PARINGA RESOURCES LIMITED

30 October 2020

# SEPTEMBER 2020 QUARTERLY REPORT

**Paringa Resources Limited ("Paringa" or "Company") (ASX:PNL)** presents its quarterly report for the period ending 30 September 2020.

***Poplar Grove Sale Process***

During the quarter, the Company's wholly owned subsidiary, Hartshorne Holdings, LLC and its U.S. affiliates (together, "Hartshorne") continued the marketing process for the sale of its assets pursuant to section 363 under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Western District of Kentucky (the "Bankruptcy Court").

Hartshorne previously sought approval of the Bankruptcy Court to sell, among other assets, its coal supply contracts with (1) Louisville Gas and Electric Company and Kentucky Utilities Company ("LG&E-KU"), and (2) Ohio Valley Electric Corporation Indiana-Kentucky Electric Corporation ("OVEC-IKEC") to Hartshorne's prepetition and postpetition secured financer, Tribeca Global Resources Credit Pty Ltd ("Tribeca") (the "Tribeca Sale").

On 14 August 2020, the Bankruptcy Court denied the Tribeca Sale, which was subsequently appealed by Hartshorne on 27 August 2020. Hartshorne has reached an agreement in principle to settle the appeal and intends to seek Bankruptcy Court approval of the settlement.

On 27 July 2020, the Bankruptcy Court approved procedures for Hartshorne to sell assets to third parties for up to US$250,000 without further Bankruptcy Court approval (the "Sale Procedures"). During the quarter, Hartshorne closed eleven of such sales for the aggregate cash purchase price of US$796,192.

On 17 August 2020, Hartshorne requested authority from the Bankruptcy Court to sell its dock site equipment, raw coal stacker, and clean coal stacker located in McLean County, Kentucky to Castlen Marine, LLC for an aggregate cash consideration of US$435,000. On 10 September 2020, the Bankruptcy Court approved the sale. Hartshorne is continuing to dispose of its remaining assets pursuant to the Sale Procedures and via private sale motions to the extent such sales exceed US$250,000.

On 28 September 2020, Hartshorne filed their proposed plan of liquidation, disclosure statement, and proposed plan solicitation procedures motion for the expedited wind down of their estates. The proposed plan of liquidation sets forth the manner in which Hartshorne will complete its wind down through a liquidation trust. On 5 October 2020, the Bankruptcy Court approved the solicitation procedures and conditionally approved the disclosure statement. Hartshorne has begun the process of soliciting votes to accept or reject the plan of liquidation. A hearing to consider confirmation of the plan of liquidation and seek related relief has been scheduled for 9 November 2020.

***Poplar Grove Operations***

Hartshorne's underground operations ceased during the previous quarter and thus no coal was produced during the current quarter. A total of 8,065 tons were shipped during the September quarter which depleted all coal stockpiles and inventories. All slopes and shafts were permanently sealed during the quarter.

***Corporate***

The Company's securities remain suspended from trading on the Australian Securities Exchange ("ASX") until the Company can make further announcements on the above.

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ABN: 44 155 922 010

***Mining Tenements***

At the beginning of the September quarter, Hartshorne controlled approximately 40,114 gross acres (16,234 hectares) of coal leases through approximately 331 individual coal leases. All mineral leases were rejected through the Bankruptcy Court during the September quarter.

***Mining Expenditures***

During the quarter, the Company made payments of approximately US$1,763,000 in relation to mine operating costs at Poplar Grove, including direct staff costs, and received proceeds from coal sales of approximately US$1,735,000.

***Related Party Payments***

During the quarter, Paringa made payments of approximately US$113,000 to related parties and their associates. These payments relate to our U.S. based executive directors' remuneration and 401(k) contributions.

***Forward Looking Statements***

This report may include forward-looking statements. These forward-looking statements are based on the Company's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties, and other factors, many of which are outside the control of the Company, which could cause actual results to differ materially from such statements. The Company makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of that announcement.

This announcement has been authorised for release by the Company's Executive Director, Mr. David Gay.

For further information contact:

**David Gay**
Executive Director
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# Appendix 5B

## Mining exploration entity or oil and gas exploration entity quarterly cash flow report

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| Name of entity | |
|---|---|
| Paringa Resources Limited | |
| **ABN** | **Quarter ended ("current quarter")** |
| 44 155 933 010 | 30 September 2020 |

| **Consolidated statement of cash flows** | | **Current quarter US$000** | **Year to date (3 months) US$000** |
|---|---|---|---|
| **1.** | **Cash flows from operating activities** | | |
| 1.1 | Receipts from customers [(1)] | - | - |
| 1.2 | Payments for | | |
| | (a) exploration & evaluation | - | - |
| | (b) development | - | - |
| | (c) production [(1)] | - | - |
| | (d) staff costs [(1)] | (493) | (493) |
| | (e) administration and corporate costs | (108) | (108) |
| 1.3 | Dividends received (see note 3) | - | - |
| 1.4 | Interest received | 2 | 2 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Government grants and tax incentives | - | - |
| 1.8 | Other (provide details if material): | | |
| | (a) bankruptcy costs | (1,616) | (1,616) |
| **1.9** | **Net cash from / (used in) operating activities** | (2,215) | (2,215) |

[(1)] Prior to the declaration of commercial production, all mine commissioning and ramp-up production costs incurred at Poplar Grove (including direct staff costs), net of any revenues derived from coal sales, are capitalised against mine development costs. Accordingly, these costs are not included in 'cash flows from operating activities' and instead, are included in 'cash flows from investing activities'.

| | | | |
|---|---|---|---|
| **9.2.** | **Cash flows from investing activities** | | |
| 2.1 | Payments to acquire or for: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |

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| Consolidated statement of cash flows | | Current quarter US$000 | Year to date (3 months) US$000 |
|---|---|---|---|
| | (c) property, plant and equipment: | | |
| | (i) capitalised mine operating expenditures, net of revenues [(1)] | (28) | (28) |
| | (d) exploration & evaluation | - | - |
| | (e) investments | - | - |
| | (f) other non-current assets | (110) | (110) |
| 2.2 | Proceeds from the disposal of: | | |
| | (a) entities | - | - |
| | (b) tenements | - | - |
| | (c) property, plant and equipment | 1,214 | 1,214 |
| | (d) investments | - | - |
| | (e) other non-current assets | - | - |
| 2.3 | Cash flows from loans to other entities | - | - |
| 2.4 | Dividends received (see note 3) | - | - |
| 2.5 | Other (provide details if material) | - | - |
| **2.6** | **Net cash from / (used in) investing activities** | 1,076 | 1,076 |

[(1)] Prior to the declaration of commercial production, all mine commissioning and ramp-up production costs incurred at Poplar Grove (including direct staff costs), net of any revenues derived from coal sales, are capitalised against mine development costs. Accordingly, these costs are included in 'cash flows from investing activities'.

| | | | |
|---|---|---|---|
| **3.** | **Cash flows from financing activities** | | |
| 3.1 | Proceeds from issues of equity securities (excluding convertible debt securities) | - | - |
| 3.2 | Proceeds from issue of convertible debt securities | - | - |
| 3.3 | Proceeds from exercise of options | - | - |
| 3.4 | Transaction costs related to issues of equity securities or convertible debt securities | - | - |
| 3.5 | Proceeds from borrowings | - | - |
| 3.6 | Repayment of borrowings | - | - |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (provide details if material) | - | - |
| **3.10** | **Net cash from / (used in) financing activities** | - | - |

| Consolidated statement of cash flows | | Current quarter US$000 | Year to date (3 months) US$000 |
|---|---|---|---|
| **4.** | **Net increase / (decrease) in cash and cash equivalents for the period** | | |
| 4.1 | Cash and cash equivalents at beginning of period | 3,657 | 3,657 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (2,215) | (2,215) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | 1,076 | 1,076 |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | - | - |
| 4.5 | Effect of movement in exchange rates on cash held | 2 | 2 |
| **4.6** | **Cash and cash equivalents at end of period** | 2,520 | 2,520 |

| 5. | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter US$000 | Previous quarter US$000 |
|---|---|---|---|
| 5.1 | Bank balances | 189 | 98 |
| 5.2 | Call deposits | 2,331 | 3,559 |
| 5.3 | Bank overdrafts | - | - |
| 5.4 | Other (provide details) | - | - |
| **5.5** | **Cash and cash equivalents at end of quarter (should equal item 4.6 above)** | 2,520 | 3,657 |

| 6. | Payments to related parties of the entity and their associates | Current quarter US$000 |
|---|---|---|
| 6.1 | Aggregate amount of payments to related parties and their associates included in item 1 | (113) |
| 6.2 | Aggregate amount of payments to related parties and their associates included in item 2 | - |

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

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| 7. Financing facilities<br>*Note: the term 'facility' includes all forms of financing arrangements available to the entity.*<br>*Add notes as necessary for an understanding of the sources of finance available to the entity.* | | Total facility amount at quarter end US$000 | Amount drawn at quarter end US$000 |
|---|---|---|---|
| 7.1 | Loan facilities: | | |
| | Tribeca term loan facility (1) | 40,000 | 40,000 |
| | Tribeca DIP loan facility (2) | 7,625 | 7,431 |
| | Komatsu equipment financing facility (3) | 22,020 | 22,020 |
| | Other | 166 | 166 |
| 7.2 | Credit standby arrangements | - | - |
| 7.3 | Other (please specify): | | |
| | Tribeca royalty (4) | 9,000 | 9,000 |
| 7.4 | **Total financing facilities** | 78,811 | 78,617 |

| | | |
|---|---|---|
| 7.5 | **Unused financing facilities available at quarter end** | 194 |

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

(1) Hartshorne has a US$40 million term loan facility ("TLF") from Tribeca Global Resources Credit Pty Ltd ("Tribeca") (as agent). The TLF is secured, has a floating interest rate comprising the U.S. Prime Rate (subject to a floor of 5.50% p.a.) plus a margin of 7.5% p.a. (increased to 9.5% p.a. until such time that two consecutive quarters of EBITDA of no less than US$4.0 million has been delivered), and is repayable no later than 30 April 2022. In order to maintain Hartshorne's cash position to continue its operations, and after consultation with Tribeca, Hartshorne deferred payment of the 31 December 2019 quarterly interest and fees required under the TLF, totalling approximately US$1,462,000. This deferral triggered an event of default under the term loan facility which gives Tribeca the right to demand immediate full repayment of the TLF. The parent entity, Paringa, has guaranteed to Tribeca (as agent) the performance of its subsidiary, Hartshorne, in relation to the TLF. The effect of the guarantee is that Paringa has guaranteed to pay any outstanding amounts if Hartshorne does not meet their obligations under the terms of TLF. Tribeca issued a letter to Hartshorne and Paringa (as a guarantor of Hartshorne's obligations under the TLF) that notifies the existence of the event of default and reserving its rights in respect of such default.

(2) Hartshorne has a priming, super priority, senior secured, debtor-in-possession ("DIP") loan facility from Tribeca (as agent) in an aggregate principal amount of US$7.625 million. The DIP loan shall bear interest at a rate equal to 10% p.a., which shall be paid-in-kind through the maturity date. At any time while an 'event of default' under the DIP loan agreement has occurred and is continuing, all amounts owing under the DIP loan will bear interest at an interest rate equal to 11% p.a., which shall also be paid-in-kind through the maturity date. The maturity date is: (A) the later of (i) the date that is 120 days after the DIP loan closing date, provided that such date shall be extended automatically for one 30-day period in the event that Hartshorne have received one or more 'qualified bids' under the section 363 sale process or (ii) 5 business days after the expiration of the section 363 sale closing date; or (B) the earlier of (i) the consummation of an acceptable section 363 sale, (ii) the effective date of a plan of reorganization or liquidation, and (iii) the date of acceleration of the DIP loan in accordance with the terms of DIP loan agreement. In no event shall the maturity date be later than 150 days from the 'petition date' (20 February 2020).

(3) Hartshorne has a secured financing facility with Komatsu (and its subsidiary Joy Underground Mining) to finance the purchase of up to US$19.0 million of equipment from Komatsu for use at the Poplar Grove Mine, on instalment terms. Komatsu has also agreed to provide an additional equipment financing facility of up to US$7.5 million for the purchase of non-Komatsu equipment. Interest rates vary for each piece of equipment, based on standard commercial rates for leased mining equipment in the United States. Improved lease rates were negotiated by agreeing to provide upfront deposits, representing approximately 10% of the equipment cost.

(4) Hartshorne has granted a 2% gross revenue royalty over the Buck Creek Mining Complex to SP2 Royalty Co, LLC (an entity of which certain funds advised by Tribeca are members) to raise US$9 million. The event of default existing under the TLF gives SP2 the right to demand an immediate make whole payment of US$9.0 million.

| **8.** | **Estimated cash available for future operating activities** | **US$000** |
|---|---|---|
| 8.1 | Net cash from / (used in) operating activities (item 1.9) | (2,215) |
| 8.2 | (Payments for exploration & evaluation classified as investment activities) (item 2.1(d)) | - |
| 8.3 | Total relevant outgoings (item 8.1 + item 8.2) | (2,215) |
| 8.4 | Cash and cash equivalents at quarter end (item 4.6) | 2,520 |
| 8.5 | Unused finance facilities available at quarter end (item 7.5) | 194 |
| 8.6 | Total available funding (item 8.4 + item 8.5) | 2,714 |
| 8.7 | **Estimated quarters of funding available (item 8.6 divided by item 8.3)** | 1.2 |
| | *Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.* | |

8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:

8.8.1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

No. Hartshorne intends to sell the remainder of its assets through an orderly liquidation process. Following completion of the sale and orderly liquidation process, Hartshorne's net operating cash outflows are expected to substantially reduce.

8.8.2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Yes. Hartshorne obtained debtor-in-possession financing from certain of its senior secured lenders which is expected to provide sufficient liquidity to fund Hartshorne's operations while it executes a sale and orderly liquidation process for its assets. Following completion of the sale and orderly liquidation process, Paringa will assess options to recapitalise and raise additional funds for future working capital requirements.

8.8.3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes. Hartshorne obtained debtor-in-possession financing from certain of its senior secured lenders which is expected to provide sufficient liquidity to fund Hartshorne's operations while it executes a sale and orderly liquidation process for its assets. Following completion of the sale and orderly liquidation process, Paringa will assess options to recapitalise and raise additional funds for future working capital requirements.

*Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.*

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## Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 30 October 2020

Authorised by: Company Secretary
(Name of body or officer authorising release – see note 4)

**Notes**

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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