

ELMORE LTD

ASX: ELE

"Unlocking Value by Providing
Bespoke Equipment and
Technical Expertise to the
Mining Sector"

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Signs magnetite pre-payment and offtake agreements

23 October 2023

Elmore Limited ("**Elmore**" or "the **Company**") is pleased to advise that it has signed binding agreements for a magnetite pre-payment advance for a minimum of US\$5.5 million and up to US\$11.0 million ("**Pre-Payment**") and a life of advance offtake ("**Offtake Agreement**") with its existing offtake partner, Royal Advance (H.K.) Investment Pty Ltd ("**Royal Advance**").

The Company has also agreed a term sheet for the restructure of the finance arrangement ("**Vendor Finance Restructure**") with the vendor of the Peko Iron Ore Project ("**Project**"), Oz Professionals 4 Pty Ltd ("**Oz Pro**").

In the Company's view these two arrangements together put Elmore in a better position than was envisaged when the Pre-Payment was first announced on 22 June 2023.

In parallel, Elmore has been working on the following:

- Preparing to lodge its FY23 full year audited accounts;
- Rescheduling the general meeting of its shareholders that was announced to the ASX on 31 July 2023 and subsequently withdrawn on 2 October 2023;
- Transporting the product for the next magnetite shipment which is in the process of being loaded at Darwin Port; and
- Carefully managing cash reserves and preparing its plans for upgrading the Peko processing plant.

Magnetite Pre-Payment and Offtake Agreement

The binding agreements signed with Royal Advance are for a Pre-Payment of up to US\$11.0 million (circa A\$17.3 million)¹ and an offtake agreement for the supply of magnetite iron ore.

The key terms of the Pre-Payment are summarised below:

- The initial Pre-Payment advance is for US\$5.5 million (circa A\$8.7 million) which is available for drawdown in three tranches:
 - Tranche 1: US\$2.0 million which was received on 20 October 2023
 - Tranche 2: US\$1.5 million upon entry into the agreed security documents
 - Tranche 3: US\$2.0 million on 14 days' notice of drawdown.
- An additional US\$5.5m is uncommitted and can be advanced at the option of Royal Advance within 90 days of signing of the agreement ("**Pre-Payment Increase Option**").
- The advance will attract an interest rate of 9.00% per annum, paid quarterly.

¹ Converted at 0.635 AUD:USD exchange rate.

- Term of 2 years from Tranche 1 drawdown. Elmore can pre-pay the principal outstanding of the Pre-Payment at any time, and any unpaid balance is due, with accrued interest, on the maturity date.
- Repayments are to be made by way of Royal Advance withholding a percentage of the amount payable by it for magnetite purchases under the Offtake Agreement. The percentage varies over time commencing at 6.0% and increasing to 12.0% after 1 April 2024, and if the Pre-Payment Increase Option is exercised, it will increase to 24.0%.
- Repayments are also subject to a bi-annual minimum amount of US\$750,000 (or US\$1.5 million upon exercise of the Pre-Payment Increase Option). Where the principal and interest paid in accordance with the Pre-Payment arrangement in any such bi-annual period is less than the minimum amount, a cash top-up will be required to meet this minimum repayment amount.
- The Pre-Payment is secured and Elmore is required to enter into the required security documents within 21 days of executing the Pre-Payment.

The key terms of the Offtake Agreement are summarised below:

- Royal Advance will purchase magnetite produced from the Project tailings operations for the term of the Pre-Payment advance.
- Beginning on 1 July 2024, Royal Advance will have the right to the magnetite offtake up to the first 110,000 wet metric tonnes ("**wmt**") for each 6-monthly period ("**Shipping Target**").
- In addition, subject to certain exceptions, Elmore has committed to deliver an amount equal to the Shipping Target, over 2 years. The exceptions include force majeure and the ability to suspend the operations where the reference iron ore price is below US\$80 (circa A\$126)² per tonne, among others. For the 6 months beginning 1 January 2024, the Shipping Target is reduced to 70,000 wmt, to allow for mine ramp up.
- Minimum shipment sizes are 30,000 wmt +/- 10% shipping tolerance. The Shipping Target (post ramp up) therefore envisages 7 or 8 shipments in a 12-month period.
- By mutual arrangement Elmore may sell magnetite product to Royal Advance in excess of the Shipping Target or sell to a third party.
- Pricing terms are confidential, but they are reflective of market terms using published indexes, with discounts applicable for product quality and impurities.

Use of Pre-Payment Funds

Elmore intends to use the proceeds of the Pre-Payment primarily for general corporate purposes including operations and plant upgrades.

² Converted at 0.635 AUD:USD exchange rate.

Approximately A\$1.8 million will be used to repay a senior secured debt equipment finance owed to Polaris Investments Pty Ltd, so that the security can be released in order to facilitate the granting of new security for the second drawdown of the Pre-Payment.

The funds will also enable Elmore to invest in its plant, equipment and spares, and improve its working capital. Specifically, Elmore will also now proceed to install the magnetic separators that it has already purchased and will purchase and install flotation equipment for the reverse flotation of sulphur, which are aimed at improving the product quality and increasing Elmore's price realisation.

Upon exercising the Pre-Payment Increase Option, the additional US\$5.5 million will be applied to the balance of VF Loan 2 (as described below).

Vendor Finance Restructure

The term sheet signed with Oz Pro sets out key commercial terms to vary the existing vendor loan ("**Loan Variation**") and an amended gold royalty arrangement ("**Royalty Restructure**") to complement the Pre-Payment and Offtake Agreement.

The terms of the Loan Variation are summarised below:

- The existing vendor loan balance will be split across two new loans:
 - **VF Loan 1:** US\$5.5 million
 - **VF Loan 2:** The remainder of the vendor finance, estimated at approximately \$24.8 million.
- Interest will be charged on the balance of each loan individually and will accrue at 9.00% and 12.00% on VF Loan 1 and VF loan 2 respectively (together, the "**VF Loans**"). Interest will be cash paid on a quarterly basis.
- As announced to the ASX on 22 June 2023, Oz Pro will convert A\$2.5 million of its debt into shares in Elmore once the necessary regulatory and shareholder approvals are obtained. The amount of which will be deducted from the balance of VF Loan 2. The balance of VF Loan 2 above has been derived by taking the total expected loan balance (including accrued interest) as at 31 October of approximately \$36.0 million, and reducing it by the amounts to be applied to VF Loan 1 and equity conversion.
- Beginning 1 January 2023, repayments will apply to VF Loan 2 as a percentage of the value of magnetite shipments. Up until the Shipping Target, the percentage will initially be 6.5% and increase to 13.0% on 1 April 2023. If the Pre-Payment Increase Option is exercised, the percentage will decrease to 1.0%. 25.0% of the value of magnetite shipments above the Shipping Target will be used to repay VF Loan 2.
- The maturity date of the VF Loans is 30 November 2025. Elmore can pre-pay the principal outstanding at any time with any pre-payments to be first applied to VF Loan 2.
- The VF Loans will share security with the Pre-Payment.

The terms of the Royalty Restructure are summarised below:

- Commencing on 1 January 2025, Elmore will pay a net smelter revenue royalty to Oz Pro of 15.0% on gold and 10.0% on copper and cobalt.

- The royalty will apply to all gold, copper and cobalt revenues capped at 20,000 ounces of gold equivalent. The cap will be subject to an inflationary indexation adjustment based on the timing of royalty payments relative to a target schedule and a cash top-up obligation will apply to ensure Elmore meets the indexed cap by 30 June 2030.
- There will be no quarterly minimums.

This replaces the existing royalty of 25% of gold ounces produced, subject to a minimum payment of 900 ounces per quarter.

At this stage the term sheet is non-binding and the parties are working towards entry into the binding documentation in relation to the Vendor Finance Restructure over the coming weeks. Based on the strong levels of collaboration, Elmore is confident this will be achieved however there is no assurance that any binding agreement will be entered into.

Summary of Financial Indebtedness

Together with the funds from the Pre-Payment, upon signing documentation in respect of the proposed Vendor Finance Restructure, Elmore will have accrued approximately A\$42.2 million in financial debt with repayments linked to a maximum of 25.00% of the value of magnetite shipments. The maturity date for this financial debt and the weighted average interest rate on the pro-forma gross financial debt are as follows:

Pro-Forma Gross Financial Debt	A\$M ³	Interest Rate	Due
Pre-Payment	8.7	9.00%	20 October 2025
VF Loan 1	8.7	9.00%	30 November 2025
VF Loan 2	24.8	12.00%	30 November 2025
Gross Debt / Weighted Average Interest Rate	42.2	10.83%	

No minimum quarterly vendor gold royalty obligations. Royalty rates of 15.0% on gold and 10.0% on copper and cobalt.

This compares to the existing position of financial indebtedness of the company:

Existing Gross Financial Debt	A\$M ⁴	Interest Rate	Due
Existing vendor loan (tranche 1)	15.0	17.50%	31 October 2023
Existing vendor loan (tranche 2)	21.0	17.50%	31 December 2023
Polaris debt (formerly Avior)	1.8	15.00%	24 May 2024
Gross Debt / Weighted Average Interest Rate	37.8	17.38%	

Quarterly vendor gold royalty obligations due to commence in July 2025, at the greater of 25.0% of gold production or 900 ounces per quarter, capped at 20,000 ounces.

³ Pre-Payment and VF Loan 1 converted at 0.635 AUD:USD exchange rate.

⁴ Existing vendor loan includes accrued interest between 22 June 2023 and 31 October 2023 and excludes the proposed A\$2.5m equity conversion

The terms of the Pre-Payment and Vendor Finance Restructure are superior to the original terms announced on 22 June 2023 where:

- Gross financial debt was expected to be approximately A\$45.0 million (subject to exchange rate movements and accrued interest);
- Repayments of 25.00% of the value of magnetite shipments were expected;
- The maturity dates were expected to be 31 December 2024 in relation to approximately \$12.5 million plus and 3 years from closing for the balance (approximately August 2026); and
- The weighted average interest rate would have been 11.25%.

The above information excludes indebtedness accrued in the ordinary course of business, including trade creditors and equipment finance on mobile equipment.

Other Updates

Elmore has commenced loading its next magnetite shipment at Darwin Port and will update the market once this has completed and the ship has left port.

Elmore is also in discussions with its auditors and expects that when the full Pre-Payment funds become available and the documentation in relation to the Vendor Finance Restructure has been executed, Elmore will be in a better position to complete the audit. This is necessary to enable the Company to request the lifting of the suspension of its shares from trading on ASX.

Elmore advises that it has been served with a statement of claim by Gibbins Investments Pty Ltd (**Gibbins**) in the Federal Court against Elmore and its related entities, Peko Bull Pty Ltd (**Peko Bull**) and Sitzler Savage Pty Ltd (**Sitzler Savage**).

Gibbins' complaints arise from its assertions that it is owed money (periodic payments and royalties) pursuant to a term sheet, that Peko Bull has repudiated agreements (which arose from agreements dated prior to Elmore's acquisition of Peko Bull in January 2023), and that it is entitled to call upon its security, being the shares in Sitzler Savage.

Elmore is reviewing the statement of claim, taking legal advice on the claims made by Gibbins and intends to defend those claims. Elmore will update the market when it is in a position to do so after completing this process.

The Company will provide updates on the above matters as information becomes available and will also call a general meeting in place of the meeting announced on 31 July 2023 and subsequently withdrawn on 2 October 2023, when it is able to do so.

Commenting on the arrangement Chairman Russell Baskerville said:

"Elmore is pleased to have entered into these arrangements with our offtake partner Royal Advance and our major senior creditor, Oz Professionals. With the support and collaboration of these partners, the solution we have agreed maintains the expectations of the announcement made on 22 June 2023 in relation to our financial indebtedness. We believe that this constitutes a superior position in relation to the previously agreed gold royalty arrangements. It enables Elmore to move forward with a stable balance sheet and

with repayment commitments that are much more closely linked to our production and cashflow, and any bullet payments or large fixed obligations not arising for 2 years affords Elmore time to ramp up and improve performance at the Peko Mine. We also now have funding to make the necessary plant improvements which will enable us to improve our production consistency, and importantly, commence the production of copper and cobalt concentrates next year. We want to express our appreciation for the support of our partners and look forward to working with them, our shareholders and our other stakeholders to realise the potential of the Peko Mine and make Elmore a success for all concerned."

Advisers

Azure Capital is acting as Elmore's financial adviser.

This release has been authorised by Elmore's Board of Directors

Russell Baskerville, Chairman

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ABOUT ELMORE

Elmore is an ASX listed contract mineral processing and development company which employs mobile plant and equipment, allowing the company to generate meaningful financial returns via the development of niche orebodies and mining projects.

The company has access to deep technical expertise, allowing Elmore to provide geological, metallurgical & process engineering, OH&S, mechanical and mining engineering consulting services and advice to the mining industry.

Elmore owns 100% of the Northern Territory-based Peko Mine. Elmore acquired the Peko Mine after 12 months of work to design, build and commission the project's mining and processing operations as a contractor. Whilst Peko will initially focus on producing an iron magnetite product, the Elmore team plan to utilise wholly owned plant and equipment to produce copper, cobalt and gold from a tailings deposit at the Peko operations.