

Circular to Gympie Gold Group Stakeholders

24 June 2005

Introduction and Background Information

I refer you to the background information in relation to the liquidation and receivership provided in my earlier circular dated 9 February 2005.

Current Status

- The Receivers and Managers are continuing to pursue the claim against Southland's insurers in relation to the loss at the Southland colliery. It remains uncertain whether any proceeds to be paid under the claim will be sufficient to satisfy the claims of the first ranking secured creditors in full, and therefore whether there will be any surplus to meet second ranking and unsecured creditor claims.
- The Receivers and Managers have confirmed the first ranking creditors wish to pursue a sale of the listed company shell.
- The Liquidators will now seek to finalise the proposed terms of the sale of the listed company shell with the Receivers and Managers and the proposed purchaser. The process involves a number of steps that are outlined in more detail below. The process is anticipated to take 4-5 months before Gympie Gold Limited's securities are reinstated on the Australian Stock Exchange ("ASX") if all necessary approvals are obtained.
- While we continue to believe there will be no funds remaining for shareholders at the end of the Liquidation, we are unable to issue a declaration that shares held in Gympie are worthless with the pending sale of the listed shell, as there is a small value attributed to these shares once the shares are reinstated on the ASX.
- We appreciate that this issue is of concern to shareholders who may wish to obtain such a declaration to claim a tax loss in this current financial year. Unfortunately, the timeline for finalising the shell sale is such that the Gympie shares cannot be reinstated on the ASX before 30 June 2005 to assist shareholders in realising their capital losses this tax year by other means.

If the shell sale proves to be unviable (for example if any of the Court, creditors or shareholders do not approve the proposal) we will issue a Liquidators' declaration that the shares are worthless via the company website www.gympiegold.com.au, which will then enable shareholders to claim their capital tax losses. This declaration will also be posted on the McGrathNicol+Partners website, via the following link: <http://www.mcgrathnicol.com.au/Default.aspx?tabid=111>.

Southland colliery insurance claim

The Receivers and Managers are continuing with their attempts to publicly examine QBE and its experts in relation to the insurance claim. QBE challenged the Receivers and Managers' right to undertake these examinations and a decision of the Supreme Court of New South Wales was delivered on 31 March 2005 in the Receivers and Managers' favour. This judgement was then appealed and heard on 6 and 7 of June 2005. The Court of Appeal has reserved its decision and we expect judgement within the next 2 to 3 months.

The Receivers and Managers have advised that an updated claim was lodged with QBE in April 2005 for approximately \$41.2 million. The insurers have denied indemnity pursuant to the terms of the insurance policy.

We understand the co-insureds, Thiess Pty Ltd (as first plaintiff) and Thiess Southland Pty Ltd (as second plaintiff), commenced proceedings against QBE in December 2004 and that it is unlikely the matter will be heard before next year.

The Receivers and Managers have decided not to issue proceedings against the insurers until the examination proceedings have concluded and they have assessed whether issuing proceedings will assist the Receivers and be in the best interests of Southland Coal and its creditors.

Sale of the company shell

We are currently in the process of reviewing and agreeing to a heads of agreement for the sale of the company shell with the purchaser and Receivers and Managers. Following the agreement of these documents the process of selling the shell will include the following key approval steps:

- Application to Court for Gympie Gold Limited ("GGL") to be placed into Administration once again (this is required because the sale of a company shell can only be legally effected via a Deed of Company Arrangement ("DOCA"), which follows from an Administration if approved by Creditors);
- Convening a GGL creditor meeting to seek creditor's approval of a Deed of Company Arrangement to effect the sale; and
- Convening a GGL shareholder meeting to seek shareholder approval of the sale.

We understand that once shareholder approval is obtained, the purchaser intends to raise further capital for the reinstated entity through issue of a prospectus.

This process is expected to take between 4 to 5 months, with payments to creditors to be made from a proposed creditors' trust after the sale is completed.

A full report outlining the sale terms proposed terms of the Deed of Company Arrangement and expected returns to each class of creditor or shareholder will be issued to creditors in due course.

Position of shareholders

Under the shell sale proposal, existing shareholders' holdings will be diluted by 1:15 but they will retain this diluted holding in the reinstated entity. The new shares are estimated to be valued at 1c per share on reinstatement to trading.

In the event the shell sale does not go ahead (for example if it is not approved either by the Court, creditors or shareholders) then shares will become valueless and I will post a declaration to this effect on the announcements section of the company website www.gympiegold.com.au, and on the GGL section of the Liquidators' website www.mcgrathnicol.com.au.

I understand a number of shareholders have, or intend to, transfer their shares in order to claim their tax losses. I note that any such transfer whilst a company is in liquidation is void under s493(2) of the Corporations Act 2001 unless the leave of the Liquidator is obtained. The purpose behind this provision is to protect against the trading of shares in insolvent companies.

Furthermore, shareholders should be aware that Computershare is no longer recording such transfers or maintaining the share register, in the absence of any available funds to support this function. The purchaser of the company shell may therefore not have the details of any shareholders whose details have changed as a result of a share transfer, in order to contact them in relation to the approval of the shell sale. To overcome this problem (and to ensure the integrity of the register), the purchaser is offering to purchase shares in Gympie Gold Limited for a nominal value, and will cover the associated transfer costs. Interested shareholders may contact Tony Kenny or Tim Weir of Macquarie Bank on 08 9224 0888. Shareholders should seek their own advice in relation to such a sale.

Position of creditors (including noteholders)

It remains uncertain whether there will be any surplus funds available from realisation of company assets to meet the claims of unsecured creditors after the claims of first and second ranking creditors have been satisfied. The Receivers and Managers anticipate resolution of the Southland Colliery Insurance Claim could take up to a further two years, depending on the attitude taken by the insurers in defending any litigation. It may become clear if any return to unsecured creditors is possible or not as matters progress.

Sale of the company shell is estimated to realise a minimal return to GGL creditors (excluding the primary ranking consortium) in the region of 0.6 cents to the dollar.

Position of noteholders

Noteholders rank as unsecured creditors for the purposes of the liquidation of GGL. Noteholders continue to be represented by their Trustee, JP Morgan Trust Australia Limited (formerly Guardian Trust Australia Limited) ("Trustee"), who has submitted a proof of debt claim on behalf of all noteholders. Queries in relation to GGL's convertible notes (including transfers) should be directed to Anna Weedon of JP Morgan Trust Australia Limited on 02 9250 4003.


We have received various queries from noteholders in relation to claiming their tax losses in this financial year. Noteholders are not affected in the same way as shareholders by the sale of the listed shell, as they rank ahead of shareholders in terms of priority of any distributions from company assets. Therefore it is not possible for the Liquidators to make a declaration as to the value or otherwise of GGL convertible notes until such a time as and when the potential return to unsecured creditors may be determined (see above).

As unsecured creditors (rather than shareholders), noteholders will not retain any holdings in the reinstated entity on the sale of the listed shell, but will be entitled to a share of any distribution to creditors, after the satisfaction of Trustee costs. The form of distribution of this share to Noteholders could be cash, shares or a combination of both and will be determined through consultation with the Trustee.

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Should creditors require any further clarification, please contact either Simon Barnes or Nick Lawry of this office.

Yours faithfully



M C Smith
Liquidator



JD Hayes
Liquidator