begun to commercialise its research and development efforts. The Company has developed two key predictive analytics and computer modelling products, focused on the oil and gas market.

The first product that has been the cornerstone of the Company's limited revenue to date is GasAssure. GasAssure is an integrated asset modelling solution that collects critical information from multiple sources, analyses the data to provide an integrated asset plan to users.

The Company has also developed a second product, DrillAssure which primarily reduces risk for oil and gas clients by modelling seismic impact of proposed drilling prior to commencing the drilling through the production of 2D or 3D seismic survey models prior to drilling. The technology behind DrillAssure was originally acquired by the Company from Predrill Stresses International Pty Ltd (**PSI**), a company associated with Mr Davidson who is a director of Stochastic.

In addition to the two products listed above, the Company has further products that are in various stages of development. None of the Company's suite of products have yet to be fully commercialised to a stage where the Company is profitable.

## **3 Historical financial performance**

### **3.1 Financial statements**

Financial statements were last prepared to 30 June 2016 and were audited by Moore Stephens. The Company maintained management accounts using the cloud-based accounting software called Xero. The management accounts were updated to the date of our appointment.

### **3.2 Profit & loss**

The profit and loss statements for the financial years FY15, FY16 and year to 30 March 2017 (**YTD 17**) are summarised as follows:

\$'000	FY15	FY16	YTD17
<b>Revenue</b>			
GasAssure	502	422	591
DrillAssure	-	-	87
ResAssure	-	15	15
Grants and other	624	594	290
<b>Total Revenue</b>	<b>1,126</b>	<b>1,031</b>	<b>982</b>
Less: cost of sales	-	(12)	-
<b>Gross profit</b>	<b>1,126</b>	<b>1,019</b>	<b>982</b>
<b>Less: operating expenses</b>			
Foreign currency gains & losses	(7)	(11)	(23)
Income tax expense	10	(2)	-
Interest expense	(157)	(273)	(223)
Consultants expense	(182)	(335)	(304)
Accounting & administration	(191)	(317)	(294)
Marketing	(117)	(124)	(40)
Payroll	(408)	(477)	(503)
Research & development	(5)	-	(12)
<b>Total operating expenses</b>	<b>(1,057)</b>	<b>(1,539)</b>	<b>(1,399)</b>
<b>Net profit before tax</b>	<b>69</b>	<b>(520)</b>	<b>(417)</b>

Source: Management Accounts

We provide the following preliminary analysis and commentary on the Company's profit and loss statements:

- The Company was loss making in FY16 and YTD17
- If research and development related grants/rebates were excluded, the Company's losses are substantially higher and the small profit in FY15 would have been a loss of \$550k
- The revenue, expense and earnings profile of the Company is not uncommon to businesses that are in the process of developing and attempting to commercialise their technology.

The historical profit and loss illustrates that the Company required ongoing capital injections from various sources to remain solvent. That is, to pay the debts of the Company as and when they fell due.

### 3.3 Balance sheet

The balance sheets for the Company as at FY15, FY16 and YTD17 (**YTD17**) are summarised as follows:

\$'000	FY15	FY16	YTD17
<b>Current assets</b>			
Cash & cash equivalents	(51)	(53)	(68)
Trade debtors	201	79	389
Other current assets	505	573	340
<b>Current assets</b>	<b>655</b>	<b>600</b>	<b>661</b>
<b>Non current assets</b>			
Fixed assets	25	56	57
Deferred tax assets	53	51	51
Research & development	6,807	7,920	8,503
Other non current assets	378	2,558	2,558
<b>Non current assets</b>	<b>7,264</b>	<b>10,586</b>	<b>11,169</b>
<b>Total assets</b>	<b>7,919</b>	<b>11,186</b>	<b>11,829</b>
<b>Current liabilities</b>			
Overdraft	20	18	24
Secured Creditor Loan	-	13	315
Convertible notes - Secured Creditor	204	450	520
Convertible notes - Unsecured	-	792	860
Employee related outstandings	171	289	358
Unsecured loans	820	1,192	1,813
Trade creditors	255	260	86
Other current liabilities	104	62	45
<b>Current liabilities</b>	<b>1,575</b>	<b>3,077</b>	<b>4,021</b>
<b>Non current liabilities</b>			
Long service leave provision	37	4	9
<b>Non current liabilities</b>	<b>37</b>	<b>4</b>	<b>9</b>
<b>Total liabilities</b>	<b>1,612</b>	<b>3,080</b>	<b>4,030</b>
<b>Net assets</b>	<b>6,307</b>	<b>8,105</b>	<b>7,800</b>
<b>Equity</b>			
Current year earnings	69	(520)	(306)
Employee share scheme equity	719	719	719
Issued capital	4,083	6,350	6,350
Issued options	-	51	51
Retained earnings	1,326	1,396	876
Seed capital	110	110	110
<b>Total equity</b>	<b>6,307</b>	<b>8,105</b>	<b>7,800</b>

Source: Management Accounts

We provide the following preliminary analysis and commentary on the Company's balance sheet statements:

- Net assets decreased from FY16 to YTD17 by 4% driven by an increase in current liabilities of \$944,568, specifically the Company took on the Secured Creditors' loan of \$315,000 (Section 6) and an additional \$620,856 in unsecured loans.
- The largest asset on the balance sheet is the value of capitalised research and development expenditure represented by the development of the GasAssure and DrillAssure products. This is not necessarily reflective of actual market value as indicated by the actual results of the Receivers' sale process discussed at Section 6.

### 3.4 Working capital deficiency

Working capital is a financial measure which represents operating liquidity available to a Company. Net working capital is calculated as current assets minus current liabilities.

Detailed below is a comparison of the working capital deficiency as at FY15, FY16 and YTD17.

Negative working capital or a current ratio of less than 1:1 are indicators of cash flow difficulties.

\$'000	FY15	FY16	YTD17
Current assets	707	653	729
Current liabilities	1,626	3,130	4,089
<b>Working capital deficiency</b>	<b>(920)</b>	<b>(2,477)</b>	<b>(3,361)</b>
<b>Current ratio</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>

Source: Management Accounts, Deloitte Analysis

The current ratio is a measure that is used to determine a company's ability to pay its short-term debt obligations. The higher the value of the ratio, the more able a company is to meet its short-term debt, a value of less than 1 is an indicator of insolvency.

In the present case, the Company's working capital position was deficient due principally to the Company's short term debt funding obligations.

## 4 Directors' Report as to Affairs (RATA)

### 4.1 Summary

Under Section 438B of the Act, the Directors are required to provide a RATA for the Company as at the date of our appointment within five business days of receipt of the request from the Administrators or such longer period as the Administrator allows.

The Directors requested an extension of time for the submission of the RATA pursuant to section 438B(2) of the Act to 21 April 2017. We granted this request for an extension and the Directors provided their combined RATA on 21 April 2017.

The RATA, together with the respective accompanying schedules may be inspected by contacting Tyron Lopes on (08) 9365 8171 at the Administrators' office at Deloitte.

The RATA represents a snapshot of the asset and liability position of the Company on a going concern and forced asset realisation basis, **as prepared by the Directors**. We provide a comparison of these values to the estimated realisable amounts for the benefit of creditors.

The book values shown in the RATA do not reflect actual returns to creditors.

The RATA is summarised below.

\$'000	Note	Directors' Book Value	Directors' ERV
<b>Assets not specifically charged</b>			
Interest in land	4.1.1	-	-
Sundry debtors	4.1.2	203	155
Cash on hand and at bank	4.1.3	-	-
Stock	4.1.4	-	-
WIP	4.1.5	-	-
Plant & equipment	4.1.6	57	15
Other assets	4.1.7	35	35
<b>Subtotal</b>		<b>294</b>	<b>205</b>
Assets subject to specific security interests	4.1.8	11,061	N/A
Less: amounts owing on specific security interests	4.1.8	(315)	N/A
<b>Total</b>		<b>11,040</b>	<b>N/A</b>
<b>Liabilities</b>			
Employee entitlements	4.1.9	(320)	(320)
Balances otherwise owing to secured creditors	4.1.10	-	-
<b>Subtotal</b>		<b>(320)</b>	<b>(320)</b>
Available to unsecured creditors		10,720	N/A
Less amounts owing to unsecured creditors	4.1.11	(3,362)	(3,362)
Contingent assets	4.1.12	-	-
Less: contingent liabilities	4.1.12	-	-
<b>Surplus/ (Shortfall)</b>		<b>7,358</b>	<b>N/A</b>

Note: Figures have been rounded to the nearest thousand. Any discrepancy is due to rounding.  
Source: Directors' RATA

We comment on the estimated realisable values included in the following sections. We note that the Directors have prepared their RATA on the basis that the Secured Creditors' security extends only to the GasAssure asset for an amount of the \$315k Loan only.



## 4.1.1 Interest in land

The Company does not own any land.

## 4.1.2 Sundry debtors

As at the date of our appointment, the Company had receivables totalling \$202,930 calculated as follows:

Debtor	Book value (\$)	ERV (\$)
Oil Search	24,200	24,200
SOA Energy	64,754	64,753
UZMA Energy	113,976	66,379
<b>Total</b>	<b>202,930</b>	<b>155,332</b>

At present, the Director's opinion on the Estimated Realisable Value (**ERV**) recovery of debtors at the date of appointment of \$155,332 may be optimistic. As the Receivers have had control of the Company's trading affairs we have had no involvement in the collection of debtors. As at 29 August 2017 the Receivers had collected debtors of only \$105,880.04 and during discussions with the Receivers they expressed their concern as to the future recoverability of any other amounts.

Note that any amounts collected from sundry debtors will likely first be used to meet some of the Receivers' costs incurred in trading the business and any surplus thereafter would be available to pay outstanding employee entitlements.

## 4.1.3 Cash on hand and at bank

The RATA discloses nil cash on hand at the date of our appointment. The Company operated an overdraft with Australia New Zealand Banking Group Limited (**ANZ**) and at the date of appointment ANZ were owed \$67,641 on this facility. ANZ does not hold security in relation to the Company.

## 4.1.4 Stock on hand

The RATA does not disclose any stock on hand.

## 4.1.5 Work in progress

The RATA does not disclose any work in progress.

## 4.1.6 Plant & equipment

The RATA discloses a book value of \$57,000 and ERV of \$15,000 for the plant & equipment that is owned by the Company. The Receivers and Managers are in control of the assets of the Company, including the plant & equipment.

We understand that the Company's plant and equipment includes office equipment and furniture. A valuation provided to us by the Receivers provided an auction value of \$5,256 for plant and equipment. The Receivers have advised that the plant and equipment was included in the sale of the business.

## 4.1.7 Other assets

The RATA discloses the following other assets:

- Cash rental bond totalling \$30,000 for the lease of Unit 4, 97 Hector Street West, Osborne Park Western Australia being the Company's principal place of business. The Receivers have advised that the premises have been vacated and therefore the bond may likely be called upon by the landlord
- Undrawn overdraft limit with ANZ for \$5,000. As the Company is in administration, the overdraft facility with ANZ is in default and, accordingly the undrawn balance is not an asset available to creditors.

If there are any realisations from the above, the Receivers and Managers will firstly utilise any amounts collected to fund ongoing trading costs and any surplus may be available to meet priority employee claims.

## 4.1.8 Assets subject to specific charges

The Directors have asserted in the RATA their view that the Secured Creditors' security extends only to the GasAssure asset and that the amount owed on this is only the \$315,000 Loan. The Directors have used the

capitalised value of the research and development costs of the GasAssure asset as the ERV for that security, that is:

	\$
Book value of GasAssure	11,060,750
Secured debt	(315,000)
<b>Total</b>	<b>10,745,750</b>

As discussed in Section 2.3.6 the Company provided a GSA over all present and after acquired property to the Secured Creditors. The Receivers and Managers have sold the Company's business and business assets, including GasAssure, which is discussed at Section 6.

#### 4.1.9 Priority creditors

The RATA disclosed \$287,800 in unpaid superannuation and \$32,546 in annual leave entitlements.

We understand that after a period of trading the Receivers eventually ceased operations on 28 July 2017 and all remaining employees were to be made redundant. The Receivers have recently advised that three employees have been retained in the business following its sale and their (the employees) entitlements transferred to the purchaser. We have been advised by the Receivers and the ATO that the amounts owed for employee entitlements are as follows:

Type of Entitlement	\$
Superannuation	112,879
Annual leave	26,557
Notice	11,000
<b>Total Priority Claims</b>	<b>150,436</b>

The Receivers have advised there should be sufficient recoveries from circulating assets, in particular the FY17 research and development rebate, to ensure employee entitlements are paid in full. If this is not the case, the Receivers have advised that the Secured Creditors will pay any shortfall.

Upon liquidation employees will be eligible to make claims under the Fair Entitlements Guarantee (**FEG**) scheme should they have unpaid entitlements. FEG does not, however provide for payments of superannuation.

#### 4.1.10 Secured creditor

Other than the \$315,000 Loan discussed in Section 4.1.8, the RATA did not disclose any other amounts as being owed to creditors holding security.

As discussed at Section 2.3.6 there is differing opinion over whether the Secured Creditors' secured debt is only the Loan of \$315,000 (plus interest thereon and costs) or whether it also includes the convertible notes held by the Secured Creditors plus interest thereon. Our view is that only \$315,000 (plus interest thereon and costs) is secured.

#### 4.1.11 Unsecured creditors

Unsecured creditor claims disclosed in the RATA total \$3,361,827.

A summary of the RATA values for this Section and our own preliminary assessment based on claims received to date and the Company's records is shown below. We have not formally adjudicated upon any of these debts at this stage and therefore they may be subject to change.

Creditor Type	Amount RATA (\$)	Company records (\$)
Trade creditors	71,464	162,695
Related party outstanding amounts	331,650	716,783
Amounts owed to PreDrill Stress International Pty Ltd (also a related party)	666,967	28,911

Outstanding Director fees	274,486	287,672
Outstanding convertible notes (includes those notes held by the Secured Creditors)	1,377,565	1,380,031
Outstanding unsecured loans	639,695	783,827
ANZ overdraft	N/A	67,641
ATO and State Revenue Office	N/A	136,591
<b>Total</b>	<b>3,361,827</b>	<b>3,564,151</b>

#### 4.1.12 Contingent assets/liabilities

The RATA did not reveal any contingent assets or liabilities.

#### 4.2 Explanations for difficulties

##### 4.2.1 Directors' explanation

The Directors have advised that the reasons for the Company's financial difficulties was as a result of the following:

- The Directors dispute that the GSA covers the full Secured Creditors' debt of \$1.74m and that the GSA extends to all the Company's assets
- The Directors claim that the extent of the security and secured debt has made it difficult to raise new debt with potentially interested providers of capital reluctant to inject funds
- The Directors, over a number of months prior to our appointment, sought to resolve the differences of opinion over the security issues with the Secured Creditors but were unable to reach a mutually acceptable resolution. As a result, the Secured Creditors appointed the Receivers and Managers due to alleged breaches under the GSA.

##### 4.2.2 Administrators' opinion

In our opinion from a review of the Company's operations, correspondence and discussions with the Directors, we agree that the principal reason for the Company's financial difficulties was the inability to agree an acceptable proposal for the restructure of the Secured Creditors' debt.

#### 4.3 Outstanding winding up applications

Our review of the ASIC records did not disclose any winding up applications filed against the Company prior to our appointment as Administrators.

#### 4.4 Related entities

Amounts owed to related parties excluding any amounts owed to the Secured Creditors is summarised in the following table:

Name	Relationship	Books & records debt (\$)	Amount claimed (\$)	Description of debt
Joondalup Management Services Pty Ltd (JMS)	Director related entity	156,748	151,739	Trade creditor
Optimiser Pty Ltd	Director related entity	141,490	244,000	Trade creditor
Predrill Stress International Pty Ltd	Director related entity	28,911	666,967	Trade creditor
John Davidson	Director	358,727	9,955	Unsecured Loan/Directors' Fees
Leo Mullins	Director	Unknown	54,705	Directors' Fees
Andrew Wadsley	Director	1,483	0	Unsecured Loan
Paul Kristensen	Director	13,620	13,732	Unsecured Loan
Paul Kristensen	Director	Unknown	42,510	Directors' Fees

Name	Relationship	Books & records debt (\$)	Amount claimed (\$)	Description of debt
Leo Mullins	Director	108,078	0	Convertible note
Leo Mullins	Director	44,713	0	Unsecured loan
Joondalup Management Services Pty Ltd (JMS)	Director related entity	0	108,078	Convertible note
Andrew Wadsley	Director	27,262	27,262	Convertible note
<b>Total</b>		<b>881,032</b>	<b>1,318,948</b>	

We have not adjudicated upon any of the related party debt as this stage. We note that at one stage Daniel Colgan (one of the Secured Creditors) was a director of the Company. For the purposes of this Section of the report we have not treated him as a related party. At the date of this report we have also not conducted detailed work to identify the amounts owed to each director in relation to directors' fees.

We are not aware of any other related entity creditors.

## 5 The Administrators' actions to Date

Following our appointment, we took steps to advise the relevant parties of our appointment and notified those parties of the implications of our appointment.

As discussed in Section 1.4 the Secured Creditors enforced their GSA and appointed the Receivers and Managers on 30 March 2017, prior to our appointment.

The Receivers and Managers assumed control of the Company, its assets and operations and have traded on the Company's business in an attempt to sell the business as a going concern.

Our actions have therefore been limited to complying with the statutory obligations of the voluntary administration process, conducting investigations and considering restructuring options. This included, but was not limited to, the following:

- Attend to all statutory lodgements and notifications
- Met with the employees of the Company to explain the voluntary administration process and answer any questions regarding the administration
- Met with the Directors of the Company to discuss the nature and implications of our appointment and their obligations
- Correspondence and discussions with the Receivers and Managers to discuss progress of the Receivership, obtain updates on the sales strategy for the Company's business and discuss potential recapitalisation proposals
- Engaged solicitors to provide advice regarding the validity of the GSA Security and potential actions against the Secured Creditors and Directors and former directors
- Conducted an investigation into the affairs of the Company including potential voidable transactions to be pursued in the event that the Company is placed into liquidation
- Reviewing the conduct of the Directors of the Company to identify any potential breaches of Directors' duties in relation to the Company
- Conducted an assessment of the financial position of the Company
- Reviewed security interests recorded upon the PPSR and disclaimed onerous property
- Held numerous teleconferences with the Directors, investors, creditors, and other interested parties of the Company with regard to a recapitalisation of the Company through a DOCA process
- Reviewed the Receivers and Managers' valuation for the property, plant and equipment
- Answering creditor and employee queries as required
- Notifying statutory authorities of our appointment
- Preparing and lodging relevant notices with ASIC
- Preparing the report to creditors and relevant statutory notices for the first meeting of creditors
- Held the first meeting of creditors on 11 April 2017, drafted and lodged relevant minutes with ASIC
- Preparing this report to creditors
- Opened an Administrators' bank account and attended to banking requirements
- Engaged solicitors to prepare an application to the Court to extend the convening period
- Held teleconferences with the Directors, creditors and employees to discuss a proposal to extend the convening period for up to 120 days
- Prepared and lodged a report to ASIC detailing identified breaches of the Act pursuant to Section 438D of the Act.

## 5.1 Administrators' receipts and payments

The table below provides a summary of the receipts and payments during the period 3 April 2017 to 1 September 2017.

We advise that the summary below does not include accruals incurred to date.

	<b>Amount (\$)</b>
<b>Receipts</b>	
Up-front payment of fees and costs from ISA Pty Ltd	15,000
Up-front payment of fees and costs from Vemac Ascent Investments Pty Ltd	3,500
Up-front payment of fees and costs from ACN 137 837 613 Pty Ltd	3,000
<b>Total Receipts</b>	<b>21,500</b>
<b>Payments</b>	
Herbert Smith Freehills – legal advice	8,800
<b>Total Payments</b>	<b>8,800</b>
<b>Cash at bank</b>	<b>12,700</b>

## 6 Receivers' sales process

The Receivers and Managers have undertaken a sales and marketing campaign for the business and assets of the Company, with a view to realising these assets and discharging the debt due to the Secured Creditors.

We have received some details of the Receivers' sales and marketing process which is summarised below:

- (a) The Receivers have advertised the Company's business and assets for sale in multiple, newspapers and online sources, over a period of 8 weeks. The Receivers advise that they consulted with the Company's management to determine the most appropriate advertising forums
- (b) The Receivers sent a circular to 51 potentially interested parties seeking expressions of interest. This list was based on consultation with the Company's Directors and staff. The Receivers also wrote to the Company's members and convertible note holders seeking expressions of interest
- (c) An information memorandum, prepared with the assistance of the Company's management, was issued to 28 interested parties and 22 of these requested access to a virtual data room
- (d) Five non-binding offers were received and four of those parties were then short-listed and provided additional time to conduct due diligence
- (e) Three parties then submitted final offers
- (f) On 7 August 2017 the Receivers executed an agreement for the sale of the Drillassure product and this sale settled on 21 August 2017. The sale price was \$250,000 (GST free)
- (g) On 17 August 2017 an agreement was executed and completed for the sale of the remaining business and business assets of the Company to the Secured Creditors and Previso Software Pty Ltd (a company related to the Secured Creditors). The sale price was \$900,000 plus GST

We understand from discussions with the Receivers that the consideration for the sale to the Secured Creditors and Previso Software Pty Ltd may have involved the Secured Creditors reducing the debt owed to them by the Company. The Receivers have further advised that following the sale transaction that the shortfall to the Secured Creditors will be between \$431,491 and \$764,168, based upon an amount owed to the Secured Creditors of \$1,734,360 as at 24 August 2017. The Receivers have stated that the offer for the business and business assets by the Secured Creditors was higher than any of the offers from any of the other interested parties.

Based on the advice of the Receivers as to the marketing that took place we are of the opinion that the business and business assets are likely to have been adequately exposed to the market. We have sought details of the offers received, however at the time of writing this report the Receivers had not provided all information sought.

Our concern is whether the net realisations from the Receivership to the Secured Creditors exceed the value of what we consider to be the validly secured debt (i.e. the Loan plus interest and costs). We have received some information on this from the Receivers and this is discussed further at Section 7.4.1.

Should the Company enter into liquidation we will continue our investigations into this matter.

## 7 Investigations

### 7.1 Introduction

Section 438A(a) of the Act provides that as soon as practicable after an administration begins the Administrator must investigate the Company's business, property, affairs and financial circumstances.

Pursuant to Regulation 5.3A.02 the Administrator is also required to investigate and report on any possible recovery actions that may be available to a Liquidator should creditors resolve that the company be wound up.

An explanation of the possible offences by a Director and insolvent and voidable transactions that a Liquidator could pursue is attached at Appendix B. This information sheet has been prepared by the Australian Restructuring, Insolvency and Turnaround Association (**ARITA**) and is intended to reduce the amount of generic information included as part of the body of this report. Creditors who are not familiar with the nature of offences and liquidator actions should refer to the appendix for explanations. If further explanation is required of the material contained in Appendix B or of our investigations, creditors should contact Tyron Lopes on (08) 9365 8171.

### 7.2 Overview of investigation

In the time available to us, we have undertaken the following investigations to prepare this report and formulate our opinions:

- ASIC and real property searches
- Personal Property Securities Register searches
- Preliminary review of books and records of the Company
- Discussions and questionnaires completed by the Directors
- Discussions with creditors
- Review of the financial accounts of the Company
- Review of the Secured Creditors' registered security.

Whilst we have no reason to doubt any information contained in this report, we reserve the right to alter our conclusions should the underlying data prove to be inaccurate or materially change from the date of this report.

### 7.3 Offences by the Directors

#### 7.3.1 Overview

An Administrator is required to complete and lodge a report pursuant to Section 438D of the Act with ASIC where it appears to the Administrator that a past or present officer of the company may have been guilty of an offence in relation to the Company and in other limited circumstances. Any report lodged pursuant to Section 438D (or an investigative report lodged by a liquidator pursuant to Section 533 of the Act) is not available to the public. We have lodged a report pursuant to Section 438D on 2 August 2017.

We have undertaken a preliminary investigation of the affairs of the Company in relation to suspected contraventions of Section 180 - 184 of the Act regarding the general duties of directors and officers.

Certain Directors or former Directors may have possibly contravened Sections 180-184 of the Act by not acting with the standard of care and diligence required or in good faith by using their position and information.

As discussed at Section 2.3.6, on 3 August 2016 the Company entered into a GSA that effectively pledged all of the Company's assets as security for the Secured Creditors' debt(s). The Directors have advised that this was not their intention but nevertheless, this was the outcome from the documentation that they executed. The GSA made it difficult for the Company to raise new capital and gave the Secured Creditors a significant level of influence over the future of the Company. We consider that the current Directors (Wadsley, Mullins, Kristensen and Davidson) may have breached their duty under Section 180 of the Act to discharge their duties with proper care and diligence by executing documents not in line with their intentions to the detriment of the Company.

We consider that Daniel Colgan, who was a director at the time of entering into the GSA Security, may also have breached this section as well as Section 181 by failing to act in good faith in the best interests of the Company and Section 182 by improperly using his position to gain a benefit for himself and his relatives. That

is, Daniel Colgan and the other Secured Creditors sought to secure their existing convertible note debt to benefit themselves to the detriment of the Company.

We note that taking action against the Directors and Daniel Colgan for breaches of their duties will involve further investigation and may involve significant legal costs and lengthy litigation. This may involve public examinations of the Directors and Daniel Colgan as an initial step. The legal issues and factual circumstances are complex and the chances of successful recovery are therefore uncertain.

As we are without funds to pursue damages for these potential breaches, we would need to seek funding from creditors, shareholders and/or from a litigation funding provider. If any creditors are interested in funding such actions they should contact our office as soon as possible. We have conducted initial discussions with certain creditors who have expressed a desire to fund such actions, and with a third party litigation funder.

In the event that the Company is placed into liquidation at the second meeting of creditors, a Liquidator would investigate any potential breaches of director's duties and report these to ASIC accordingly and assess the prospects of a claim against the Directors.

### **7.3.2 Books and records**

Pursuant to Section 286 of the Act, a company must keep written financial records that correctly record and explain its transactions, financial position and performance and would enable true and fair financial statements to be prepared and presented in accordance with the accounting standards.

Failure by the Company to maintain books and records in accordance with Section 286 of the Act provides a rebuttable presumption of insolvency of the company, however this only applies in respect of a liquidator's application for compensation for insolvent trading and other actions for recoveries pursuant to Part 5.7B of the Act from related entities.

In our opinion, it appears as though the books and records have been maintained in accordance with Section 286 of the Act.

Accordingly, we do not believe the presumption of insolvency afforded to a liquidator under Section 588E(4) of the Act would be available if the Company were liquidated.

### **7.4 Voidable transactions**

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

This issue is relevant to creditors if they are being asked to choose between a DOCA and liquidation, because voidable transactions are only able to be pursued if liquidation occurs.

Voidable transactions include:

- Unfair preferences (Section 588FA)
- Uncommercial transactions (Section 588FB)
- Unfair loans to a company (Section 588FD)
- Arrangements to avoid employee entitlements (Section 596AB)
- Unreasonable director-related transactions (Section 588FDA)
- Transactions with the purpose of defeating creditors (Section 588FE(5))
- Voidable security interests (Section 588FJ).

It is important to note that such transactions are only voidable if they are considered insolvent transactions of the Company. In order for a Liquidator to recover any amount it would first be necessary to establish that the Company was in fact insolvent at the time of the transaction.

Generally such actions are expensive and are likely to require Court applications. As such, should there be inadequate funds available, or the Liquidator considers it uncommercial or not in the creditors' best interests, such recovery actions may not be commenced by the Liquidator.



In these circumstances, creditors wishing to fund any such actions may do so. Should any funds be recovered from these actions, the creditors providing the funding may be entitled to receive their contribution in priority to other creditors.

Litigation funding may also be available to fund these actions. However, such funding is generally only available where legal advice indicates that there is a strong potential for success.

#### **7.4.1 Unfair Preferences Payments (Section 588FA)**

We have examined the books and records of the Company. We have identified approximately \$133k in payments that may be potential unfair preferences within the six months prior to the relation back day. These payments were made to a mix of unrelated trade creditors and an entity associated with one of the directors.

We have also identified that the Secured Creditors' attempt to secure their convertible notes of \$600,000 (plus any interest) that had occurred at the date that the security had been taken, represents a potential unfair preference. As Daniel Colgan was a director at the time that the security was taken the relation back period is 4 years. If this transaction is found to be a unfair preference then the effect would be that the Secured Creditors' security is not valid in so far as the convertible note debt is concerned. This may produce a benefit to unsecured creditors if the net realisations from the Receivership exceed the amount of the Secured Creditors' validly secured debt of \$981,886 (i.e. the Loan of \$315,000 plus interest and recovery costs).

The Receivers have indicated a net return to the Secured Creditors of \$970k to \$1.3m. Therefore there is potentially an unfair preference of up to \$321k (i.e. \$1.3m less \$981k).

In order to prove a creditor received an unfair preference payment, a Liquidator must demonstrate that the Company was insolvent at the time the creditor received the payment/benefit. The creditor has a defence to a claim by a liquidator that a transaction is an unfair preference if, 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.

As detailed at Section 7.5 below, we have established the date the Company became insolvent to be 28 April 2016.

It is our intention to demand repayment of this amount once the Receivership is complete and the final return to the Secured Creditors is known.

#### **7.4.2 Unfair Loans (Section 588FD)**

Our investigations of the Company books and records did not reveal that the Company may have made or received any loans from or to any parties which committed the Company to extortionate terms. It appears that the loans entered into by the Company were close to or better than what otherwise would be available at market rates.

#### **7.4.3 Uncommercial Transactions (Section 588FE)**

Our review of Company records to expose evidence of uncommercial transactions entered into by the Company has not identified transactions that would constitute an uncommercial transaction.

#### **7.4.4 Unreasonable Director-Related Transactions (Section 588FDA)**

Our investigations have identified the following unreasonable Director-related transactions:

##### **Conduct of Daniel Colgan**

As set out in Section 2.3.6, in August 2016 the Secured Creditors, including Daniel Colgan executed the GSA Security over the assets of the Company. At the time when the GSA Security was executed Daniel Colgan had several interests in the Company. That is, he was:

- A director of the Company
- A creditor of the Company (through convertible notes issued)
- A related party to a number of other creditors
- One of the parties to be granted the benefit of the GSA.

As a result of Daniel Colgan's interest as a creditor and his role as a director there is a potential conflict of interest given that Daniel Colgan owed a duty to the Company to act in its best interests.



As discussed at Section 7.3.1 Daniel Colgan was the chief proponent of the GSA that was put in place on 3 August 2016. This security placed Daniel Colgan and related parties at an advantage in negotiating future repayment of debts and sought to secure previously unsecured debt (i.e their convertible notes). Daniel Colgan also facilitated for the GSA to be over all of the Company's assets and not just the GasAssure asset contrary to the Directors' alleged intention. The only benefit to the Company from the GSA was temporary funding of c.\$315k, but with substantial detriment given that previously unsecured debt of c.\$600k (convertible notes held by the Secured Creditors) was now purported to be secured and that security extended to all of the Company's assets.

In the event that the Company is placed into liquidation, a Liquidator would examine Daniel Colgan's conduct and whether there may be a potential claim against Daniel Colgan for breaches of his director's duties and whether any of the transactions entered into by Daniel Colgan whilst he was a director, including the GSA, could be set aside as unreasonable director related transactions, and funds recovered for the benefit of creditors as a whole.

The potential remedy for breach of Section 588FDA of the Act may be for one or more of the following:

- (a) The GSA is void in its entirety; or
- (b) The GSA is limited to only the GasAssure asset; and/or
- (c) The GSA only extends to the \$315,000 Loan.

Recovery on this potential cause of action is likely to involve costly legal action. The legal issues and factual circumstances are complex and the chances of successful recovery are therefore uncertain. Furthermore, as noted earlier, we would need to receive funding to take such action from a creditor or a litigation funder. Given these factors we have not included any estimated return to creditors on liquidation. Creditors should contact us if they wish to help fund pursuing this or any other claim.

#### **7.4.5 Arrangements to Avoid Employee Entitlements (Section 596AB)**

We have not to date identified any transactions of this nature.

#### **7.4.6 Transactions with the Purpose of Defeating Creditors (Section 588FE(5))**

We have conducted a review of the transactions of the Company for the six months prior to the relation back day to identify any transactions that may have been entered into with the purpose of defeating creditors.

Aside from the potential preference payments outlined above, we have not to date identified any transactions undertaken for the purposes of defeating creditors that would be recoverable by a liquidator.

#### **7.4.7 Circulating security interests created within Six Months (Section 588FJ)**

A search of the Personal Property Securities Register (**PPSR**) reveals that no floating circulating security interests have been perfected over the Company's assets in the six months prior to the relation back day.

### **7.5 Insolvent trading (section 588G)**

Directors have a positive duty to prevent a company from trading whilst it is insolvent (Section 588G). If a director is found to have contravened section 588G he may be ordered to pay an amount of compensation to the company equal to the amount of loss or damage suffered by creditors as a result of the contravention.

Information about possible insolvent trading is relevant to creditors when making a decision about the future of the company as directors of the company may generally only be pursued for insolvent trading if the company is in Liquidation.

As with the voidable transaction analysis above, a claim against directors for breaches of the insolvent trading provisions are only possible on liquidation.

Our investigations have been extensive, but are preliminary. As detailed above, the Company had trading losses in FY16 and YTD17 and negative working capital. These are both indicators of insolvency.

On the basis of our preliminary investigations, it appears that the Company may have been insolvent from at least 28 April 2016 when the Company first ceased meeting its superannuation obligations. Based on our preliminary estimated statement of position and subject to the sales process run by the Receivers and Managers, the estimated loss caused by the Directors failure to prevent the Company from trading whilst insolvent may

be c.\$661k. Ultimately, the issue of insolvency would need to be determined on the basis of available evidence presented to a Court.

Other indicators of insolvency include:

- Continuing losses. As detailed above, the Company incurred losses in FY16 (\$520k) and YTD17 (\$417k)
- Current Ratio below 1 (refer to Section 3.4 above) since at least 30 June 2015 and continuing until the date of appointment
- Overdue Commonwealth and State taxes of \$108k and \$28k respectively as per the books and records of the Company as at the date of our appointment
- Inability to borrow further funds. Following the execution of the GSA in August 2016, the Company had limited access to further funds
- Overdraft facility was regularly at its limit
- Solicitor's letters, summons, judgement or warrants issued against the company. We are aware of such claims against the Company specifically from the Secured Creditors.

A Liquidator would investigate further the possibility of taking action against the Company's directors for breaches of their duties to prevent insolvent trading. If it is established that a director has breached his or her duties to prevent the Company from incurring debts whilst it was insolvent, a Liquidator could recover from those directors an amount equal to the loss that has been suffered by the creditors whose debts remain unpaid.

If a Liquidator chooses to pursue an insolvent trading action, creditors are prevented from taking their own action against the Director(s) for compensation. If a Liquidator does not choose to take any action in this regard, a creditor may commence proceedings on its own behalf but only with the consent of the Liquidator or the Court.

Insolvent trading actions would potentially be brought against all persons that were directors since 28 April 2017 for the period during which they were directors.

## **7.6 Directors' personal financial positions**

The financial position of Directors and Daniel Colgan and their ability to compensate for any damages awarded against them in the event proceedings were taken by a Liquidator is relevant to the consideration of the commerciality of further action.

Our investigations into the personal affairs of the Directors and Daniel Colgan have been limited to public information, information provided by the Directors, or authorised by the Directors to be disclosed by third parties.

Our enquiries and results are as follows:

### **Andrew Wadsley**

A property search reveals the Director jointly owns real property at 1360 Huon Road, Neika, Tasmania, however, it is mortgaged to Suncorp Metway Ltd.

### **Leo Mullins**

A property search reveals the Director does not have any real property in his personal name. However a property search of the entities related to Leo Mullins indicates that JMS owns real property at 2 Pinegrove Mews, Currambine, Western Australia, mortgaged to National Australia Bank Limited.

### **Paul Kristensen**

A property search reveals the Director jointly owns real property at Unit 6D, 29 Trafalgar Road, East Perth, Western Australia, mortgaged to National Australia Bank Limited.

### **John Davidson**

A property search reveals the Director does not have any real property in his personal name.

## Daniel Colgan

A property search reveals the Director jointly owns real property at the following locations:

- 25 Kurrajong Drive, Thornlie, Western Australia, mortgaged to the National Australia Bank Limited
- 103 Caporn Street, Mariginiup, Western Australia, mortgaged to the Commonwealth Bank of Australia Limited
- 89 Caporn Street, Mariginiup, Western Australia, mortgaged to the Commonwealth Bank of Australia Limited
- Unit 4, 283 Newcastle Street, Northbridge, Western Australia, mortgaged to St George Bank Limited
- Unit 2, 283 Newcastle Street, Northbridge, Western Australia, mortgaged to AMP Bank Limited.

In the event that the Company is placed into liquidation we would request a statement of assets and liabilities from each of the Directors and former Directors in order for us to consider their financial capacity to meet any claims which a Liquidator may make against them.

The Directors have available to them a defence to any action under Section 588G(2) of the Act if at the time of incurring the liabilities, that they had reasonable grounds to expect that the Company was solvent and would remain so. In this regard the Directors were at various times leading up to the appointment of the Receivers in discussions with the Secured Creditors and other parties in respect to potential recapitalisation options. These actions to seek new capital may be a potential defence available to the Directors against a claim for a breach of Section 588G of the Act.

As with other claims, taking action for breach of the insolvent trading provisions may involve costly litigation and as we are without funds, we will require funding from creditors or litigation funders. Given the existing lack of funding and potential defences that are available there is uncertainty as to any recovery and, accordingly we have not factored in any return at this stage to creditors.

## 8 Estimated return from a winding up

### 8.1 Introduction

We have prepared an analysis of the likely realisation under liquidation on two bases. Both bases High and Low are outlined below. Both liquidation scenarios involve:

- Closure of the Company
- No surplus from the sale of the Company's assets by the Receivers after costs and application of the Secured Creditors' debt to the purchase price of such assets
- No recovery for breaches of unreasonable director related transactions or insolvent trading provisions
- Employees are paid in full from the proceeds of the research and development rebate and/or by contribution from the Secured Creditors
- Any debtor recoveries and/or surplus from the research and development rebate after payment of employee entitlements is fully utilised in meeting the Receivers' costs and/or reducing the Secured Creditors' debt.

### 8.2 Comparative scenarios

Following is a comparison of the realisations possible should the company proceed into liquidation, being High and Low scenarios:

\$'000	Note	Liquidation	
		Low	High
<b>Circulating assets</b>			
Cash on hand	5.1	13	13
Surplus circulating assets from the Receivers and Managers	8.2.1	-	-
<b>Total circulating assets</b>		<b>13</b>	<b>13</b>
<b>Non-circulating assets</b>			
Surplus non-circulating assets from the the Receivers and Managers	8.2.1	-	-
<b>Total non-circulating assets</b>		<b>-</b>	<b>-</b>
<b>Total assets available for priority creditors</b>		<b>13</b>	<b>13</b>
<b>Priority claims</b>			
Administrators' current fees	12	(105)	(105)
Administrators' future fees	12	(15)	(15)
Administrators' materials and expenses incurred	12	(8)	(8)
Liquidators' fees	12	(125)	(75)
Liquidators' materials and expenses	12	(6)	(4)
Employee claims	8.2.2	(150)	-
<b>Total priority claims</b>		<b>(411)</b>	<b>(207)</b>
<b>Total assets available for unsecured creditors</b>		<b>(398)</b>	<b>(195)</b>
<b>Unsecured creditors</b>			
Trade creditors	8.2.3	(179)	(163)
Convertible note holders	8.2.4	(655)	(655)
Unsecured loans	4.1.11	(784)	(784)
ANZ Overdraft	4.1.11	(68)	(68)
Related party amounts owing	8.2.5	(1,355)	(746)
Directors' fees	4.1.11	(288)	(288)
Statutory taxes	8.2.6	(28)	(28)
Residual Secured Creditors' debt	8.2.1	(764)	(753)
<b>Total unsecured creditors</b>		<b>(4,121)</b>	<b>(3,484)</b>
<b>Recovery actions</b>			
Potential preference, unreasonable director related transaction recoveries	7.4.1 & 7.4.4	-	321
Potential breach of director duties recoveries	7.3.1	Unknown	Unknown
Potential insolvent trading recoveries	7.5	Unknown	Unknown
<b>Total estimated surplus/(deficit)</b>		<b>(4,519)</b>	<b>(3,357)</b>

Registered security interest dividend rate (cents per \$)	Unknown	Unknown
Employee priority creditor dividend rate (cents per \$)	100	100
Unsecured creditor dividend rate (cents per \$)	Nil	4

Source: Deloitte analysis

The values included in the return to creditor's summary above are on a forced sale basis, as discussed below.

## High scenario

These values have been included on the basis that there is potential for an increased recovery or realisation above that of a pessimistic position for specific assets. Where there are two estimates of the value of an asset, the higher value has been included in the optimistic calculations. Achieving these values is subject to a number of factors that would arise during the realisation process. This is largely dependent on recovery of potential preferences, lower liquidation costs and overall unsecured claims.

## Low scenario

The values included in this calculation are considered the lower possible values recoverable from the specific assets of the company. These amounts have been calculated by either discounting for a reduced return or where two values were provided for an asset, the lower value was included.

### 8.2.1 Surplus circulating and non-circulating assets from the Receivers

The Receivers have advised us that the Secured Creditors' debt as at 24 August 2017 was \$1,734,360 and that the anticipated shortfall to the Secured Creditors will be between \$431,491 and \$764,168. For the purposes of our analysis we have assumed in the High scenario that the recovery of a \$321k preference (Section 7.4.1) is successful and therefore increases the residual claim of the Secured Creditors.

Given that the Secured Creditors are indicating a shortfall we have assumed that no amounts from circulating or non-circulating asset recoveries will flow back to the Company. The shortfall to the Secured Creditors ranks as an unsecured debt of the Company.

The amount owed to the Secured Creditors may increase under Section 560 of the Act for any amounts paid by them to satisfy employee entitlements.

### 8.2.2 Employee entitlements

The Receivers have advised that the Company is eligible for a research and development rebate and that this rebate will be applied to paying all employee entitlements of c.\$147k. The Receivers have also advised that should the research and development rebate not be sufficient then the Secured Creditors will pay any shortfall to employees. Based on this we have assumed that in the High scenario employee entitlements are fully paid from the research and development rebate and so no amount is listed as being outstanding to employees in the liquidation. In the Low scenario we have assumed that the Secured Creditors pay the employee entitlements in full and are entitled to the priority under Section 560 of the Act for amounts so paid and therefore the full amount of employee entitlements are listed in the table.

### 8.2.3 Trade creditors

Our High scenario assumes that trade creditors are as per the Company's records (Section 4.1.11) and our Low scenario assumes trade creditor claims are 10% higher.

### 8.2.4 Convertible note holders

The amount listed does not include the convertible notes and interest thereon that are held by the Secured Creditors. The shortfall on the Secured Creditors' convertible notes is factored into the shortfall amount included separately in the table. As discussed at Section 2.3.6 our legal advice is that these convertible notes may not be secured and therefore any amount of the Secured Creditors' convertible loan debt that may have been repaid from the sale of the business may be recoverable as an unfair preference.

### 8.2.5 Related party amounts owing

Includes amounts owed to the Directors' related entities. Our High scenario assumes that the amount owed to PSI is \$28,911 as per Section 4.1.11 and the Company's records, plus all other amounts owed to related parties. The Low scenario assumes the amount owed to PSI is \$666,967 as per the POD lodged by PSI, plus all other amounts owed to related parties.

### 8.2.6 Statutory taxes

The amount of \$28k relates to the Company's payroll tax liability. We have assumed that \$108k owed to the ATO will be set-off by the ATO when they pay the research and development rebate.

## 8.3 Overall realisations in liquidation scenarios

Under the Low scenario we do not estimate a return to unsecured creditors. On the High scenario a return of 4c on the dollar may be received.

A return is only possible if there are recoveries upon potential unfair preferential payments, breaches of director's duties, insolvent trading and/or claims for unreasonable director related transactions.

## 8.4 Effect on employees

In relation to Employee Entitlements, a priority exists over the secured creditor in relation to circulating assets.

The Receivers and Managers have advised that employees will be paid in full.

Should there for some reason be inadequate funds for the payment of employee entitlements, employees may be entitled to apply to FEG for payment.

FEG may cover successful applicants for outstanding wages, annual leave and termination notice. However, FEG does not cover outstanding superannuation entitlements, nor excluded employees, including the Directors of the Company. The Liquidators would assist employees in applying to FEG.

## **9 Deed of Company Arrangement (“DOCA”)**

We have not received a proposal for a DOCA as at the date of this report. We do not expect to receive a proposal prior to the second meeting, but should that change creditors will be updated at that meeting.

## **10 Administrators' opinion**

### **10.1 Introduction**

The following options are available to creditors do decide:

- the Company execute a deed of company arrangement; or
- the administration end; or
- the Company be wound up.

Our opinions on each option and our reasons for the opinions are discussed below.

### **10.2 The Company execute a DOCA**

As we have not received a DOCA proposal, we cannot therefore recommend that it would be in the creditors' interests for the Company to execute a DOCA.

### **10.3 The administration should end**

Based on our analysis, the Company is presently insolvent and unable to pay its debts as and when they fall due.

Ending the administration would not be in the best interests of creditors and would expose the Directors to the possibility of liability for insolvent trading. Accordingly, we cannot recommend that the administration end and control be returned to the Directors.

### **10.4 The Company be wound up**

As no DOCA has been proposed and the Company is insolvent there is no other option but that creditors place the Company into liquidation.

### **10.5 Recommendation**

In our opinion, creditors would be best served if the Company is wound up.

We reserve the right to change our recommendation to creditors should a DOCA proposal is received subsequent to the date of this report.

Should we receive any new information relevant to creditors between issuing this report and the date of the creditors meeting; a summary will be made available on the Administration website at [www.deloitte.com/au/stochastic](http://www.deloitte.com/au/stochastic).

## **11 Other material information**

We are not aware of any other information that is materially relevant to creditors being able to make an informed decision on the Company's future.

## 12 Remuneration

Creditors are directed to the Information Sheet – Approving Fees: a guide for Creditors, a copy of which is attached as Appendix C.

### 12.1 Voluntary administration

The Administrators' remuneration is based on the firm's hourly rates which are included in Appendix D to this report. Creditor approval for fees will be sought at the second meeting of creditors.

The time costs incurred to 25 August 2017 are as follows:

	Amount (\$)
Voluntary Administrators' Remuneration	105,439.50
GST	10,543.95
Total (including GST)	115,983.45

A summary of the time spent by us and our staff in the administration to 25 August 2017 at their respective hourly rates is attached as Appendix D. We expect that a further \$14,826.00 will be incurred by us in the period 26 August 2017 to 19 September 2017, the date of the second creditors meeting.

At the second meeting of creditors, we will propose a resolution in relation to the unpaid fees from the Company to 25 August 2017 and estimated future fees for the period 26 August 2017 to 19 September 2017, the date of the second creditors meeting. If a lesser amount is incurred only the amount actually incurred will be paid.

These fees will be capped and accordingly we will be unable to draw fees more than this amount without further approval by creditors.

Should creditors resolve to adjourn the second meeting of creditors, we will seek approval of our fees incurred after 19 September 2017 at subsequent meetings of creditors.

Please note that none of these fees include disbursements, which an Administrator is entitled to draw as and when incurred.

### 12.2 Liquidation

The Liquidators' remuneration is based on the firm's hourly rates which are included in Appendix D to this report. Creditor approval for fees will be sought at the second meeting of creditors where a detailed narrative will be submitted together with the fee breakdown of work performed by the Liquidators' staff.

The estimated fees for the liquidation from 19 September 2017 to completion of the liquidation are as follows:

	Amount (\$)
Liquidators' Remuneration	125,367.50
GST	12,536.75
Total (including GST)	137,904.25

A summary of the estimated time to be spent by the Liquidators' and their staff in the liquidation from 19 September 2017 to completion of the liquidation at their respective hourly rates is attached as Appendix D.

At the second meeting of creditors, we will propose a resolution in relation to the estimated Liquidators' fees from 19 September 2017 to completion of the liquidation. If a lesser amount is incurred only the amount actually incurred will be paid.

These fees will be capped and accordingly we will be unable to draw fees more than this amount without further approval by creditors.

## 13 Meeting

Pursuant to Section 439A(3) of the Act, we have attached a notice convening the second meeting of creditors to be held on 19 September 2017 at the offices of Deloitte Financial Advisory Pty Ltd, Ground floor Auditorium Tower 2, Brookfield Place, 123 St Georges Terrace Perth WA, at 11:00 AM WST (see Form 529 enclosed as Appendix E).

At this meeting creditors will be asked to resolve whether:

- the Company execute a deed of company arrangement; or
- the administration end; or
- the Company be wound up.

Attendance at this meeting is not compulsory. Creditors may attend and vote in person, by proxy or by attorney. The appointment of a proxy must be made in accordance with Form 532 (copy attached as Appendix G).

A specific proxy can be lodged showing approval or rejection of each resolution. Proxy forms or facsimiles thereof must be lodged with the Administrators prior to the commencement of the meeting. Where a facsimile copy of a proxy is sent, the original must be lodged with the Administrators within 72 hours after receipt of the facsimile. An attorney of the creditor must show the instrument by which he or she is appointed to the Chairman of the meeting, prior to the commencement of the meeting.

Please note that a creditor is required to lodge a Proof of Debt or Claim (copy attached) to be entitled to vote at the second meeting of creditors. A creditor will not be able to vote at the meeting unless a Proof of Debt or Claim is lodged with me prior to the commencement of the meeting.

If a creditor wishes to rely upon the Proof of Debt or Claim that they lodged with us at the first meeting of creditors, held on 13 April 2017, they must make reference to that Proof of Debt or Claim when submitting a proxy, or when attending the second meeting of creditors.

We trust that creditors find this report informative and useful. In the event that you have any queries regarding the contents of this report, or the administration in general, please do not hesitate to contact Tyron Lopes of this office on (08) 9365 8171 or Jordan Basso on (08) 9365 7849.

Yours faithfully



-----  
Jason Tracy

**Voluntary Administrator**



**Appendix A - Declaration of Independence, Relevant Relationships and Indemnities**

## Declaration of Independence, Relevant Relationships and Indemnities

**Stochastic Simulation Ltd (the Company)**  
**ACN 132 012 296**

This document requires the Practitioners appointed to an insolvent entity to make declarations as to:

- A. their independence generally;
- B. relationships, including
  - (i) the circumstances of the appointment;
  - (ii) any relationships with the company and others within the previous 24 months;
  - (iii) any prior professional services for the company within the previous 24 months;
  - (iv) that there are no other relationships to declare; and
- C. any indemnities given, or up-front payments made, to the Practitioner.

This declaration is made in respect of ourselves, our partners and Deloitte Financial Advisory Pty Limited (**Deloitte**).

### **A. Independence**

We, Jason Mark Tracy and Richard John Hughes of Deloitte have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Joint and Several Administrators of the Company in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

### **B. Declaration of Relationships**

#### **i. Circumstances of appointment**

This appointment was referred to us by Mr John Townsend. We have had no professional or other relationship with Mr Townsend in the past. Mr Townsend is a shareholder of the Company and had been given Mr Tracy's name by a contact of his (Mr Townsend's) as being somebody that could assist in providing restructuring and insolvency advice to the Company.

On 8 March 2017 Mr Townsend telephoned Jason Tracy and explained that the Company may need professional restructuring advice. Mr Leo Mullins, a director of the Company then emailed to Mr Tracy various pieces of information to help explain the Company's background and financial position. A meeting was then held at the offices of the Company on 9 March 2017 between Mr Mullins, Mr Townsend, Mr Tracy, Jude Morris (an employee of Deloitte Financial Advisory Pty Ltd), Mr Andrew Wadsley (a director of the Company) and Paul Kristensen (a director of the Company). The purpose of this meeting was to gain information on the financial position of the Company. On 10 March 2017 we provided the Company with a proposal to assist with a restructure of the Company.

From 13 March 2017 to 21 March 2017 we received further information on the financial position of the Company and Mr Tracy had approximately three telephone discussions with Mr Mullins. These discussions involved Mr Mullins providing updates on how the Company was to deal with claims made by a creditor of the Company. On 30 March 2017 Mr Mullins called Mr Tracy and advised that Mr Daniel Colgan and related parties had appointed receivers and managers to the Company. On 31 March 2017 Mr Tracy and Mr Mullins held another telephone call where Mr Tracy discussed the options available to the Company following the

appointment of the receivers and managers. One such option was the appointment of voluntary administrators to the Company.

On 1 April 2017 Mr Tracy held a teleconference with all the directors of the Company where the voluntary administration process was discussed, and to discuss funding of the administrators. It was agreed at this meeting that an indemnity for the voluntary administrators' fees and costs of up to \$50,000 would be provided.

On 2 April 2017 Mr Tracy received a telephone from Mr Sil La Puma (Mr La Puma's company ISA Pty Ltd is a 5.1% shareholder of Stochastic Simulation Ltd) whereby Mr La Puma advised that an amount of \$15,000 had been paid into the trust account of Deloitte Touche Tohmatsu by way of an up-front payment for the voluntary administrators' fees.

The payment of \$15,000 represents an up-front payment of our fees and costs.

On 3 April 2017 the directors of the Company resolved to appoint us as voluntary administrators.

On 13 April 2017 Mr Tracy received an email from Robert McClelland representing a convertible note holder Vemac Ascent Investments Pty Ltd. Mr McClelland indicated that Vemac Ascent Investments Pty Ltd and ACN 137 837 613 Pty Ltd would transfer \$5,000 into the Company's Administration account to cover some of the costs of the appointment. Mr McClelland indicated that the funding split for the \$5,000 would be 70% borne by Vemac Ascent Investments Pty Ltd and the remaining 30% would be borne by ACN 137 837 613 Pty Ltd. ACN 137 837 613 Pty Ltd is a Company related to Andrew Duncan, and is a creditor of the Company.

The payment of \$5,000 represents an up-front payment of our fees and costs.

On 28 April 2017, David John of Herbert Smith Freehills, solicitor for the Administrators, sent an email to the Chris Pearce of Blackwall Legal LLP, solicitor for Bryan Hughes, Renee O'Driscoll and Daniel Bredenkamp of Pitcher Partners (**Receivers and Managers**) and Daniel Colgan as Trustee for the Sette Selle Trust, Nathan Colgan and Cornelia Colgan as Trustees for the Kinsale Trust, Dorothy and Martin Colgan (**Secured Creditors**), outlining the approximate costs of \$10,000 that would likely be incurred to prepare an application to extend the convening period of the Administration. On 2 May 2017 Chris Pearce responded that the Secured Creditors would fund the costs required to prepare the application for the extension to the convening period. Herbert Smith Freehills' costs will be billed directly to the Secured Creditors' solicitors, Blackwall Legal LLP.

On or around 28 May 2017 Mr Tracy received a phone call from Andrew Duncan representing ACN 137 837 613 Pty Ltd. Mr Duncan indicated that ACN 137 837 613 Pty Ltd would transfer \$1,500 into the Company's Administration account to cover some of the costs of the appointment, this amount was received on 13 June 2017.

The payment of \$1,500 represents an up-front payment of our fees and costs.

At this stage the provision of any further funding by way of an indemnity or payment of costs is subject to further discussion. We will update this document and advise creditors should this position change.

We have received no remuneration so far for any of our dealings with the Company and its directors.

In our opinion these dealings do not affect our independence for the following reasons:

- These dealings were predominately in the nature of a pre-appointment discussions and were limited to the financial position of the Company
- During all discussions and meetings advice was limited to verbal discussions of the potential options available

- It is our opinion that these dealings do not present a conflict or impediment as we do not consider ourselves to be bound to provide services to the Company in relation to this matter or in any way obligated to deliver a favourable outcome to any party, nor will the advice provided be subject to review and challenge during the course of the voluntary administration
- The Courts and the ARITA's Code of Professional Practice specifically recognise the need for practitioners to provide advice on the insolvency process and the options available and do not consider that such advice results in a conflict or is an impediment to accepting the appointment.

We have provided no other information or advice to the Company, the directors and its advisors prior to our appointment beyond that outlined in this DIRRI.

## ii. Relevant Relationships (excluding Professional Services to the Company)

Neither we, nor our firm, have, or have had within the preceding 24 months, any relationships with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company or any person or entity that has a charge on the whole or substantially whole of the Company's property.

## iii. Prior Professional services to the Company

Neither we, nor our firm, have provided any professional services to the Company in the previous 24 months.

## iv. No other relevant relationships to disclose

There are no other known relevant relationships, including personal, business and professional relationships, from the previous 24 months with the Company, an associate of the Company, a former insolvency practitioner appointed to the Company or any person or entity that has security over the whole or substantially whole of the Company's property that should be disclosed.

## C. Indemnities and up-front payments

We have been provided with the following indemnities and or upfront payments for remuneration for the conduct of this administration:

Name	Relationship with company	Nature of indemnity or payment
ISA Pty Ltd	Shareholder (5.1% shareholding)	<p>ISA Pty Ltd has agreed to provide up-front funding in relation to our remuneration for the conduct of the administration (as approved in accordance with the Corporations Act 2001) up to an amount of \$15,000. This does not affect any other indemnities that we may be entitled to under statute.</p> <p>Further, the up-front funding was not based on any agreement to provide a specific outcome for the Administration. We do not believe this creates a conflict.</p> <p>The up-front funding is for approximately \$15,000 including our professional fees, disbursements and costs. An</p>

		<p>amount of \$15,000 was paid into the trust account of Deloitte Touche Tohmatsu on 3 April 2017 by way of any upfront payment for our fees and costs. The up-front payment will be applied to our professional fees, disbursements and costs. We will only apply the up-front payment for our professional fees and disbursements upon receiving creditor approval to do so. We will apply the up-front payment for costs of the administration (e.g. for legal costs) as when such costs are incurred and due for payment.</p>
<p>Vemac Ascent Investments Pty Ltd</p>	<p>Convertible Note holder (face value \$300,000)</p>	<p>Vemac Ascent Investments Pty Ltd has agreed to provide an up-front payment in relation to our remuneration for the conduct of the administration (as approved in accordance with the Corporations Act 2001) up to an amount of \$3,500. This does not affect any other indemnities that we may be entitled to under statute.</p> <p>Further, the up-front payment was not based on any agreement to provide a specific outcome for the Administration. We do not believe this creates a conflict. The up-front payment is for approximately \$3,500 including our professional fees, disbursements and costs. An amount of \$3,500 was paid into the Administration account of the Company on 18 April 2017 by way of any up-front payment for our fees and costs. The up-front payment will be applied to our professional fees, disbursements and costs. We will only apply the up-front payment for our professional fees and disbursements upon receiving creditor approval to do so. We will apply the up-front payment for costs of the administration (e.g. for legal costs) as when such</p>

		costs are incurred and due for payment.
ACN 137 837 613 Pty Ltd	Unsecured creditor (informal proof of debt lodged for \$156,000)	<p>ACN 137 837 613 Pty Ltd has agreed to provide an up-front payment in relation to our remuneration for the conduct of the administration (as approved in accordance with the Corporations Act 2001) up to an amount of \$3,000. This does not affect any other indemnities that we may be entitled to under statute.</p> <p>Further, the up-front payment was not based on any agreement to provide a specific outcome for the Administration. We do not believe this creates a conflict. The up-front payments total approximately \$3,000 and are for our professional fees, disbursements and costs. An amount of \$1,500 was paid into the Administration account of the Company on 18 April 2017 and a further amount of \$1,500 was paid into the Administration account of the Company on 13 June 2017 by way of an up-front payment for our fees and costs. The up-front payment will be applied to our professional fees, disbursements and costs. We will only apply the up-front payment for our professional fees and disbursements upon receiving creditor approval to do so. We will apply the up-front payment for costs of the administration (e.g. for legal costs) as when such costs are incurred and due for payment.</p>
Daniel Colgan as Trustee for the Sette Selle Trust, Nathan Colgan and Cornelia Colgan as Trustees for the Kinsale Trust, Dorothy and Martin Colgan ( <b>Secured Creditors</b> )	Secured creditor and convertible note holder (informal proof of debt lodged for \$1,310,000)	The Secured Creditors have agreed to pay the Administrators' Solicitors in relation to the costs for the preparation of the application for the extension to the convening period. This does not affect any other indemnities that we may be entitled to under statute.

		Further, any payment of the Administrators' solicitors was not based on any agreement to provide a specific outcome for the Administration. We do not believe this creates a conflict. The proposed payment is for approximately \$10,000 and will be paid directly to the Administrators' solicitors.
--	--	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

This does not include statutory indemnities. We have not received any other indemnities or upfront payments that should be disclosed.

Dated: 11 September 2017



---

Jason Mark Tracy



---

Richard John Hughes

**Note:**

1. If circumstances change, or new information is identified, we are required under the Corporations Act and the ARITA Code of Professional Practice to update this Declaration and provide a copy to creditors with our next communication as well as table a copy of any replacement declaration at the next meeting of the insolvent's creditors.
2. Any relationships, indemnities or up-front payments disclosed in the DIRRI must not be such that the Practitioner is no longer independent. The purpose of components B and C of the DIRRI is to disclose relationships that, while they do not result in the Practitioner having a conflict of interest or duty, ensure that creditors are aware of those relationships and understand why the Practitioner nevertheless remains independent.

## Appendix B - Information sheet – offences, recoverable transactions, etc.

Please refer to [www.deloitte.com/au/stochastic](http://www.deloitte.com/au/stochastic)

If you are unable to access this website please contact Deloitte on (08) 9365 7849 to request a copy of this document



## Appendix C - Approving fees: A guide for creditors

Please refer to [www.deloitte.com/au/stochastic](http://www.deloitte.com/au/stochastic)

If you are unable to access this website please contact Deloitte on (08) 9365 7849 to request a copy of this document

## Appendix D - Remuneration report for Stochastic Simulation Ltd (the Company)

### Remuneration Methods

There are four basic methods that can be used to calculate the remuneration charged by an insolvency practitioner. They are:

#### ***Time based / hourly rates***

This is the most common method. The total fee charged is based on the hourly rate charged for each person who carried out the work multiplied by the number of hours spent by each person on each of the tasks performed.

#### ***Fixed Fee***

The total fee charged is normally quoted at the commencement of the administration and is the total cost for the administration. Sometimes a practitioner will finalise an administration for a fixed fee.

#### ***Percentage***

The total fee charged is based on a percentage of a particular variable, such as the gross proceeds of assets realisations.

#### ***Contingency***

The practitioner's fee is structured to be contingent on a particular outcome being achieved.

### Method chosen

Given the nature of a voluntary administration, our remuneration has been calculated on time based / hourly rates basis. This is because:

- We will only be paid for work done, subject to sufficient realisations of the Company's assets
- It ensures creditors are only charged for work that is performed. Our time is recorded and charged in six minute increments and staff are allocated to duties according to their relevant experience and qualifications
- We are required to perform a number of tasks which do not relate to the realisation of assets, e.g. responding to creditor enquiries, reporting to ASIC, distributing funds in accordance with the provisions of the Corporations Act 2001
- We are unable to estimate with certainty the total amount of fees necessary to complete all tasks required in this Administration.

## Deloitte Hourly Rates

The rates for our remuneration calculation are set out in the following table together with a general guide showing the qualifications and experience of staff engaged in the administration and the role they take in the Administration. The hourly rates charged encompass the total cost of providing professional services and should not be compared to an hourly wage. All rates are show exclusive of GST.

<b>Title</b>	<b>Description</b>	<b>Hourly Rate (excl GST)</b>
<b>Appointee</b>	Registered Liquidator. Brings his or her specialist skills to the administration or insolvency task.	\$615
<b>Partner</b>	Registered Liquidator. Brings his or her specialist skills to the administration or insolvency task.	\$615
<b>Principal</b>	Typically CA or CPA qualified with in excess of 10 years' experience on insolvency matters with a number of years at manager level. Answerable to the appointee but otherwise responsible for all aspects of an administration. Capable of controlling all aspects of an administration. May be appropriately qualified to take appointments in his/her own right.	\$510
<b>Director/ Consultant</b>	Typically CA or CPA qualified with in excess of 8 years' experience on insolvency matters with a number of years at manager level. Answerable to the appointee but otherwise responsible for all aspects of an administration. Capable of controlling all aspects of an administration. May be appropriately qualified to take appointments in his/her own right.	\$510
<b>Manager</b>	Typically CA or CPA qualified with in excess of 8 years' experience on insolvency matters with a number of years at manager level. Well-developed technical and commercial skills. Able to deal with complex issues arising in an administration.	\$440
<b>Senior Analyst</b>	Typically completed or near completion of CA or CPA qualifications with 4 to 6 years insolvency experience. Assists in planning and control of smaller matters as well as performing some more difficult tasks on larger matters.	\$330
<b>Analyst</b>	Typically studying towards CA or CPA qualification with 2 to 4 years insolvency experience. Works under supervision of more senior staff in performing day-to-day fieldwork.	\$220
<b>Graduate</b>	Junior staff member who has completed a university degree with less than one year's experience working on insolvency matters. Works under supervision of more senior staff in performing day-to-day fieldwork.	\$115
<b>Secretary</b>	Advanced secretarial skills	\$170

Our best estimate for the cost of the Administration to completion is \$120,265.50 and to complete the liquidation \$125,367.50.

## Remuneration Sought

### Part 1. Declaration

We, Jason Tracy and Richard Hughes, have undertaken a proper assessment of this remuneration claim for our appointment as Joint and Several Administrators of the Company in accordance with the law and applicable professional standards. We are satisfied that the remuneration claimed is in respect of necessary work, properly performed in the conduct of the administration.

### Part 2. Executive Summary

To date no remuneration has been approved and paid in this administration. This remuneration report details approval sought for the following fees:

#### Current remuneration approval sought:

##### Voluntary Administration

Resolution 1: 3 April 2017 to 25 August 2017	\$105,439.50 (ex GST)
Resolution 2: 26 August 2017 to end of the voluntary administration*	<u>\$14,826.00 (ex GST)</u>
Total – Voluntary Administration	\$120,265.50 (ex GST)

##### Liquidation

Resolution 3: Commencement of the liquidation to completion*	\$125,367.50 (ex GST)
--------------------------------------------------------------	-----------------------

\*Approval for the future remuneration sought is based on an estimate of the work necessary to the completion of the Administration/Liquidation. Should additional work be necessary beyond what is contemplated, further approval may be sought from creditors.

Please refer below for full details of the calculation and composition of the remuneration approval sought.

**Part 3. Description of work to be completed**

**Resolution 1: Description of Work Completed from 3 April 2017 to 25 August 2017**

	<b>General Description</b>	<b>Includes</b>
<b>Creditors</b> <b>145 hours</b> <b>\$51,039.00</b>	Creditor Enquiries	Receive and follow up creditor enquiries via telephone and email Review and prepare correspondence to creditors and their representatives via facsimile, email and post Notification to creditors of extension to the convening period
	Sale of Business /Secured Creditors	Oversight of Receivers and Managers/Secured Creditors sale process Request and review Receivers and Managers' reports and updates Correspondence and discussions with parties regarding potential DOCA
	Legal	Correspondence, discussions and meetings with Secured Creditors' lawyers Correspondence, discussions and meetings with legal advisors Consider and prepare application to extend the convening period Review of legal advice
	Creditor reports	Preparing 439A, investigation, meeting and general reports to creditors Prepare and send initial circular to creditors
	Dealing with proofs of debt	Receiving and filing POD's when not related to a dividend Correspondence with Office of State Revenue and ATO regarding POD's when not related to a dividend
	Meeting of Creditors	Preparation of meeting notices, proxies and advertisements Forward notice of meeting to all known creditors Preparation of meeting file, including agenda, certificate of postage, attendance register, list of creditors, reports to creditors, advertisement of meeting and draft minutes of meeting Preparation and lodgement minutes of meetings with ASIC Respond to stakeholder queries and questions immediately following meeting

	General Description	Includes
<b>Employees</b> <b>6.4 hours</b> <b>\$2,899.00</b>	Employees enquiry	Attendance at site to discuss administration process and respond to queries from employees Receive and follow up employee enquiries via telephone and email Review and prepare correspondence to employees and their representatives via email and post Preparation of letters to employees advising of their entitlements
	FEG	Correspondence with FEG
	Calculation of entitlements	Calculating employee entitlements Reviewing employee files and Company's books and records Reconciling superannuation accounts Reviewing awards
	Other employee issues	Correspondence with Child Support Correspondence with Centrelink
<b>Investigation</b> <b>76.7 Hours</b> <b>\$31,713.00</b>	Conducting investigation	Collection of Company's books and records Reviewing Company's books and records Review and preparation of Company nature and history Conducting and summarising statutory searches Preparation of comparative financial statements Preparation of investigation file Preparation and lodgement of supplementary report if required Identify and quantify potential recovery claims
	Section 438D Report	Draft and finalise Administrators' report pursuant to Section 438D of the Corporations Act Preparing statutory investigation reports Review of potential insolvent trading
	Litigation / Recoveries	Meetings with potential litigation funders Internal meetings to discuss status of potential litigation / recoveries Liaising with solicitors regarding recovery actions

	General Description	Includes
<b>Administration</b> <b>80.9 Hours</b> <b>\$19,788.50</b>	Correspondence	Notifying relevant parties of appointment Ongoing correspondence with notified parties in relation to the Administration Responding to shareholder queries
	Document maintenance/file review/checklist	First month review Filing of documents File reviews Updating checklists
	Insurance	Identification of potential issues requiring attention of insurance specialists Correspondence with Willis regarding initial and ongoing insurance requirements Reviewing insurance policies Correspondence with previous brokers
	Bank account administration	Preparing correspondence opening and closing accounts Requesting bank statements Bank account reconciliations Correspondence with bank regarding specific transfers
	ASIC Form 524 and other forms	Preparing and lodging ASIC forms
	ATO & other statutory reporting	Notification of appointment Preparing BAS' Completing group certificates
	Planning / Review	Discussions regarding status of administration

## Calculation of Remuneration

### Stochastic Simulation Limited (Receivers and Managers) (Administrators Appointed)

ACN 132 012 296

Administrators' professional fees and costs for the period 3 April 2017 to 25 August 2017

Employee	Position	Rate (\$)	Hours	Total (\$)	Task Area									
					Assets		Creditors		Employees		Investigation		Administration	
					Hours	\$	Hours	\$	Hours	\$	Hours	\$	Hours	\$
Tracy, Jason	Partner	615	16.6	<b>10,209.00</b>	-	-	3.9	2,398.50	2.0	1,230.00	8.0	4,920.00	2.7	1,660.50
Hughes, Richard	Partner	615	0.5	<b>307.50</b>	-	-	-	-	-	-	-	-	0.5	307.50
Morris, Jude	Director	510	58.0	<b>29,580.00</b>	-	-	26.1	13,311.00	2.4	1,224.00	22.9	11,679.00	6.6	3,366.00
Kendall, Clayton	Director	510	3.0	<b>1,530.00</b>	-	-	3.0	1,530.00	-	-	-	-	-	-
Lopes, Tyron	Sr Analyst	330	170.3	<b>56,199.00</b>	-	-	95.0	31,350.00	1.0	330.00	45.8	15,114.00	28.5	9,405.00
Staley, Adam	Sr Analyst	330	3.0	<b>990.00</b>	-	-	2.3	759.00	-	-	-	-	0.7	231.00
Basso, Jordan	Graduate	115	57.6	<b>6,624.00</b>	-	-	14.7	1,690.50	1.0	115.00	-	-	41.9	4,818.50
<b>Total professional fees</b>			<b>309.0</b>	<b>105,439.50</b>	-	-	<b>145.0</b>	<b>51,039.00</b>	<b>6.4</b>	<b>2,899.00</b>	<b>76.7</b>	<b>31,713.00</b>	<b>80.9</b>	<b>19,788.50</b>
GST				<u>10,543.95</u>										
<b>Total (incl. GST)</b>				<b><u>115,983.45</u></b>										
Average Hourly Rate					-		352		453		413		245	



## Future fees

### Resolution 2: Description of tasks to be completed from 26 August 2017 to 19 September 2017 (expected end date of the administration)

Task Area	General Description	Includes
<b>Creditors</b> <b>26.5 hours</b> <b>\$9,107.50</b>	Creditor Enquiries	Responding to creditor enquiries
	Creditor reports	Finalise 439A report, investigation, meeting and general reports to creditors
	Meeting of creditors	Preparation meeting notices, proxies and advertisements Forward notice of meeting to all known creditors Preparation of meeting file, including agenda, certificate of postage, attendance register, list of creditors, reports to creditors, advertisement of meeting and draft minutes of meeting. Preparation and lodgement minutes of meetings with ASIC Respond to stakeholder queries and questions immediately following meeting
<b>Employees</b> <b>1.3 Hours</b> <b>\$586.00</b>	Employees enquires	Ongoing employee correspondence Responding to employee enquiries as they arise
<b>Investigation</b> <b>4.5 Hours</b> <b>\$1,772.50</b>	Conducting investigation	Continue investigation into the Company Review of potential Breaches of Director Duties, unfair preferences, unreasonable director related transactions and insolvent trading Preparing evidence and documentation of potential Breaches
	Litigation / Recoveries	Ongoing expected correspondence and work in relation to potential litigation/recoveries
<b>Administration</b> <b>9 Hours</b> <b>\$3,360.00</b>	Correspondence	General correspondence from relevant parties
	Document maintenance/file review/checklist	Filing of documents File reviews Updating checklists
	Insurance	Ongoing correspondence with insurance broker if required

Task Area	General Description	Includes
	Bank account administration	Preparing correspondence opening and closing accounts Requesting bank statements Bank account reconciliations Correspondence with bank regarding specific transfers
	ASIC Form 524 and other forms	Preparing and lodging ASIC forms including 505, 524, 911 etc. as required Correspondence with ASIC regarding statutory forms
	ATO & other statutory reporting	Maintain obligations to the ATO Correspondence with the ATO as required
	Finalisation	Notifying ATO of finalisation of administration Cancelling ABN / GST / PAYG registration Completing checklists
	Planning / Review	Discussions regarding status of administration
	Books and records / storage	Maintaining books and records for liquidation purposes

### Calculation of Remuneration

#### Stochastic Simulation Limited (Receivers and Managers) (Administrators Appointed)

ACN 132 012 296

Administrators' professional fees and costs for the period 26 August 2017 to 19 September 2017

Employee	Position	Rate (\$)	Hours	Total (\$)	Task Area									
					Assets		Creditors		Employees		Investigation		Administration	
					Hours	\$	Hours	\$	Hours	\$	Hours	\$	Hours	\$
Tracy, Jason	Partner	615	4.0	<b>2,460.00</b>	-	-	2.0	1,230.00	0.5	307.50	0.5	307.50	1.0	615.00
Hughes, Richard	Partner	615	2.5	<b>1,537.50</b>	-	-	0.5	307.50	-	-	-	-	2.0	1,230.00
Morris, Jude	Director	510	13.2	<b>6,732.00</b>	-	-	10.0	5,100.00	0.2	102.00	2.0	1,020.00	1.0	510.00
Kendall, Clayton	Director	510	-	-	-	-	-	-	-	-	-	-	-	-
Lopes, Tyron	Sr Analyst	330	7.5	<b>2,475.00</b>	-	-	4.0	1,320.00	0.5	165.00	1.0	330.00	2.0	660.00
Staley, Adam	Sr Analyst	330	-	-	-	-	-	-	-	-	-	-	-	-
Basso, Jordan	Graduate	115	14.1	<b>1,621.50</b>	-	-	10.0	1,150.00	0.1	11.50	1.0	115.00	3.0	345.00
<b>Total professional fees</b>			<b>41.3</b>	<b>14,826.00</b>	-	-	<b>26.5</b>	<b>9,107.50</b>	<b>1.3</b>	<b>586.00</b>	<b>4.5</b>	<b>1,772.50</b>	<b>9.0</b>	<b>3,360.00</b>
GST				1,482.60										
<b>Total (incl. GST)</b>				<b>16,308.60</b>										
Average Hourly Rate								344		451				373

**Resolution 3: Description of tasks to be completed in the event that the Company is placed into liquidation**

<b>Task Area</b>	<b>General Description</b>	<b>Includes</b>
<b>Assets</b> <b>11.5 Hours</b> <b>\$4,832.50</b>	Sale of Business Assets	Correspondence and discussions with Receivers and Managers/Secured Creditors Consider details of sale of business process and outcome Internal meetings to discuss/review
	Other Assets	Tasks associated with realising other assets
<b>Creditors</b> <b>91 Hours</b> <b>\$31,215.00</b>	Creditor Enquiries	Receive and follow up creditor enquiries via telephone and email Maintaining creditor enquiry register Review and prepare correspondence to creditors and their representatives via facsimile, email and post Correspondence with committee of inspection members if applicable
	Creditor reports	Preparing general reports to creditors
	Dealing with proofs of debt	Receipting and filing POD's when not related to a dividend Corresponding with Office of State Revenue and ATO regarding POD's when not related to a dividend
	Meeting of Creditors	Preparation meeting notices, proxies and advertisements Forward notice of meeting to all known creditors Preparation of meeting file, including agenda, certificate of postage, attendance register, list of creditors, reports to creditors, advertisement of meeting and draft minutes of meeting Preparation and lodgement minutes of meetings with ASIC Respond to stakeholder queries and questions immediately following meeting
	Shareholder enquires	Notification of liquidation to creditors Respond to shareholder enquiries

Task Area	General Description	Includes
<b>Employees</b> <b>22 Hours</b> <b>\$6,220.00</b>	Employees enquires	Receive and follow up employee enquiries via telephone and email Review and prepare correspondence to employees and their representatives via facsimile, email and post Preparation of letters to employees advising of their entitlements and options available Receive and prepare correspondence in response to employees objections to leave entitlements
	FEG	Correspondence with FEG if required
	Calculation of entitlements	Reviewing employee files and company's books and records Reconciling superannuation accounts Reviewing awards
	Employee dividend	Correspondence with employees regarding dividend Correspondence with ATO regarding SGC proof of debt Oversight of Receivers and Managers dividend payments to employees
<b>Investigation</b> <b>158 Hours</b> <b>\$51,920.00</b>	Conducting investigation	Continue investigation from administration period Briefing lawyers regarding potential claims Reviewing proposals from litigation funding firms and other parties Commence legal proceedings Reporting any additional breaches to ASIC Activities associated with ongoing legal proceedings against Directors of the Company Review documents requested under discovery proceedings Negotiate and review any settlement offer(s)
	Litigation / Recoveries	Correspondence with lawyers in relation to potential recoveries Pursue legal action for recovery of funds from Directors or related parties
	ASIC reporting	Preparing statutory investigation reports Liaising with ASIC
<b>Administration</b>	Correspondence	General correspondence with relevant parties

Task Area	General Description	Includes
<b>102 Hours</b> <b>\$31,180.00</b>	Document maintenance/file review/checklist	First month, then 6 monthly administration review Filing of documents File reviews Updating checklists
	Insurance	Advise insurance broker of appointment as Liquidator Ongoing correspondence with insurance broker
	Bank account administration	Preparing correspondence opening and closing accounts Requesting bank statements Bank account reconciliations
	ASIC Form 524 and other forms	Preparing and lodging ASIC forms including 505, 524, 911 etc. Correspondence with ASIC regarding statutory forms
	ATO & other statutory reporting	Notification of appointment as Liquidator Preparing BAS statement
	Finalisation	Notifying ATO of finalisation Cancelling ABN / GST / PAYG registration Completing checklists Finalising WIP
	Planning / Review	Discussions regarding status of administration
	Books and records / storage	Dealing with records in storage Sending job files to storage

## Calculation of Remuneration

### Stochastic Simulation Limited (Receivers and Managers) (Administrators Appointed)

ACN 132 012 296

Liquidators' estimated professional fees and costs for the period 19 September 2017 to completion of Liquidation

Employee	Position	Rate (\$)	Hours	Total (\$)	Task Area									
					Assets		Creditors		Employees		Investigation		Administration	
					Hours	\$	Hours	\$	Hours	\$	Hours	\$	Hours	\$
Tracy, Jason	Partner	615	39.0	<b>23,985.00</b>	2.0	1,230.00	10.0	6,150.00	2.0	1,230.00	15.0	9,225.00	10.0	6,150.00
Hughes, Richard	Partner	615	6.5	<b>3,997.50</b>	0.5	307.50	1.0	615.00	-	-	3.0	1,845.00	2.0	1,230.00
Morris, Jude	Director	510	76.0	<b>38,760.00</b>	3.0	1,530.00	25.0	12,750.00	3.0	1,530.00	30.0	15,300.00	15.0	7,650.00
Kendall, Clayton	Director	510	-	-	-	-	-	-	-	-	-	-	-	-
Lopes, Tyron	Sr Analyst	330	132.0	<b>43,560.00</b>	5.0	1,650.00	25.0	8,250.00	7.0	2,310.00	60.0	19,800.00	35.0	11,550.00
Staley, Adam	Sr Analyst	330	-	-	-	-	-	-	-	-	-	-	-	-
Basso, Jordan	Graduate	115	131.0	<b>15,065.00</b>	1.0	115.00	30.0	3,450.00	10.0	1,150.00	50.0	5,750.00	40.0	4,600.00
<b>Total professional fees</b>			<b>384.5</b>	<b>125,367.50</b>	<b>11.5</b>	<b>4,832.50</b>	<b>91.0</b>	<b>31,215.00</b>	<b>22.0</b>	<b>6,220.00</b>	<b>158.0</b>	<b>51,920.00</b>	<b>102.0</b>	<b>31,180.00</b>
GST				12,536.75										
<b>Total (incl. GST)</b>				<b>137,904.25</b>										
Average Hourly Rate						420		343		283		329		306

## Part 4. Statement of remuneration claim

Resolution 1 for fees incurred from 3 April 2017 to 25 August 2017:

"That the remuneration of the Administrators their partners and staff, for the period of the Administration from 3 April 2017 to 25 August 2017 is fixed at a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017 of fees equalling \$105,439.50 plus GST and disbursements, and that the Administrators can draw the remuneration as required"

Resolution 2 for future fees from 26 August 2017 to finalisation of the Administration:

"That the prospective remuneration of the Administrators their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017, for the period of the Administration from 26 August 2017 to completion of the Voluntary Administration, is fixed and approved to a maximum cap of \$14,826.00 plus GST and disbursements to be drawn only when incurred. Should a lesser amount be actually incurred, only the lesser amount will be drawn. Should a greater amount be actually incurred, further approval from Creditors will be sought."

Resolution 3 for fees from the commencement of the Liquidation to completion of the liquidation



"That the prospective remuneration of the Liquidators, their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017, for the period from the commencement of the liquidation to completion of the liquidation, is fixed and approved to a maximum cap of \$125,367.50 plus GST and disbursements to be drawn only when incurred. Should a lesser amount be actually incurred, only the lesser amount will be drawn. Should a greater amount be actually incurred, further approval from Creditors will be sought."

## Part 7. Disbursements

We have undertaken a proper assessment of disbursements claimed for the Company, in accordance with the law and applicable professional standards. We are satisfied that the disbursements claimed are necessary and proper.

Disbursements are divided into three types: **A, B1, B2.**

- A** disbursements are all externally provided professional services. These are recovered at cost. An example of an A disbursement is legal fees.
- B1** disbursements are externally provided non-professional costs such as travel, accommodation and search fees. B1 disbursements are recovered at cost.
- B2** disbursements are internally provided non-professional costs such as photocopying, printing and postage. B2 disbursements, if charged to the 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.

We are not required to seek creditor approval for disbursements, but must account to creditors. Details of the basis of recovering internal disbursements in this Administration are provided below. Full details of any actual costs will be provided in this report and any future reporting.

Basis of disbursement claim (applicable for financial year ending 30 June 2018):

<b>Internal disbursements</b>	<b>Rate (Excl GST)</b>
Advertising	At cost
Courier	At cost
Data room fees	At cost
Postage	At cost
Travel	At cost
Staff vehicle use	\$0.70 per km
Stationary, printing, photocopying, telephone and faxes	5% of incurred insolvency fees

A summary of the disbursements incurred to date is outlined below:



## Stochastic Simulation Limitd (Receivers and Managers) (Administrators Appointed)

ACN 132 012 296

### Administrators' disbursements for the period 3 April 2017 to 25 August 2017

Type	Detail	\$
A	Advertising appointment	153.00
B1	Search and filing fees, travel/parking and mileage, staff amenities, IT consumables	2,998.00
B2	Photocopying, telephone & faxes etc.	5,271.98
<b>Total disbursements (excl. GST)</b>		<b>8,422.98</b>
GST		842.30
<b>Total disbursements (incl. GST)</b>		<b>9,265.27</b>

#### Part 8. Report on Progress of the Administration

Refer to the main Report to Creditors dated 11 September 2017 for the progress of the Administration.

#### Part 9. Summary of Receipts and payments

Refer to Section 5.1 of the main Report to Creditors dated 11 September 2017 for the detailed Receipts and Payments.

#### Part 10. Indemnities and up-front payments

We have received \$21,500 in up-front payments from three shareholders/convertible noteholders. These payments represent a contribution towards our fees and expenses in conducting the Administration that are the subject of this remuneration report and the approval sought from creditors.

#### Part 11. Queries

Should you have any queries regarding this remuneration report, please contact Tyron Lopes of this office on telephone 08 9365 8171 or by email on [tlopes@deloitte.com.au](mailto:tlopes@deloitte.com.au)

#### Part 12. Information Sheet

Refer to Attachment C for ASIC Information Sheet 85 Approving fees: a guide to creditors.

## Appendix E - Notice of Meeting

FORM 529

CORPORATIONS ACT 2001  
Section 439A

Subregulation 5.6.12(6)

NOTICE OF MEETING OF CREDITORS  
STOCHASTIC SIMULATION LIMITED (RECEIVERS & MANAGERS APPOINTED) (ADMINISTRATORS  
APPOINTED)  
ACN 132 012 296

NOTICE is given that a meeting of the creditors of the company will be held at the Offices of Deloitte Financial Advisory Pty Ltd, Ground Floor Auditorium, Tower 2, Brookfield Place, 123 St Georges Terrace, Perth WA 6000 19 September 2017 at 11am.

### A G E N D A

1. To receive a Statement about the company's business, property, affairs and financial circumstances.
2. To receive a statement to creditors by one of the directors, explaining the circumstances leading up to the administration.
3. To receive the report of the Administrator.
4. Questions from creditors.
5. For creditors to resolve:
  - a. that the company execute a deed of company arrangement; or
  - b. that the administration should end; or
  - c. that the company be wound up.
6. To fix the remuneration of the Joint & Several Administrators.
7. If the company is to execute a Deed of Company Arrangement to fix the remuneration of the Deed Administrator.
8. If the company is wound up, to consider appointing a Committee of Inspection.
9. If no Committee is appointed, to fix the remuneration of the Liquidators.
10. If no Committee is appointed, to consider the destruction of the books and records at the conclusion of the winding up.
11. Any other business that may be lawfully brought forward.

Proxies to be used at the meeting should be lodged at the office of the Joint & Several Administrators by 4.00pm on the day prior to the meeting. A creditor can only be represented by proxy or by an attorney pursuant to corporations Regulations 5.6.28 and 5.6.32 (inclusive) and if a body corporate by a representative appointed pursuant to Section 250D.

In accordance with Regulation 5.6.23(1) of the Corporations Regulations, creditors will not be entitled to vote at this meeting unless they have previously lodged particulars of their claim against the company in accordance with the Corporations Regulations and that clause has been admitted for voting purposes wholly or in part by the voluntary administrator.

DATED this 11th day of September 2017.



JASON TRACY  
JOINT & SEVERAL ADMINISTRATOR



Deloitte Financial Advisory Pty Ltd  
Tower 2  
Brookfield Place  
123 St Georges Terrace  
PERTH WA 6000

Telephone: (08) 9365 7849

## **Appendix F - Proof of debt**

INFORMAL PROOF OF DEBT FORM  
Regulation 5.6.47

STOCHASTIC SIMULATION LIMITED (RECEIVERS & MANAGERS APPOINTED) (ADMINISTRATORS APPOINTED)  
ACN 132 012 296

Name of creditor: .....

Address of creditor: .....

.....

ABN: .....

Telephone number: .....

Amount of debt claimed: \$ ..... (including GST \$.....)

Consideration for debt (i.e, the nature of goods or services supplied and the period during which they were supplied):

.....

.....

Is the debt secured? YES/NO

If secured, give details of security including dates, etc:

.....

.....

Other information:

.....

.....

.....  
Signature of Creditor  
(or person authorised by creditor)

.....  
Dated

**Notes:**

Under the Corporations Regulations, a creditor is not entitled to vote at a meeting unless (Regulation 5.6.23):

- a. his or her claim has been admitted, wholly or in part, by the Joint & Several Administrators; or
- b. he or she has lodged with the Joint & Several Administrators particulars of the debt or claim, or if required, a formal proof of debt.

At meetings held under Section 436E and 439A, a secured creditor may vote for the whole of his or her debt without regard to the value of the security.

Proxies must be made available to the Joint & Several Administrators.

**Appendix G - Form of Proxy**

FORM 532

Regulation 5.6.29

CORPORATIONS ACT 2001

APPOINTMENT OF PROXY  
CREDITORS MEETING

STOCHASTIC SIMULATION LIMITED (RECEIVERS & MANAGERS APPOINTED) (ADMINISTRATORS APPOINTED)  
ACN 132 012 296

\*I/\*We  
(1)

.....  
of

.....  
a creditor of Stochastic Simulation Limited, appoint (2)

.....  
or in his or her absence

.....  
as \*my/our \*general/special proxy to vote at the meeting of creditors to be held at the offices of Deloitte Financial Advisory Pty Ltd, Tower 2, Brookfield Place, Ground Floor Auditorium, 123 St Georges Terrace, Perth WA 6000 on Tuesday, 19 September 2017 at 11.00am (WST), or at any adjournment of that meeting and to vote:

- 1. a. to vote on all matters arising at the meeting (IF GENERAL PROXY)
- OR
- b. to vote for or against the following resolutions (IF SPECIAL PROXY)

**ONLY COMPLETE THE FOLLOWING IF YOU HAVE APPOINTED A SPECIAL PROXY ABOVE**

*Please circle your preferred voting option.*

**2. To consider and if thought fit, pass one of the following resolutions (choose ONE of a, b or c):**

- a. "That the Company be wound up and Jason Tracy and Richard Hughes be appointed Joint and Several Liquidators" **OR** **FOR / AGAINST / ABSTAIN**
- b. "That the administration end" **FOR / AGAINST / ABSTAIN**

**3. To consider and if thought fit, approve the Joint and Several Administrators' current remuneration:**

"That the remuneration of the Administrators their partners and staff, for the period of the Administration from 3 April 2017 to 25 August 2017 is fixed at a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017 of fees equalling \$105,439.50 plus GST and disbursements, and that the Administrators can draw the remuneration as required"

**FOR / AGAINST / ABSTAIN**

**4. To consider and if thought fit, approve the Joint and Several Administrators' future remuneration:**

"That the prospective remuneration of the Administrators their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017, for the period of the Administration from 26 August 2017 to completion of the Voluntary Administration, is fixed and approved to a maximum cap of \$14,826.00 plus GST and disbursements to be drawn only

when incurred. Should a lesser amount be actually incurred, only the lesser amount will be drawn. Should a greater amount be actually incurred, further approval from Creditors will be sought."

**FOR / AGAINST / ABSTAIN**

**5. To consider and if though fit, appoint a Committee of Inspection comprising the following members:**

- 1. ....
- 2. ....
- 3. ....
- 4. ....
- 5. ....

**FOR / AGAINST / ABSTAIN**

**6. In the event that the Creditors vote to wind up the Company, to consider and if thought fit, approve the Joint and Several Liquidators' future remuneration**

"That the prospective remuneration of the Liquidators, their partners and staff, calculated at the hourly rates as detailed in the Remuneration Report of 11 September 2017, for the period from the commencement of the liquidation to completion of the liquidation, is fixed and approved to a maximum cap of \$125,367.50 plus GST and disbursements to be drawn only when incurred. Should a lesser amount be actually incurred, only the lesser amount will be drawn. Should a greater amount be actually incurred, further approval from Creditors will be sought."

**FOR / AGAINST / ABSTAIN**

DATED this        day of    2017.

\_\_\_\_\_  
Signature

**CERTIFICATE OF WITNESS**

This certificate is to be completed only if the person giving the proxy is blind or incapable of writing. The signature of the creditor, contributory, debenture holder or member must not be witnessed 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 or her before he or she signed or marked the instrument.

Dated:

Signature of Witness:

Description:

Place of Residence:

\*    Strike out if inapplicable

- (1) If a firm, strike out "I" and set out the full name of the firm.
- (2) Insert the name, address and description of the person appointed.
- (3) If a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolution