How Are Coal Industry Suppliers Adapting To Change?
SubZero Group Case Study

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SubZero Group

ASX listed Hunter Valley based mining services company.

Commenced operations in 1999.
Listed in April 2013.

SubZero provides a comprehensive portfolio of specialised support services to Tier 1 mining companies operating in Australia. We take pride in creating long-term relationships by being responsive, proactive and consistently delivering fit for purpose value.

How did SubZero get here?

1999
- SubZero Services founded
- SubZero Services continually grows into Hunter Basin

2002
- SubZero Group acquires Nash Engineering and establishes SubZero Line Boring, by 2004 becomes largest line boring company in Australia

2003
- SubZero Field Service founded
- SubZero Automotive founded

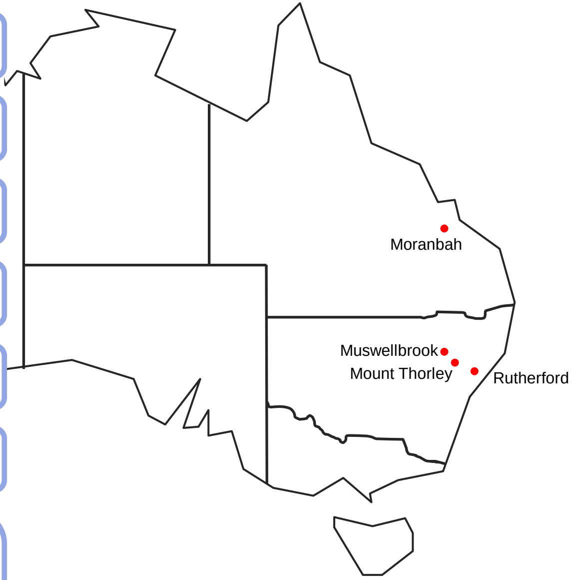
2005
- SubZero Group acquires Bro-Built Engineering

2008
- Diesel & Plant Services founded
- SubZero Mining Services founded

2011
- SubZero Supplementary Labor Hire commences

2012
- SubZero Group acquires DMST and Harness Master franchise
- Integration of Harness Master and Hydraulic Isolator products

2013
- ASX Listing – SubZero Group (ASX code: SZG)
- Purpose built new 9,500 sqm mining equipment and machinery repair & refurbishment facility, Muswellbrook
- HMWS JV – under renegotiation
- SubZero Mechanical Support, Moranbah JV



SubZero Structural Services

Provides a range of structural repair and fabrication services for mining equipment under multiple brands.

Bro-Built Engineering:
- Offsite specialist heavy engineering services
- Repair and refurbishment of dragline, excavator & shovel buckets, truck bodies, dozer blades and other machinery parts

Field Service:
- Onsite mining asset support services
- Onsite welding services - specialist boom welding
- Site shut downs and CHP maintenance

Industrial Services:
- Mobile industrial cleaning
- Mobile abrasive blasting and painting

Line Boring:
- Unique milling capabilities, Linear or Gantry Mill

Liquid Nitrogen:
- Only supplier of liquid nitrogen based in Hunter Valley

SubZero Mechanical Services

Provides a range of solutions under multiple brands that support specialised facets of mechanical support.

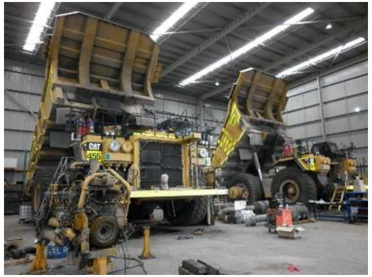
SubZero Mechanical Support:
– Onsite mechanical support with fully trained technicians in configured vehicles
– Offsite mechanical support with the Hunter Valley's largest mechanical workshop

SubZero Automotive:
– Light vehicle fleet specialists
– Automotive and fleet vehicle glazing and glass supply
– BHP Billiton and Roads & Traffic Authority (RTA) authorised inspection station

DMST (Diagnostic Monitoring and Safety Technology):

- Technical support through electronic and mechanical design solutions
- Diagnostic monitoring services
- Safety technology products supply and support - Hydraulic Isolator
- Electrical wiring design and remanufacture solutions
- Mine site audit compliance
- Specialised component rebuild facilities



SubZero Mining Support

Provides ancillary mining activities supporting the efficiency & production capacity of core mining activities.

SubZero Mining Services:

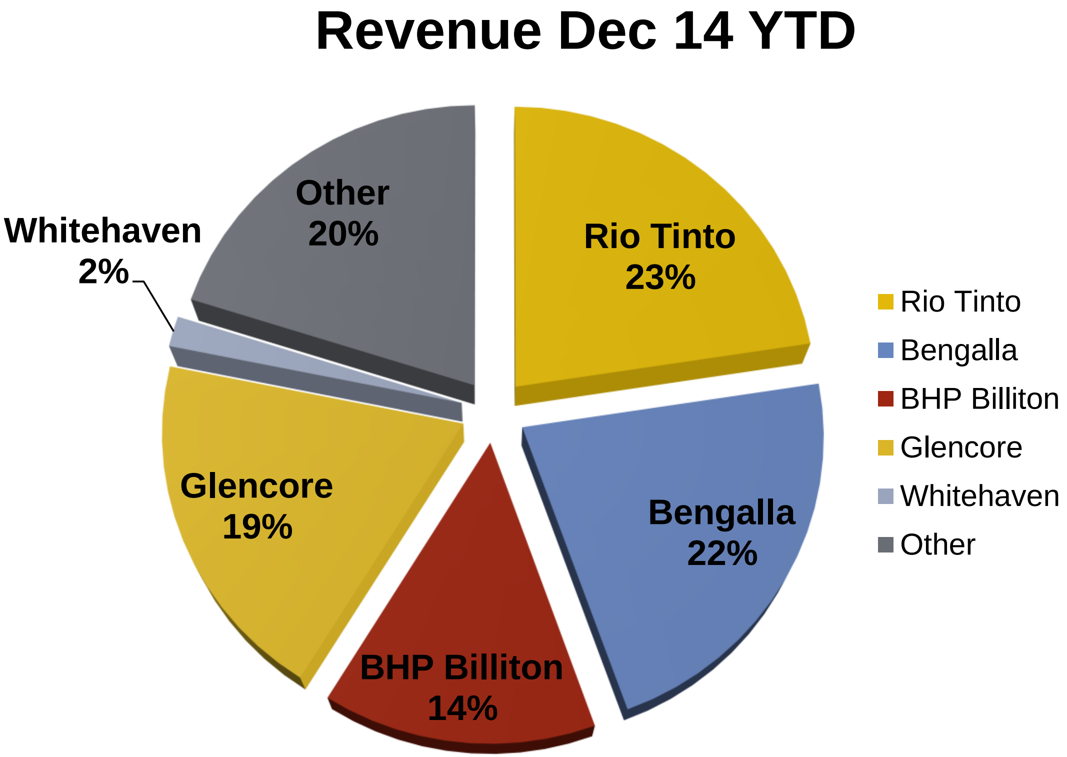
- Rehabilitation project team
- Conveyor and material handling cleanup support
- Minesite civil projects
- Poly pipe supply and installation services
- Infrastructure general maintenance
- Landscaping services

SubZero Personnel:

- Mine site operating and professional labour hire




Customer Overview – Strong Client base



Top 3 customers represent 59% of revenue (Rio Tinto, Bengalla, BHP)

Mine Upgrades = Incremental Business

Hunter Valley coal production is still growing to achieve economies of scale.
4 major mines have received approval to expand.
1 mine is still seeking approval to expand.

Mangoola

- Increase from 10.5Mtpa to 13.5Mtpa
- PAC approved April 14

Mt Arthur Coal

- Extension of life of mine to 2026
- Additional 128m tonnes of coal to be extracted
- Equipment fleet increased from 193 to 291 vehicles
- PAC approved Sep 14

Bulga

- Bulga Optimisation Project
- $1.5B Capex to extend production
- PAC approved Nov 14

Bengalla

- Increase from 9.7Mtpa to 15Mtpa
- PAC approved Feb 15

Mt Thorley-Warkworth

- PAC recommended expansion for approval Mar 15

Hunter Valley Thermal Coal Exports

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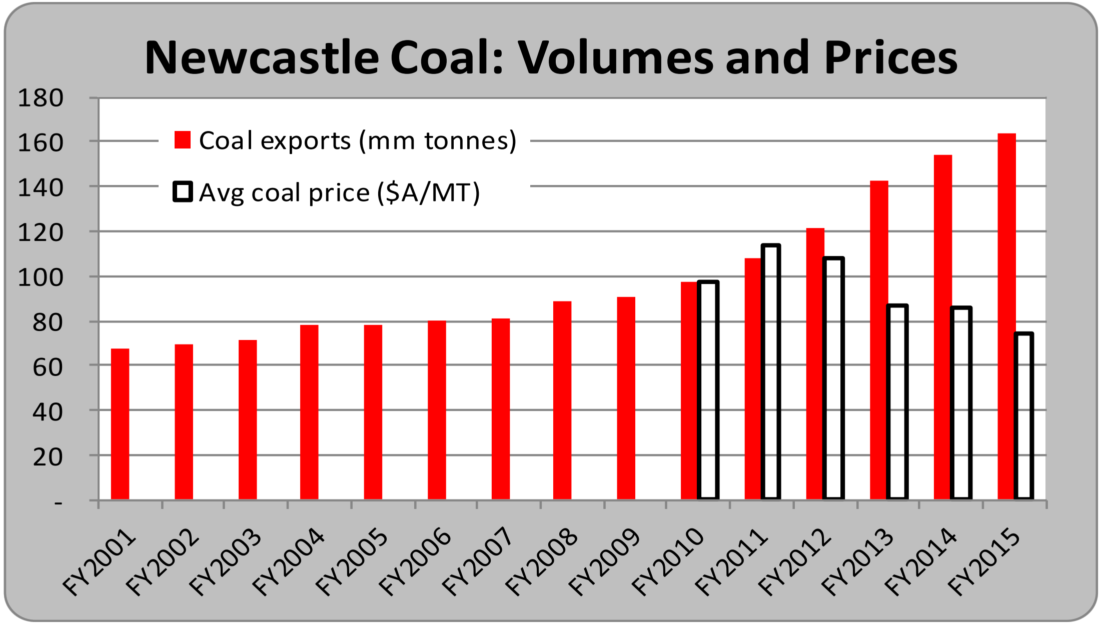
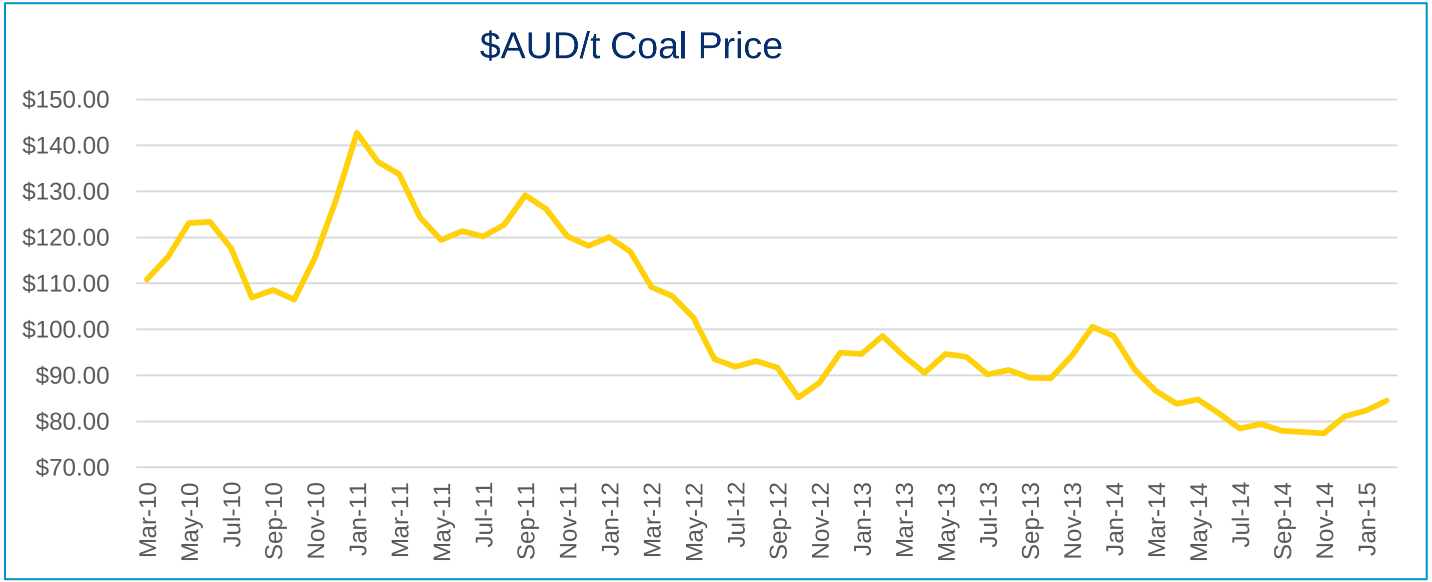


Source: Port of Newcastle

Coal exports through Newcastle coal terminals have continued to grow significantly despite the declining thermal coal price

"Downturn"

The coal price came off 48% from December 2010 to January 2015



Source: Index Mundi April 2015

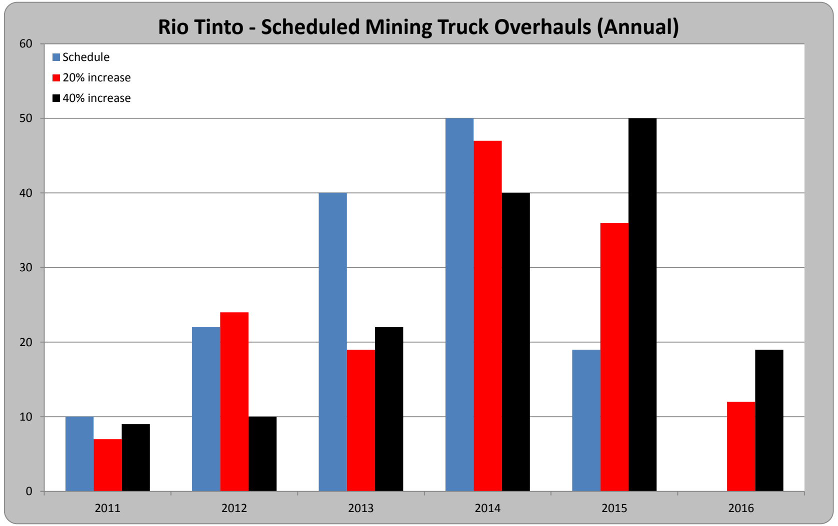
Reaction to Coal Prices

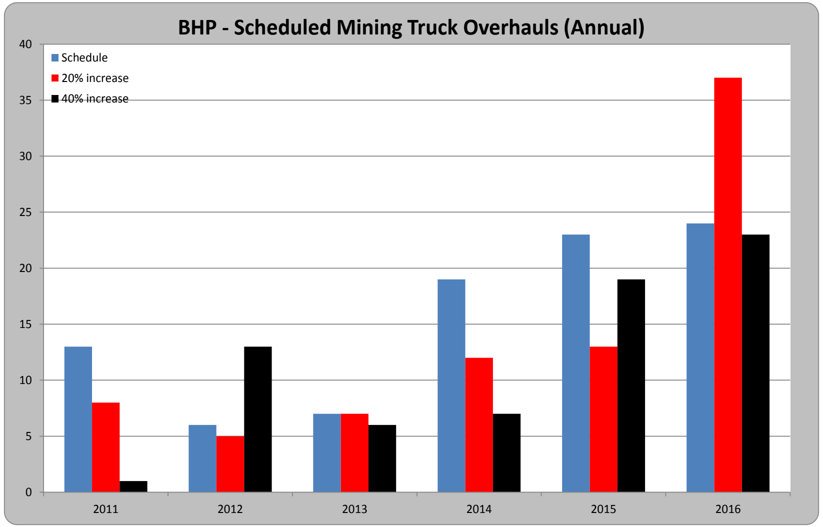
Change from revenue maximisation to cost reduction:

- Chase the low strip ratio coal – “High Grade”.
- Park up mining equipment.
- Extend equipment rebuild timeframes.
- Extend timeframes between maintenance shutdown.
- Restructure workforce.
- Restructure contractors.

Maintenance & Rebuild Upswing – Parker Bay

Parker Bay is a third party, independent database that identifies the location of more than 67,000 large pieces of surface mining equipment and scheduled rebuilds.



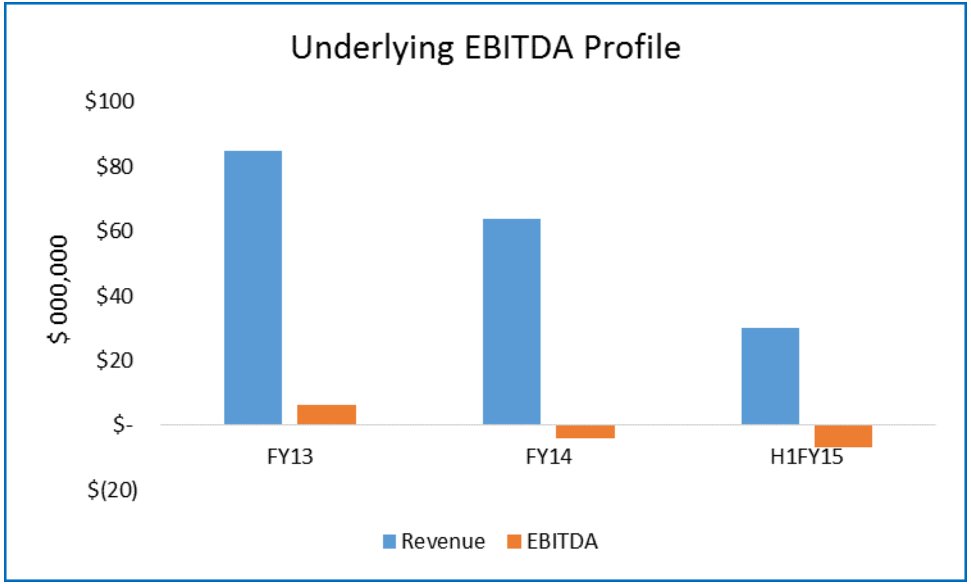


Source: Parker Bay Company

Notes: Bulk of truck acquisitions made by Rio Tinto in 2010 & 2011, purchases made by BHP in 2010, 2011 and 2012. Analysis assumes 6,300 hours of use per annum for machinery. Recommended rebuild intervals assumes a maintenance frequency of 18,000 hours which is based on Caterpillar (OEM) maintenance guides. Extending recommended rebuild intervals by 20% - 40% implies a maintenance frequency range of 21,600 – 25,200 hours.

Our Problem

Floated the business on cusp of industry downturn.



Total Losses $4.4M EBITDA (Underlying) Loss

How Did We Adapt?

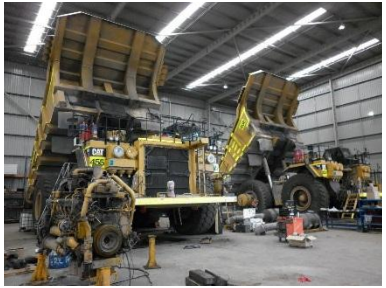
- Hired Vantage Performance to complete an independent review.
- Review confirmed a viable operational turnaround of SubZero was achievable subject to recapitalisation.
- Corporate and operational initiatives were identified to enhance profitability of business.
- A comprehensive 100 day project plan implemented.

The Implementation

- Installed a new management team with turnaround experience.
- Restructured business operations and “casualised” workforce.
- Major Lender agreed to debt restructure for an orderly recapitalization process.
- Cost out program implemented.
- 3 equipment auctions completed.
- Cut premises from 11 to 5.
- Comprehensive Communication Strategy implemented for:
  - Clients
  - Suppliers
  - Employees

NEW Management Team

New CEO
New CFO
New GM Mining
New Safety Manager
New Financial Controller
New Commercial Manager
New Human Resources Manager

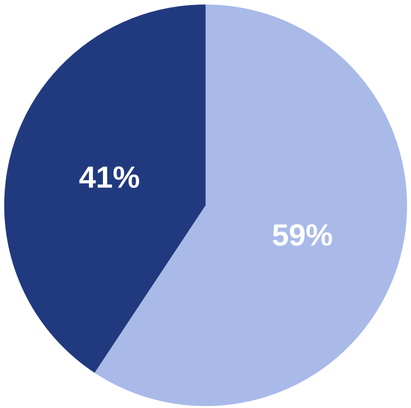


Board and Senior Management have a significant vested interest in making a success of the turnaround.

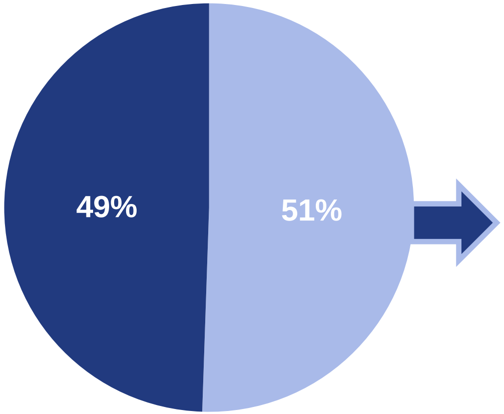
People – Workforce Platform Leverage

Significant Restructure of Employee Base well underway – opportunity to optimise further

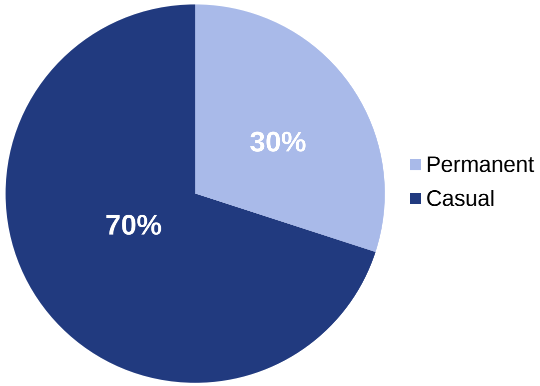
Previous Employee Base



New Employee Base



Target Employee Base



Division	Total	
	Pre	Post
Permanent	311	197
Casual	213	193
Total	524	390
Casual %	41%	49%

The Results

Improved EBITDA profile January 2015.

Break even EBITDA in February 2015.

Positive EBITDA in March 2015.

Turnaround Progress

Installed New Management Team with Turnaround Experience

Conducted Positive Negotiations with Lender Regarding Debt Restructure

Vantage Performance Independent Review Completed

Cost out Program on Track

Recapitalise Company with Equity

Complete implementation of operational and corporate initiatives

Further Reduce Costs and target break even EBITDA at $3.2m Rev per month

Focus on Growing Revenue and Profits

Completed

To be Completed

Client Insights – Hunter valley coal still competitive

- Hunter Valley / Newcastle thermal coal is a premium product:
  - High energy content
  - Low ash & sulfur content causes less air pollution effects
  - Very competitive cost
- Customer profitability increased with the falling $A: spot Newcastle thermal coal price A$72/tonne
- Lower oil price and labour costs have improved the cost structures
- Cash costs below current A$ coal price
  - BHP in November cut costs to less than US$45 / tonne for thermal coal
  - Rio Tinto stripped ~ US$30/tonne from thermal coal businesses

Implies the mines which SubZero service are now even more profitable

What our customers are telling us?

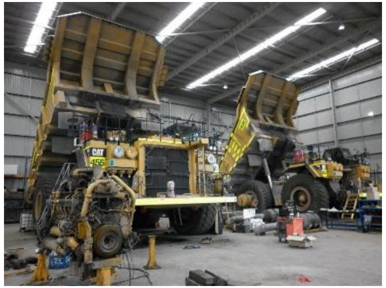
Rio Tinto - Contract for offsite repairs for dippers/blades/buckets significantly increased.
- Working through new opportunities for component and engine rebuilds.
- Bengalla labour contract until end 2018 increased to138 operators.

"...*We continue to support our local economies with over 75 per cent of our goods and services purchased in Queensland and New South Wales.*"

Rio Tinto Coal Australia Sustainability Report 2014

Glencore – Bulga optimisation approved with significant contracts to be awarded.

BHP Billiton - cut 150 maintenance personnel resulting in increased offsite equipment rebuilds.
- 2015 to date SubZero has completed 7 x CAT 793D truck engine changes.



Hunter Valley Coal Outlook

- Hunter Valley Thermal coal exports to grow over next 5 years.

- 5 Hunter mines & Whitehaven announce production increases.

- Motivating factors to increase production levels :

  - Increasing production to reduce unit costs.

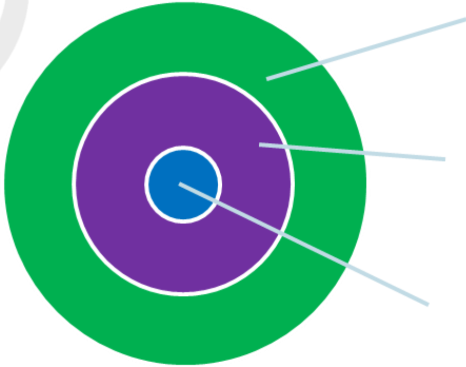
  - Long term Take or Pay obligations with infrastructure providers

  - Mine Closure costs are prohibitive & politically damaging (redundancies, environmental rehabilitation, bank guarantees for defaulting on Take or Pay obligations, sunk capital costs).

SubZero Outlook

- Only provider of **all** “must have” ancillary services for all aspects of coal operations.
- Exposed to production cycle – customer spend not discretionary.
- Not exposed to mine construction or exploration markets.
- Market share has improved with exited competitors from Muswellbrook e.g. Resco, G&S, Bradken.
- Delayed major rebuild backlog now coming on stream.
- Solid month on month growth.

SubZero Group Strategic Plan



Our What: We provide a range of mining support services that enable our customers to focus on what they're best at so they can improve their productivity and profitability.

Our How: By listening to our clients needs and being available 24/7, by doing what we say we'll do, by delivering a great product at the right price, by reducing their downtime, by hiring the best people, by extending the life of their equipment, by helping maintain their compliance.

Our Why (what can we be best at): To enhance the sustainability of mining in the Hunter Valley in order to provide safety and job security for our staff and the wider community.

Take Home Message

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.

- Charles Darwin