

8 May 2015

TO CREDITORS AS ADDRESSED

Dear Sir/Madam

**Indochine Mining Limited
(Administrators Appointed) (the Company and IDC)
ACN 141 677 385**

Supplement to Administrators' Report

We refer to our report to creditors pursuant to section 439A of the Corporations Act dated 4 May 2015 which explained and enclosed a DOCA proposal from Kandahar Holdings Pty Ltd (Kandahar).

Attached for your consideration is a DOCA proposal received late on 6 May 2015 from Second Floor Gold Pty Ltd (SFG). The SFG proposal seeks to deal not only with the unsecured debts of the Company, but also:

- The liabilities of its Papua New Guinea (PNG) subsidiary, Summit Development Limited (SDL) on a pooled/grouped approach (ie SDL creditors will be treated the same as IDC creditors) and with a view, they suggest, to a return to all creditors of approximately 25 cents in the dollar (ie SDL and IDC creditors will each receive 25 cents in the dollar); and
- To bind the Company's Secured Creditor on the condition that the Secured Creditor approves the SFG proposal.

Our high level comments on the SFG proposal are as follows:

- SFG has not provided any evidence of its financial and other capacity to complete but has advised it will provide evidence of its financial capability before or at the second meeting of creditors;
- We understand that SFG has not obtained legal advice in respect to its proposal and the drafting therefore does not use terms/language which best fit the circumstances;
- SFG's proposal includes a number of features that may not work in practice. The most significant of these issues is the concept of pooling the creditors of Indochine and SDL, as we are not appointed to SDL and SDL is not in external administration we do not have the legal right to compromise the debts of SDL's creditors in the manner contemplated by SFG;
- We understand that SFG has not obtained legal advice about whether pursuant to PNG law there is a legal mechanism that could be used to compromise the debts of SDL's creditors in the manner contemplated by SFG;

- That said, if appropriate legal machinery could be constructed to make such a concept work, requiring the SDL creditors to compromise their claims by 75% we consider that such a proposal (if accepted) may cause irreparable damage to the Mt Kare project and may impact renewal of EL1093;
- The SFG proposal does not properly address the funding that was recently provided to the Administrators by the Secured Creditor and how this would be repaid;
- We have sought the Secured Creditor's feedback on the proposal and while we understand that the Secured Creditor is attracted to the prospect of full payment it would require clarification of the mechanism for this and sufficient funds to be placed on trust to execute in respect to this part of the proposal;
- The dividend estimate provided at 25 cents in the dollar (and notwithstanding paragraph 9(b) of the proposal) does not appear to provide for the statutory priority afforded to employees of both the Company and SDL; and
- By comparison to the costs associated with the Kandahar proposal, the additional legal, insolvency practitioner and other costs to implement the legal machinery to bring about the SFG pooling would likely exceed \$300k and add many months to the restructure program for the Company having regard to applications to the Courts potentially both in Australia and PNG.

Having regard to the above, we are unable to provide any detailed financial analysis of the SFG proposal, and we consider that it is not in a form capable of acceptance by creditors and, critically, implementation thereafter. Accordingly, we are unable to recommend the SFG proposal be accepted by creditors at the forthcoming meeting of creditors and therefore we have not provided updated proxy forms to incorporate a resolution in respect to the SFG proposal.

Rather, the SFG proposal is provided to creditors in order that they may be aware of this party's interest in a restructure of the Company.

Secured Creditor Position

The Secured Creditor has received a copy of our earlier report and also a copy of the SFG DOCA proposal and it has told us that it:

- Does not consent to the SFG proposal due to the lack of funding evidence and the mechanical and commercial problems in the proposal;
- Is assessing the Kandahar DOCA proposal, whether it consents to that proposal and in turn whether it will vote at the second meeting of creditors; and
- Would not (in its view) be in the best interests of the company's creditors for the meeting to be adjourned.

Accordingly, we anticipate the Secured Creditor is more likely to consider the appointment of a receiver and manager to the Company in the event that the meeting of creditors is adjourned and the progress of the restructure is less timely or otherwise not in accordance with its expectations.

In that regard, we note that shareholder approval was not obtained by the (then) board for the facility entered into with the Secured Creditor nor was an ASX release made when the facility was put in place, only on 4 August 2014 after the new board had been put in place.

We have undertaken a preliminary review of the security documents and advise that same appear to be in order. That said, the validity of the security may be open to challenge in the future by the Administrators, Deed Administrators, Liquidators or the Company should any material come to light that requires objective scrutiny.

Return to Creditors

While the SFG DOCA proposal offers AUD2.6M toward the employee and ordinary unsecured creditor claims, we note that there is an equivalent of AUD4.5M owing to the employees and creditors of SDL. It is our view that the SDL creditors will need to be paid in full having regard to the:

- Separate assets and liabilities of these different legal entities;
- Process for renewal of the Mt Kare exploration licence which is held by SDL; and
- Separate operation of the Companies Act 1997 (PNG) in respect to SDL and the Corporations Act 2001 (Cth) in regard to Indochine.

Adjournment of Meeting

It is open to creditors to determine at the second meeting of creditors on 13 May 2015 to adjourn the meeting for up to 45 business days. We do **not** recommend this course having regard to the additional costs which may erode the funds available to the Company's priority creditors under the Kandahar DOCA proposal, the lack of better alternate DOCA proposal currently available, the significant risk that a better proposal will not be available after 45 business days, and the negative impact that the appointment of a receiver and manager may have to the reconstruction of the Company.

Recommendation

Having regard to our comments above, our recommendation, contained within the report to creditors dated 4 May 2015 is unchanged – that is, we recommend creditors approve the Kandahar DOCA proposal.

Should you have any questions regarding the administration or the enclosed report, please do not hesitate to contact Max Gould of this office on (08) 9214 1444.

Yours faithfully
Indochine Mining Limited



Martin Jones
Joint and Several Administrator

Encl.

5 May 2015

Mr Martin Jones
Ferrier Hodgson
Level 28, 108 St Georges Tce
Perth WA 6000

cc. Max Gould, Malcolm Field

DEED OF COMPANY ARRANGEMENT (DoCA)

- 1. PARTIES:**
- SECOND FLOOR GOLD PTY LTD** (ACN 605 507 097) (**SFG**) of Level 2, 32 Martin Place, Sydney NSW 2000, on behalf of the Wanbel Consortium (**Consortium**)
- INDOCHINE MINING LIMITED (Administrators Appointed)** (ACN 141 677 385) c/- Level 28, 108 St Georges Tce, Perth WA 6000 (**IDC**); and its subsidiaries
- Martin Jones, Benjamin Michael Johnson and Darren Gordon Weaver** of Level 28, 108 St Georges Tce, Perth WA 6000 in their respective capacities as Voluntary Administrators (**Administrator**) (jointly referred to as **the Parties**).
- 2. RECITALS:**
- A) On the Appointment Date of 27 March 2015, the Voluntary Administrators were appointed pursuant to section 436A of the Act to be administrators of Indochine Mining Limited.
- B) Although Summit Development Limited (Summit), Company No. 1-73895 incorporated in Papua New Guinea (PNG), the sole owner of the Mt Kare Exploration Licence EL1093 in PNG, is not in insolvency administration, the shares and decision making is under the control of the Voluntary Administrators.
- C) The intention of SFG is to pay for direct costs, subject to certain conditions including the approval of budgets, associated with the Ministerial Approval of the extension of tenure of EL1093 to 26 August 2016 under the approval process guidelines set by the Mineral Resources Authority (MRA) of PNG.
- D) The intention of SFG is to pay, in cash, subject to certain conditions, the Approved Claim of the sole Secured Creditor who holds the benefit of the Security over the fixed and floating assets of IDC and Summit, and thereby release that Security to the benefit of SFG.
- E) The intention of SFG is to pay, subject to certain conditions, a portion of the Approved Claims of the Unsecured Creditors in cash and shares in a reconstructed entity]and provide shareholders with a percentage of shares in a reconstructed entity.

F) SFG will act directly for the unincorporated Wanbel Consortium to provide the investors, future board configuration, technical and commercial team, together with selected existing staff of IDC and Summit.

3. DEFINITIONS AND INTERPRETATION:

To Be Provided, but to include:

Creditors: meaning the admitted unsecured creditors in both IDC and Summit (including any unpaid priority claims in respect of employees of IDC and Summit)

Shareholders: meaning the admitted claims of shareholders of IDC.

4. MORATORIUM CREATED:

This Deed binds all persons in accordance with section 444D and section 444G, including the Secured Creditor. During the period of the Deed, neither the Administrator, nor any Creditor nor any other person may wind up IDC or Summit, or proceed with any application to wind up IDC or Summit, or commence or continue with any arbitration or proceeding against IDC or to sell any shares in any IDC subsidiaries or forgive any debts incurred by the subsidiaries to IDC. On the date when SFG provides funds to the Secured Creditor and other Creditors, the Exploration Licence EL1093 must be vested in Summit and all of the shares of Summit held in trust for the benefit of SFG.

5. CREDITORS ASSET POOL:

The Asset Pool available for Distribution is A\$6.5 million, which includes:

- (a) A\$3.23 million (the Approved Claim) to pay in cash the Secured Creditor ;
- (b) A\$0.4 million to pay the Administrators costs of administration, plus the costs of reconstructing the company 'shell' on a pre-approved weekly basis, to a maximum of A\$50,000;
- (c) Direct costs, of A\$200,000 associated with the process of achieving Ministerial Approval of the extension of tenure of EL1093 to 26 August 2016, subject to certain conditions;
- (d) A\$2.6 million towards the Creditors Admitted Claims, including Employee Entitlements, which includes the Creditors in the subsidiary, Summit.

Additionally, IDC shareholders will be offered a shareholding in the reconstructed company when relisted, whereby 100% of the shares in IDC on 27 March 2015 will be converted to 10% of the total shares in the reconstructed company.

6. SECURED CREDITOR:

The sole Secured Creditor will be paid, in cash, subject to certain conditions, the amount of their Approved Claim when the Exploration Licence has been approved for extension by the Mining Advisory Council of the MRA, ready for Ministerial approval. The Secured Creditor holds the benefit of the Security over the fixed and floating assets of IDC and Summit, and payment will immediately release that Security to the benefit of SFG so that the Deed can proceed on a 'debt free' basis.

7. FUND TO PAY ADMITTED CLAIMS:

The Administrator will establish and administer a fund (Creditors' Trust) during the Deed Period to pay Admitted Claims, which include:

- (a) Administrators costs of administration, including the company 'shell', and dealing with approved creditor's claims of A\$400,000;
- (b) Costs of reconstructing the company 'shell' on a pre-approved weekly basis, to a maximum of A\$50,000;
- (c) Direct costs up to A\$200,000, associated with the Ministerial Approval of the extension of tenure of EL1093 to 26 August 2016 under the approval process guidelines set by the Mineral Resources Authority (MRA) of PNG, subject to certain conditions including the approval of reasonable budgets, the direct involvement of SFG in the process, and including the costs of maintaining the drill core on site at Mt Kare and in Perth ;

SFG will provide approved deposits to an agreed trust account to allow the Fund to operate and will place A\$600,000 into an escrow account 5 business days after receiving written approval from the administrator of the acceptance of the Deed (DoCA) at the second Indochine creditors meeting.

8. PROOF, ADMISSION and PAYMENT OF CLAIMS:

Once the Deed has been approved, the Administrators will prepare and settle a list of Admitted Claims by Creditors, subject to the provisions of this Deed, at a ratio of approximately 25% of the Admitted Claim of Creditors in IDC and the subsidiaries, which is estimated to be 25% of approximately A\$10.3 Million.

- a) Each Admitted Claim must be admitted to the Admitted List with such further proof, evidence or information in support of their Asserted Claim as the Administrator may reasonably require, and the Administrator will determine what part of the Asserted Claim forms the Admitted Claim.
- b) Any costs or expenses incurred by a person in seeking proof of an asserted Claim will be borne by that person.

- c) Following the order of the Payment of Entitlements in Clause 9, if the Creditors Asset Pool is insufficient to meet the Admitted Claims, then amounts will be paid proportionately.
- d) Time will be of the essence in respect of every obligation.

9. PAYMENT OF ENTITLEMENTS:

The Administrator must pay the Entitlements in the following order of priority:

- a) First, the Voluntary Administrator Liabilities and then the Deed Liabilities
- b) Second, the Employee Entitlements; and
- c) Third, the Admitted Creditors, in respect of their Entitlements

10. PAYMENT OF SHAREHOLDERS ADMITTED CLAIMS:

As part of the company shell restructure, the IDC Shareholders with Admitted Claims will be provided an pro-rata amount of shares in the restructured company equivalent to 10%, by number of shares of their prior holding in IDC, before any public capital raising is conducted.

11. CONDITIONS ON DEED:

Any agreement under the proposed DoCA is subject to the following occurring:

- (a) Commitment to the provision of funds is subject to the proposed DoCA being approved by the Secured Creditor and approved at the Second Creditor Meeting , scheduled for 13 May 2015, with the execution of the documents on terms acceptable to SFG, including provisions on the interim conduct of the business and the subsidiaries;
- (d) No forgiveness of the intercompany debt of approximately A\$91 million by the subsidiary Summit Development Limited (in PNG) to Indochine Mining Limited, unless expressly requested in writing by SFG;
- (e) Budgets for the Mining Wardens Hearing and the complete approval process under the MRA for the Ministerial Approval of the extension of tenure of EL1093 to 26 August 2016, to be provided, explained and approved by SFG, before paying the direct costs up to a maximum of A\$200,000.
- (f) Other conditions as may be required following discussions with the administrator and creditors.

12. CONFIDENTIALITY

This document, its terms and all subsequent correspondence and

**& PUBLIC
ANNOUNCEMENTS**

negotiations between the Parties shall be kept in strictest confidence, except where disclosure is required by law, by a court or by any regulatory authority or the rules of any applicable stock exchange. By receiving this document, each party agrees to treat this document and any other information provided by each other party as Confidential Information under the terms of the Confidentiality Agreement signed on 20 April 2015. The parties will jointly agree upon a public announcement upon signing of the DoCA.

13. ASSIGNMENT:

The Agreement cannot be assigned to another party either partially or in whole without the formal written agreement of the other party.

14. TERMINATION:

Each party can withdraw from this agreement until 8 May 2015, after which time [to be discussed, but include when a court makes an order, when the administrator has completed the task or when creditors pass a resolution terminating the Deed]

**15. STAMP DUTY and
GST:**

The Parties understand that no stamp duty is payable.

**16. OTHER
CONDITIONS:**


The Parties acknowledge that other conditions may need to be added during discussions.

17. JURISDICTION:

The legal jurisdiction to govern this agreement will be New South Wales.

18. NOTICES:

[Addresses and contact details to be added]



**AGREED UPON
BETWEEN
PARTIES:**

[Signatures]

Richard Hill of DFK Richard Hill and Sole Director, SFG

Date: 05 April 2015

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Appendix

SFG and the Wanbel Consortium includes:

- DFK Richard Hill: Over 35 years of experience in managing companies in PNG, including agricultural and mining companies, including providing accounting and financial services in PNG, Australia and China. Richard Hill, the senior partner, was a previous managing director of Carpenter Pacific, who owned the Mt Kare exploration licence in joint venture with others during the 1990's and has close relationships with government officials, including the Minister and the MRA. Richard is currently the sole director of SFG.

- **Thomas Booler & Co:** Experienced lawyers in insolvency litigation, previously involved with HIH, Sons of Gwalia and Compass.
- **Investors:** Based in North America and Asia, with experience in the resource sector, and prepared to support the sector in PNG
- **Technical and Commercial Team:** Executives with prior experience in the mining sector and in Asia/Pacific/PNG
- **Existing staff,** on a needs and skills basis, including the current PNG Country Manager, George Niumataiwalu, and the Community Affairs Manager, Joe Pais