



MARKET UPDATE

July 20th, 2021

KEY POINTS

- Elmore has executed a binding Heads of Agreement to increase the scope and remuneration of the Peko Iron, Gold, Copper and Cobalt Project ("Project"), located near Tennant Creek in the Northern Territory.
 - Elmore will earn a 25% equity stake in the Project, though some of this equity may be further on-sold as part of the funding package required by Elmore to deliver the Project.
 - Elmore will be responsible for finalising construction and operating the Project for the anticipated 5–7-year mine life.
 - The Project is owned by ICA Mining Pty Ltd and its subsidiary companies, which have been under the control of external Administrators. A Deed of Company Arrangement was approved by its creditors last Friday.
 - Elmore plans to fund the work required to meet its commitments and earn the equity in the Project through a combination of provision of materials (already owned by Elmore), provision of Elmore staff labour and procuring other goods and services required to commission the Project, using new funds raised at the subsidiary project level (not issuing direct equity in Elmore).
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Elmore Ltd (ASX: ELE, "**Elmore, the Company**") is pleased to provide an update on the Company's progress regarding the Peko Iron, Gold, Copper and Cobalt project (the "**Project**") near Tennant Creek in the Northern Territory.

PEKO TAILINGS REHABILITATION PROJECT BACKGROUND

As previously announced, Elmore has a service contract with ICA Mining Pty Ltd ("**ICA**") in which the Company provides a range of consulting services, including design, procurement and the construction management, of a magnetite processing plant to be owned by ICA and known as the Peko Tailings Project.

For this service Elmore receives a \$100,000 + GST monthly retainer. In addition, Elmore is entitled to a \$AU2 per tonne royalty. At the time of this announcement ICA owes Elmore \$660,000 Inc GST of unpaid retainer fees.

On 13 June 2021, the Directors of ICA appointed Mr Sule Arnautovic of Hall Chadwick as an Administrator in accordance with Section 436A of the Corporations Act 2001.

A proposed Pooled Deed of Company Arrangement ("**DOCA**") was put forward by ICA's secured creditor.

The second creditors meeting was held on 16 July 2021, where creditors voted to accept the

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proposal to execute the DOCA which was duly executed by all parties on the same day.

The DOCA provides the ability for the planned tailings project to enter into a production phase under the direction of a new Board of Directors. It will allow for the continuation of business between ICA and its trade suppliers in respect of the set up and operation of the magnetite process plant.

EXPANSION OF SCOPE OF ELMORE CONTRACT

Elmore has executed a Binding Heads of Agreement with Peko Gold Lending Pty Ltd (“PGL”), ICA’s secured creditor and the successful DOCA proponent. This agreement tasks Elmore with completing the construction of the magnetite process plant and operating the plant, mine and also controlling the logistics and product sales of the magnetite, in exchange for an increased management fee, direct equity in the project and management rights.

KEY TERMS OF THE BINDING HEADS OF AGREEMENT

The agreement contemplates that Elmore will earn a 25% in the subsidiaries of ICA that house the projects by enacting the following:

1. Paying certain ICA creditors for the purchase of equipment up to a maximum of \$1,635,000;
2. Paying for additional works estimated to be \$20,000;
3. Noting that if the sum of (1) and (2) exceeds \$1,700,000 ICA will compensate Elmore for all incremental costs;
4. Performing at its cost the tasks assigned to Elmore in the Proposed Mining Transaction (outlined below); and
5. Performing at its cost the design and construction tasks.

The amounts paid by Elmore in (1) and (2) above will be treated as a debt to Peko Iron and will be secured by an equal first ranking general security over each of the subsidiaries and converted to equity on commissioning.

The elements of the Proposed Mining Transaction are as follows:

1. A new company, Peko Iron (Peko Iron Project) will be formed to cover all assets and rights required to exploit the magnetite resources contained in the Project and will extend its mandate to cover, the gold, copper, cobalt and gold bearing resource projects, or if called upon by Elmore, grant that mandate to a new company owned by ICA and Elmore in the same proportions (Peko Metals Project). The details include:
 - a. The Board composition of each entity shall comprise one director nominated by ICA and two directors from Elmore.
 - b. ICA, or an entity nominated by ICA, shall hold 75% of the ordinary shares of the two new entities.
 - c. Elmore, or an entity nominated by Elmore, shall hold 25% of the ordinary shares of the two new entities.
 - d. Elmore’s shares in the two new entities shall be held in escrow and both escrows will be released when the Peko Iron process plant is commissioned.

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- e. Both Peko Iron and Peko Metals will be regulated by a Shareholders' Agreement in a form agreeable to both shareholders.
- f. ICA will assign the existing Northern Territory Government performance bond of \$400,000 to Peko Iron.
- g. Elmore will be solely responsible for all day-to-day management and accounting of Peko Iron.

2. Peko Iron Project

- a. Elmore shall enter into an agreement with Peko Iron and ICA in which Elmore contributes equipment and project management services.
- b. Up until commissioning and the subsequent release from escrow of Elmore's 25% shareholding in Peko Iron, Elmore retains ownership of the assets contemplated in the agreement and will hold security over all other Peko Iron's equipment assets ordered and or paid for by ICA.
- c. ICA will novate Elmore's Minerals Processing Agreement to Peko Iron (via PRP) on essentially the same terms, save for:
 - i. The production royalty being increased to **\$US2/tonne**,
 - ii. In return for Elmore taking on full management responsibility for Peko Iron's operations, an additional management fee of \$50,000 / month which sum will be in addition to the sum payable under the Minerals Processing Agreement (making a total fee of \$150,000 plus GST per month). For the avoidance of doubt, all day to day running and administrative costs are to be borne by Peko Iron, and
 - iii. As contemplated in the Minerals Processing Agreement, Elmore will retain a GSA over all Peko Iron's equipment.

3. Peko Metals Project

- a. Elmore will at its cost develop a processing solution for the Peko Metals project.
- b. In return, ICA and Elmore will enter into a design and construct agreement with Peko Metals.
- c. Project construction costs will be funded by either:
 - i. distributions from Peko Iron,
 - ii. 3rd party funding,
 - iii. direct distributions from ICA and Elmore, and / or,
 - iv. a build own operate contract provided by Elmore.
- d. Peko Metals will engage Elmore through a Metals Processing Agreement on terms to be agreed, but inclusive of:
 - i. Costs plus a fixed management fee,
 - ii. \$ / tonne processing fee, and
 - iii. \$ /ounce royalty.

FUNDING OF ELMORES COMMITMENT TO THE PROJECT

To complete the Project and earn the equity contemplated by the agreement, Elmore will be required to pay certain ICA creditors, the remaining plant purchases and the day-to-day activities of the Project construction and commissioning. Elmore intends to fund this by:

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- Equitizing unpaid invoices owed by ICA to Elmore,
 - to be converted on commissioning of the project.
- Provision of project management services
 - Elmore will mainly utilise existing Elmore staff.
- Provision of steel required to complete the mounting of procured process equipment,
 - Elmore will be using some of its significant high quality steel inventory salvaged from the Company's Frances Creek process plant.
- Remaining goods and services required,
 - Elmore is reviewing its options in conjunction with financiers and will update the market when this has been decided upon.

At this stage, Elmore does not intend to issue further direct equity to raise funds. Elmore has engaged in discussions with other service providers that the Company may utilise to deliver elements of the Project, along with Investment Brokers close to the Company to gauge interest in non-equity participation in the Project. Although conversations have had to remain informal until the execution of the agreement and DOCA, interest in participating has been sufficiently high to provide Elmore with confidence to execute the agreement.

MANAGING DIRECTORS COMMENT

Elmore's Managing Director, Mr David Mendelawitz commented:

"Since Elmore first became involved in the Peko Tailings Project over 18 months ago, we have been confident that the Project has a high probability of being a lucrative venture for its owners. Whilst it has been unfortunate that internal ownership disputes and lack of the funds required to commission operations have held the Project back over the last 2 quarters, we are confident that the new structure will not only lead to the Project finally coming to fruition, but also significantly increasing the revenue that Elmore will earn from its involvement in the Project".

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