9 June 2020

Investment Update – TGF to impair credit exposure to the Paringa Group

Tribeca Global Natural Resources Limited (ASX: TGF) is a lender in the syndicate that has provided a secured term loan facility (“Loan”) to Hartshorne Mining Group, LLC a wholly owned subsidiary of Paringa Resources Limited (“Paringa”) (ASX: PNL). Tribeca Global Resources Credit Pty Limited acts as agent (“Agent”) to the syndicate of lenders (“Lenders”) and Tribeca Global Resources Pty Ltd is the investment manager (“Investment Manager”) for TGF.

On 24 February 2020 TGF advised the market that Hartshorne and Paringa’s other US subsidiaries (together the “Debtors”) announced that they had filed voluntary Chapter 11 petitions (“Chapter 11 Process”) in the United States Bankruptcy Court of the Western District of Kentucky to facilitate a sale (“s.363 sale”) of its operating Poplar Grove mine and other assets in order to maximise returns to its creditors. The qualified bidding round of that process concluded on Friday 5 June (Australian time) and, as a result, the Board has determined that it is appropriate to materially impair the carrying value of TGF’s exposure to the Paringa Group.

- Based on the results at the bidding deadline, the current potential outcomes and their estimated likelihood of success, the Board has decided to take an impairment which will result the Company’s exposure being written down by approximately 80%.
- Following this decision, credit assets as a percentage of TGF’s portfolio will be reduced to approximately 20% of TGF’s portfolio.
- The resulting impairment will lower post-tax NTA from an estimated $2.01 per share as at 31 May to $1.71.1
- The revised valuation of this exposure has been endorsed by the Company’s independent valuation agent.
- This impairment implies underlying valuations for the assets (Property, Plant & Equipment, and Sales Contracts) over which the Lenders hold security are in excess of 75% below stated book value 2 or spot value (as appropriate)3.
- TGF believes that lockdowns associated with the COVID-19 crisis and other external factors have impeded efforts to realise the security that supports this Loan, and the sales process will be ongoing.
- The final outcome for the Loan is dependent on a number of factors including court approval. TGF will make further announcements to the market as and when there are relevant developments.

Update on the Paringa Sales Process

TGF has been represented in this process by the Agent. As previously disclosed, the s.363 sales process is a Court supervised sale process that is coordinated by advisors appointed by the Debtors who are paid from the proceeds of a Debtor In Possession (or “DIP”) Loan. The Debtors’ advisor is

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1 The actual Net Tangible Asset as of 31 May 2020 will be released on or before 12 June 2020
2 Book Value based on Hartshorne accounts
3 Contract Value is based on Average Selling price of US$43.25 and Current Spot price of US$32 per tonne
Perella Weinberg Partners ("PWP") a Chicago based boutique investment bank that is active in the US coal sector. TGF did not provide any funding to support the DIP Loan.

A timeline and formal bidding procedures were established by PWP and the Debtors (and approved by the Court) at the outset of the case. The Agent has had detailed weekly operational and budget updates from the Debtors, although the updates that PWP have been able to provide with respect to the sales process have been limited in nature to maintain confidentiality and the integrity of the sales process. As the Lenders have a right to bid part or all of their debt for part or all of the assets ("Credit Bid"), the Agent has been kept at arm’s length to ensure the Lenders are not given an unfair advantage vis a vis other buyers.

Accordingly, prior to Friday 5 June (Australian time), the Agent had been unable to provide the Lenders with a definitive update in respect of the sales process. Nonetheless, the Agent has undertaken significant work on preparing for a potential Credit Bid by the Lenders for some or all of the assets and any recoveries that would likely ensue with a view to being ready to submit a Credit Bid should third party bids produce an inadequate return.

Based on the update provided by PWP to the Agent, TGF’s conclusion is that there are reasons to believe there is some market interest in the Paringa assets but that it may take some time for any such interest to be formalised.

**Why has the expected outcome for the sales process changed?**

From the commencement of the sales process in late February, the Board’s view based on advice received from its Investment Manager was that in the absence of any new information it was appropriate to continue to value the Loan at or close to par for a number of reasons including that Paringa had invested over US$140m in developing the project, the carrying value of the assets as at 30 September 2019 of US$123m and approximately 4 million tons of coal had been and remains contracted at pricing well above the current market spot and forward prices. The Lenders’ external independent valuer was also aware of the process and as at the end of May marked the loan at ~95% of face value (include accrued interest).

However, the update on Friday makes it apparent that significant headwinds have both directly and indirectly impacted the sales process including:

- **COVID-19:** The pandemic has restricted movement domestically and internationally to the US, resulting in potential bidders being unable to complete due diligence, especially site tours. The indirect result of the pandemic has also prompted a near ‘overnight’ reduction in coal demand by 30-50% (depending on power station) due to widespread shutdowns across the economy.
- **Inward Focused Buyer Universe:** Given the significant business interruption directly and indirectly caused by COVID, potential purchasers have looked internally for business continuity, particularly regarding their balance sheets and operational considerations. Most companies globally are singularly focused on their own survival rather than looking to acquire distressed coal assets, even if cheaply.
- **Slashing of the Price of Energy Units:** At what we now know to be the peak of the COVID-19 pandemic in the US, a dispute between Russia and Saudi Arabia resulted in an oil price war whereby a 30% fall in the oil price over the first 2 months of 2020 became a 65% fall with oil futures trading in negative territory for the first time in history. The flow on impact of this was equal record low natural gas prices which is the key coal substitute in the US.
- **Capital Contraction:** Given significant economic uncertainty going forward there has been a substantial capital contraction towards commodities and particularly risker opportunities/more volatile commodities. Notwithstanding the largest stimulus package since the Great Depression, credit is not readily available to prospective purchasers as banks and non-bank lenders set aside capital for provisions.
Investment Manager’s Recommendation

Following the update received from the Agent, the Investment Manager is of the view that the current valuation of at or close to par for the loans to Hartshorne is no longer appropriate.

The Board has considered the Investment Manager’s recommendation and accepted its logic, and the decision to impair the Paringa Loan exposure to the extent decided is consistent with that recommendation. The Board is hopeful that the early indications of further interest in the security assets will continue to firm, but the Board has determined that it is appropriate to revalue this exposure based on current facts rather than future hopes and expectations.

The Chapter 11 Process is on-going and the final outcome will be dependent on a number of factors including court approval. TGF through the Agent will continue to assess its participation in the Chapter 11 Proceedings and the best way to maximise returns for its shareholders.

For any enquiries in relation to this matter please contact TGF at TGFinvestors@tribecaip.com.au or by calling +61 2 9640 2600.

Authorised for release by the Board of Tribeca Global Natural Resources Limited.

Bruce Loveday, Chairman
Tribeca Global Natural Resources Limited