

21 March 2018

Rupa Kapadia
Adviser, Listings Compliance
ASX Compliance Pty Ltd
20 Bridge Street
SYDNEY NSW 2000

Email: rupa.kapadia@asx.com.au

Dear Ms Kapadia,

LETTER TO BENJAMIN HORNIGOLD LIMITED ("BHD") DATED 16 MARCH 2018

Our responses to each question set out in your letter of 16 March 2018:

1. The breakdown of the \$233,850 unrealised gains recognised in profit or loss under "net gains/(losses) on financial instruments at fair value through profit or loss" is as follows:

Discounted return of principal at term	\$2,173,302
Discounted interest cash flows	\$146,538
Fair value of the option to convert into shares in JB Financial Group Ltd	\$114,010
Less: Initial amount advanced	<u>(\$2,200,000)</u>
Unrealised gains recognised in profit or loss under "net gains/(losses) on financial instruments at fair value through profit or loss"	<u>\$233,850</u>

2. The Convertible Loan Agreement includes an embedded derivative, being the call option to convert the loan into equity. The Company elected to hold the whole instrument at fair value through profit or loss in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* paragraph 11A. Disclosure guidance provided in AASB 132 *Financial Instruments: presentation* paragraph AG17 states that the Company's right to exercise the option is "not affected by the likelihood that the option will be exercised". The Company's current intention was not a determining factor in relation to reporting the Convertible Loan Agreement in the financial reports.

3. The Company confirms that the opinion of BHD's directors continues to be that the "Half Yearly Report and Accounts" released on the ASX market Announcements Platform on 14 February 2018 complies with the relevant Accounting Standards and gives a true and fair view of BHD's financial position as at 31 December 2017, and of its financial performance for the half-year ended 31 December 2017.
4. BHD's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policies or otherwise by its board or an officer with delegated authority from the board to respond to ASX on disclosure matters.

Yours faithfully



Kevin Mischewski
Company Secretary
Benjamin Hornigold Limited

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16 March 2018

Mr Kevin Mischewski
Company Secretary
Benjamin Hornigold Limited
GPO Box 3112
Brisbane QLD 4000

By email: kmischewski@benjaminhornigold.com.au

Dear Mr Mischewski,

Benjamin Hornigold Limited (“BHD”)

ASX Limited (“ASX”) refers to the following:

- A. BHD’s announcement titled “Half Yearly Report and Accounts” released on the ASX Market Announcements Platform on 14 February 2018 (“HY Report”). The HY Report discloses a convertible loan agreement (“Convertible Loan Agreement”) entered into between BHD and JB Financial Group Ltd (“JBFG”).
- B. BHD’s Notes to the financial statements, particularly Note 10 (b) on page 12 of the HY Report.

Note 10. Investments at fair value through profit or loss

	31 December 2017	30 June 2017
	\$	\$
Listed shares	1,449,795	-
Foreign currency banknotes - designated at fair value through profit or loss (a)	10,448,944	-
Convertible loan - designated at fair value through profit or loss (b)	<u>2,433,850</u>	<u>-</u>
	<u>14,332,589</u>	<u>-</u>

(b) On the 11 September 2017, the Company entered into a convertible loan agreement with JBFG for \$2,200,000. In the event of default, the loan is secured over 100% of the shares in Genesis Proprietary Trading Pty Ltd (Genesis), a wholly-owned subsidiary of JBFG. The agreement has a maturity of one year and a 9.65% annual interest rate applies. At the Company's election and at anytime until maturity, the outstanding amount may be settled in: cash, or, shares in JBFG at a fixed rate of \$6.14 per share, or, shares in Genesis at \$9.98 per share. The Company has designated the whole instrument at fair value through profit or loss (refer to note 14). For the period to 31 December 2017, \$233,850 was recognised in unrealised fair value gains in relation to the loan, as well as interest of \$64,562 which was received in full on 29 December 2017.

- C. BHD’s fair value measurement contained on page 14 of the HY Report where BHD states that the loan contains embedded derivatives which represent BHD’s ability to convert any outstanding amount owing on the loan at any time to maturity into shares in JBFG or Genesis Proprietary Trading Pty Ltd (“Genesis”) at a fixed price per share.

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Valuation techniques for fair value measurements categorised in level 3

On the 11 September 2017, the Company entered into a convertible loan agreement with JBFG (refer to Note 10). The loan contains embedded derivatives which represent the Company's ability to convert any outstanding amount owing on the loan at any time to maturity into shares in JBFG or Genesis at a fixed price per share. Both JBFG and Genesis have unquoted equity instruments. The Company has elected to hold the whole instrument at fair value through profit or loss. The loan was valued using the combination of two techniques: a discounted cash flow model for expected repayments and the use of the Black-Scholes model for the valuation of the conversion features.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current financial half-year are set out below.

	Convertible loan \$	Total \$
Balance at 1 July 2017	-	-
Additions	2,200,000	2,200,000
Unrealised gains recognised in profit or loss under "Net gains/ (losses) on financial instruments at fair value through profit or loss"	<u>233,850</u>	<u>233,850</u>
Balance at 31 December 2017	<u><u>2,433,850</u></u>	<u><u>2,433,850</u></u>

- D. BHD's announcement titled "Corrective Action" released on the ASX Market Announcements Platform on 7 March 2018 where BHD states the following.

Convertible Loan Agreement

ASX has also advised that ASX has formed the opinion in accordance with Listing Rule 10.1.5 that given the relationship of JB Financial Group Ltd (**JBFG**) and Genesis Proprietary Trading Pty Ltd (**Genesis**) to JBL and Stuart McAuliffe, the acquisition of shares by BHD in either JBFG or Genesis pursuant to a convertible loan agreement (**Convertible Loan Agreement**) with JBFG, would also require shareholder approval.

The Company notes that, at this stage, it does not intend to convert the loan into shares in either JBFG or Genesis pursuant to the Convertible Loan Agreement.

Having regard to the above, ASX asks BHD under Listing Rule 18.7 to respond separately to each of the following questions and requests for information for the purposes of ASX being satisfied that BHD is in compliance with the Listing Rules:

1. Please provide a breakdown of the \$233,850 unrealised gain recognised by BHD on the convertible loan, clearly showing the amount attributable to the discounted cash flow for expected repayments and the amount attributable to the valuation of the conversion features.
2. Given BHD's statement on 7 March 2018 that "...at this stage, it does not intend to convert the loan into shares in either JBFG or Genesis pursuant to the Convertible Loan Agreement," please explain the rationale for performing a valuation of the loan and subsequently recording an unrealised gain, despite there being no current intention to convert the loan.
3. Please confirm that the opinion of BHD's directors continues to be that the HY Report complies with the relevant Accounting Standards and gives a true and fair view of BHD's financial position as at 31 December 2017, and of its financial performance for the half-year ended 31 December 2017.

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4. Please confirm that BHD's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of BHD with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than half an hour before the start of trading (i.e. **before 9.30 a.m. AEDT on Wednesday 21 March 2018**).

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at rupa.kapadia@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to BHD's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that BHD's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in BHD's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

Rupa Kapadia
Adviser, Listings Compliance

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