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By electronic lodgement

Update on Acquisition of Coal Mining Business and Capital Raising

Key Points

- Phased programme of Mobilisation with Mining Contractor to fast-track production of high-quality coking coal from BPCI Coking Coal Mine in Indonesia
- Five year Customer contract executed reflecting high margin coking coal operation
- Coking Coal Market Outlook remains positive and stable
- Pre-IPO \$2m Fundraising Initiated, with \$1,183,000 completed as at this date
- Updated deed of variation entered, to take into consideration positive commercial progress

Overview

Zamia Metals Limited (ASX: ZGM) (**Zamia** or the **Company**) announced on 11 October 2016 that it had executed a Share Sale and Purchase Agreement (**SSPA**) with the shareholders of Kirkham International Pte Ltd (**Kirkham Vendors**) where Zamia agreed to acquire 100% of Kirkham subject to satisfaction of certain conditions precedent (the **Kirkham Acquisition**).

Kirkham owns 95% of PT Borneo Prima Coal Indonesia (**BPCI**) (Figure 1) which holds a fully permitted coal mine which will produce a premium low ash, high fluidity and coke strength coking coal product for the Chinese and Japanese export markets in Central Kalimantan, Indonesia.

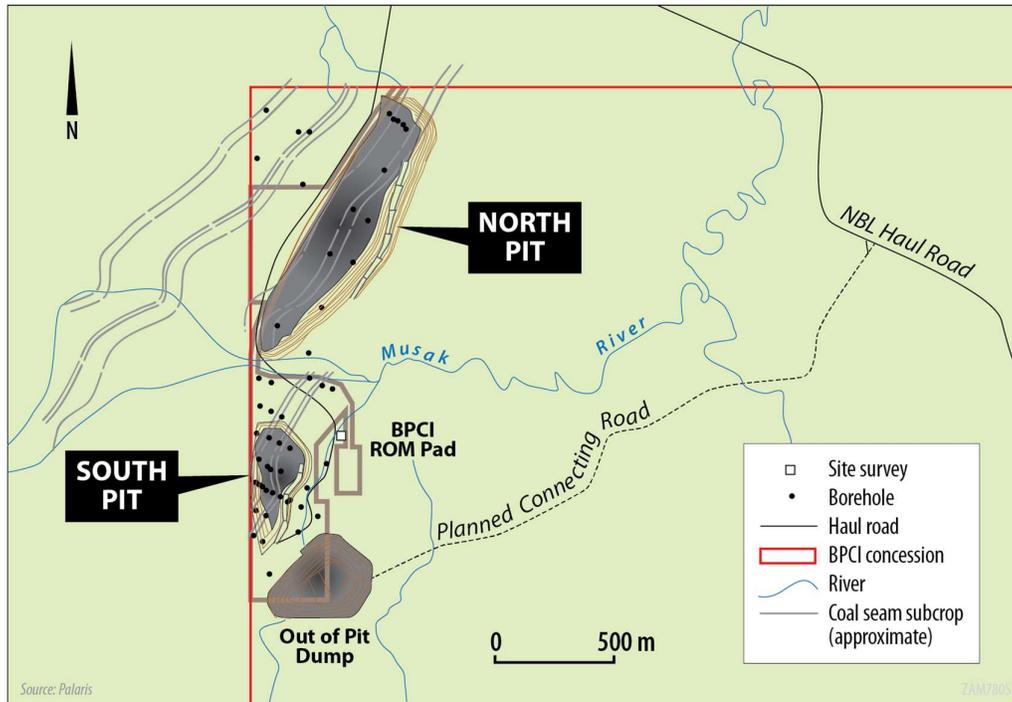
BPCI has successfully commissioned, mined coal and exported coking coal as such has all permits to conduct its mining business.

Figure 1: Location Map of BPCI Mine



The BPCI Coal Mine is located in a significant coking coal producing region area known as the Burito Basin in Central Kalimantan. This region currently produces approximately 11 million tonnes of coking coal per annum which is exported to China, Korea, Japan and also some small domestic sales.

Figure 2: Mine Location at BPCI



The Update

Following due diligence carried out by Zamia and the positive commercial progress achieved by Kirkham since the date of the SSPA to re-commence mining activities, the Company and the Kirkham Vendors have entered into a binding deed of variation, varying the terms of the SSPA to reflect these changes.

The positive commercial progress by Kirkham includes:

- BPCI has entered into a five-year alliance mining services agreement with PT Bruder Konstruksi Nusantara (**Bruder**). Bruder is a wholly-owned subsidiary of PT Bruder Bebas Indonesia that specialises in contract mining, quarrying, civil construction, mine infrastructure, earthworks and construction equipment rentals. Bruder and its key personnel have significant Indonesian country experience.
- Execution of sales contract with customer, Sun Sign International Limited, for a 5-year period to realise high margin operations. Sales contract confirms demand of 25,000 tonnes per month upon commencement of production; and
- Kirkham anticipates that mining of coal will commence in August 2017 with first sales occurring in early September 2017.

Revised Material Terms of the SSPA

The following revised terms are reflected in the deed of variation:



- the purchase price for all of the shares in Kirkham has increased to \$32 million (from \$24.3 million). Assuming that the Company undertakes a 10 for 1 consolidation, this will be satisfied by the issue of 1,066,666,667 ordinary shares in the Company at a deemed issue price of 3 cents per share (on a post-consolidation basis) to the shareholders of Kirkham (or their nominees including corporate advisers);
- assuming that the Company undertakes a 10 for 1 consolidation, the Company will raise up to \$10 million at an issue price of not less than 3 cents per share (on a post-consolidation basis) under an offer of shares to sophisticated and professional investors and/or members of the general public pursuant to a full re-compliance prospectus (**Capital Raising**);
- a bridge capital raise of a minimum of \$1 million (\$1.183m completed to date) to a maximum of \$2 million; and
- completion of the Kirkham Acquisition is subject to a number of conditions precedent being satisfied or waived including: Zamia shareholder approval as required by the Corporations Act and ASX Listing Rules, re-compliance with Chapters 1 & 2 of the ASX Listing Rules by the Company, the key management of Kirkham agreeing to executive contracts with Zamia; conversion of Zamia Directors/Officers and shareholder loans to equity; conversion of the debt securities (inclusive of accrued interest) into shares in the Company and other conditions precedent customary of a transaction of this nature.

The Bridge Capital Raise

The Company and Kirkham have together raised and/or obtained commitments for \$1.183 million from sophisticated and professional investors (collectively referred to as **Kirkham and Zamia Debt Bondholders**) through the issue of unsecured debt bonds, which, subject to receipt of approval from the Zamia shareholders and completion of the Kirkham Acquisition, will automatically convert into ordinary shares in the Company under the prospectus to be issued by Zamia.

Of the total amount raised, Kirkham is to receive \$887,250 (before advisor costs) and Zamia is to receive \$295,750 (before advisor costs). Each debt bond issued by Kirkham and Zamia has a face value of \$1.00, a coupon rate of 15%, and conversion to equity rights attaching, priced at A\$0.03.

Assuming that the Company undertakes a 10 for 1 consolidation:

- the face value of each debt bond along with interest accrued will be converted into shares in the Company (subject to receipt of Zamia shareholder approval) at a conversion price of 3 cents per share (on a post-consolidation basis) on completion of the Kirkham Acquisition; and
- for every 3 shares in the Company issued to a Zamia Debt Bondholder, that participant will be granted 4 free attaching debt options to acquire a share in the Company with an exercise price of 3 cents per share (on a post-consolidation basis) and an exercise period of 24 months ending on 30 April 2019 (subject to conditions). Shareholder approval for the issue of these options to the Zamia Debt Bondholders will be sought prior to their issue.

Shareholder approval to convert the unsecured debt bonds will be sought at the meeting of the Zamia shareholders being convened to approve the Kirkham Acquisition, subject to the ordinary approvals required from the relevant authorities.

Funds raised from the issue of these debt bonds is to be used primarily to meet costs related to the Kirkham Acquisition and on-going working capital.

Revised Indicative Capital Structure

At completion of the Kirkham Acquisition, assuming that the Company completes a 10 for 1 consolidation of its



existing issued capital (before the issue of any securities in connection with the Kirkham Acquisition), and that \$8.5 million is raised, the capital structure of the Company is projected to be as follows:

Parties	Number	% shareholding
Shares held by existing shareholders on post-consolidation basis	79,221,457	5.17%
Shares to be issued to the shareholders of Kirkham, and their nominees and Kirkham's advisors as a consequence of the purchase of Kirkham	1,066,666,667	69.62%
Shares to be issued to Zamia directors and officers as a result of conversion of fees owing for services rendered	6,214,627	0.41%
Maximum shares to be issued to Zamia bondholders who have converted their bonds to shares (see note 2)	30,000,000	1.96%
Minimum shares to be issued pursuant to the public offer (see note 1)	283,333,333	18.49%
Maximum shares to be issued to Kirkham and Zamia Debt Bondholders who have converted their bonds to shares (note 3)	66,666,667	4.35%
Total	1,532,102,751	100.00%

Notes:

1. The above table assumes that Zamia will raise a minimum of \$8.5 million by way of a public offer. Approval to raise this capital is subject to a resolution to be approved at the general meeting of shareholders to be called to approve the Kirkham Acquisition.
2. This relates to the conversion of Bonds issued on 24 October 2016.
3. This assumes that Zamia and Kirkham will issue a maximum of \$500,000 and \$1,500,000 of Subscription Bonds respectively. As at the date of this announcement, a total of \$1,183,000 of applications for Subscription Bonds have been received.

Revised Indicative Timetable*

Event	Date
Despatch Notice of Meeting	July/August 2017
General Shareholder Meeting	August/September 2017
Lodgement of prospectus with ASIC	August 2017
Closing date of offer under the prospectus	September 2017
Despatch holding statements	September 2017
Re-quotation of shares on ASX	September 2017

* Please note that this timetable is indicative only and subject to change.

For further information, please contact the undersigned on 0418 601 688.

Yours sincerely,

Andrew Skinner
Executive Chairman