Annexure D – Liquidation Calculation

Introduction

As required in terms of section 150 (2) (a) (iii) of the Companies Act, the business rescue plan should include the probable dividend which Concurrent Creditors would receive if the Company were to be placed into liquidation.

The BRPs calculated the potential dividend in a liquidation scenario at the Commencement Date to establish the probable dividend.

The liquidation calculation is prepared on the following basis:

- The company was placed in business rescue on 21 September 2021. The financial records on 31 August 2021 were used for this calculation as these are the closest fully completed management accounts compared to 21 September 2021.
- The BRP relied on the asset and liability figures reported in the management accounts provided by the Company's management. The BRP has not sought to verify or audit such information to calculate the liquidation dividend as of the Commencement Date.

The approach followed in estimating the probable liquidation dividend.

- Management accounts and underlying records at 31 August 2021, as obtained from management, were used for this calculation.
- Asset categories were analysed, individual assets inspected wherever possible, and discussions were held with management to establish the use and specific nature of the assets.
- To determine the potential realisation of assets/asset classes, where possible, data was benchmarked and referenced to the publicly available information.
- Asset realisations values are predicated on a "fire sale" or break up basis in the main.

<u>Assets and Liabilities as of 31 August 2021</u>

	Net Book Value as of 31 August 2021
Current Assets	**R340 524 407**
Intercompany Receivables	R207 540 369
Sundry Debtors	R25 000
Prepayments	R3 903 619
Inventory	R128 881 629
Cash on Hand	R456
Deposits Paid	R173 335
Fixed Assets	**R259 748 016**
Chrome Plant	R205 839 970
Mine Development	R8 742 863
Mining Plant & Equipment	R39 062 905
Other	R5 443 261
Right of Use Asset	R659 016
Non-Current Assets	**R209 960 106**
Intercompany Loans	R209 960 106
Total Assets	**R810 232 529**
Current Liabilities	**R863 133 745**
External Accounts Payable	R122 229 472
Intercompany Accounts Payable	R222 589 920
Related Party Accounts Payable	R1 825 892
Accruals and Other Payables	R110 556 194
ABSA Drawdown facility	R332 356 679
Lease Liability	R6 668 065
Bank Overdraft	R6 902 703
Trade Receivables with Credit Balances	R23 425 622
Related Party Receivables with Credit Balances	R36 579 197
Non-Current Liabilities	**R293 471 518**
Finance Lease Liability	R59 768 929
Related Party Loans	R230 023 411
Deferred Tax	R3 679 177
Total Liabilities	**R1 156 605 263**

Asset Realisations

Intercompany Receivables

- The Sail Group is in financial distress and has a cash shortage.
- Sail Contracting has been placed in provisional liquidation, and the most significant part of the receivables due to Sail Minerals is from Sail Contracting.
- Black Chrome Mine has struggled to pay its liabilities when they have been due.
- The activities of the different companies in the group are intertwined and dependent upon an operational mine.
- Sail Minerals has an intercompany payable (R222 589 920) that exceeds the intercompany receivable (R207 540 369) in its records.
- Therefore, there are no realisations expected from the intercompany receivables.

Prepayments

The prepayments in the records of Sail Minerals are deferred expenses, and no realisations will be recouped.

Inventory

Sail Minerals inventory has been provided as security to ABSA, Reinhardt Transport Group and Jubilee Metals Group. In terms of the available information, the security is based on a monetary value and is not linked to the tonnage of raw materials or finished products.

The security values of each party attached to the inventory are:

- ABSA R356 969 278
- Jubilee Metals Group R50 649 025

The total value of security attached to the inventory (R 454 881 499) exceeds the stock value (R128 881 629) on hand at Commencement Date, and any realisations to be gained from the inventory benefit the parties that hold the security.

Chrome Plant

The chrome plant was constructed in two phases, phase one is Spiral Plant 1 (SP1), and phase two is Spiral Plant 2 (SP2).

In principle, SP1 is owned mainly by Sail Contracting, while Sail Minerals primarily owns SP2. However, in terms of the accounting records, there are costs in both SP1 and SP2 that are attributable to both SC and SM.

There are concerns regarding the design of both SP1 and SP2. These concerns stem from the percentage of processed chrome rendered by the plant compared to the industry norms. A capital injection is required to improve the output from the plant to bring it up to industry standards in addition to the significant costs already incurred on the plant. Based on a report obtained from Obsidian, the cash injection required is R15 million.

The values in the chrome plant to Sail Minerals may best be realised through the usage of the plant to process chrome. To do so, Sail Minerals would need to acquire those portions of the plant that belong to Sail Contracting. Sail Minerals would not operate the plant independently without obtaining these components, as the ownership is intertwined. However, the value in use assumption is not applicable in a liquidation scenario and the absence of Sail Minerals owing the entire plant.

The plant may not be dismantled by Sail Minerals and sold in separate components without impacting Sail Contracting's plant parts. Furthermore, there is no active market for the individual pieces/parts/components should they be dismantled, and the cost to dismantle the plant would be significant.

In considering the nature of the components of the chrome plant, it is reasonable that elements of the plant may be dismantled and sold separately. In applying a "fire sale" value to parts of the chrome plant that may be dismantled and sold, we arrive at an estimated amount of R12 941 394. This value is reached by applying 10% to the net book value of the items that may be dismantled and sold separately. The percentage is used after considering the following:

- the specialised nature of the items;
- the need for specialised dismantlers requiring specialised equipment (due to the size and height) and the costs thereof;
- the lack of an active market for the items;
- consideration of potential damages to Sail Contracting's parts of the plant; and
- additional expenses needed to dispose of the items.

Mine Development

The Mine Development category includes interlinked assets belonging to Black Chrome Mine, Sail Contracting and Sail Minerals.

These are non-movable assets consisting of terraces, conveyor belts, ventilation chambers, transformers and the erection of the south decline. The records of Sail Minerals specifically include the terrace's construction costs, take on values from the previous mine owner and the conveyor belt.

Value in the mine development asset may best be derived from the mining activities and the assets being used as an integrated unit. This is, however, not applicable in a liquidation scenario.

Based on the assets of Sail Minerals, a "fire sale" value may only be obtained through dismantling the conveyor belt and selling this item as scrap. An estimated value of R500 220 may be realised from the disposal of the conveyor belt as scrap metal and rubber. This value is reached by applying 10% to the net book value of the conveyor belt. The percentage is used after considering the following:

- the conveyor belt was built to specification for the existing mine and would not be replicated in another mine;
- the need for specialised dismantlers and the costs thereof;
- the lack of an active market for the items; and
- additional expenses required to sell the items.

Mining Equipment

Mining equipment consists of; drill rigs, excavators, load haul dumpers and radio and communication equipment. The lamp room is the only immovable asset included in mining equipment.

Mining equipment is not specialised, and an active market does exist for these items.

The majority of the items are in working order and can be sold in their condition. The assets that are damaged may be restored to working condition.

Therefore, the net book value of items in working conditions was used in liquidation. Items that are damaged have been impaired by 30%. This percentage used merely accounts for the costs to restore the assets to a working condition.

An estimated R36 266 702 would be realised should the mining assets be disposed of.

Other Assets

Other assets include computer software and equipment, leasehold improvements, furniture and fittings, office equipment and motor vehicles.

Leasehold improvements and software account for R3 012 812 (55%) of the total value of R5 443 261. These items cannot be disposed of, and no value can be obtained from them.

The remainder of the assets in this category may realise a value through disposal in a liquidation scenario. In applying a 50% realisation rate to the net book value of these items, we arrive at an amount of R1 215 225. These assets are not specialised, have an active market and costs to sell would be the only consideration in attempting to dispose of these items.

Asset Realisations versus Liabilities and Distribution of Proceeds from Realisation of Assets

	Net Book Value as of 31 August 2021	Liquidation Value
Current Assets	**R340 524 407**	**R129 055 419**
Intercompany Receivables	R207 540 369	R0
Sundry Debtors	R25 000	R0
Prepayments	R3 903 619	R0
Inventory	R128 881 629	R128 881 629
Cash on Hand	R456	R456
Deposits Paid	R173 335	R173 335
Fixed Assets	**R259 748 016**	**R50 923 571**
Chrome Plant	R205 839 970	R12 941 394
Mine Development	R8 742 863	R500 220
Mining Plant & Equipment	R39 062 905	R36 266 702
Other	R5 443 261	R1 215 255
Right of Use Asset	R659 016	R0
Non-Current Assets	**R209 960 106**	**R0**
Intercompany Loans	R209 960 106	R0
Total Assets	R810 232 529	R179 978 990
Current Liabilities	**R863 133 745**	**R845 775 037**
External Accounts Payable	R122 229 472	R122 229 472
Intercompany Accounts Payable	R222 589 920	R222 589 920
Related Party Accounts Payable	R1 825 892	R1 825 892
Accruals and Other Payables	R110 556 194	R93 197 486
ABSA Drawdown facility	R332 356 679	R332 356 679
Lease Liability	R6 668 065	R6 668 065
Bank Overdraft	R6 902 703	R6 902 703
Trade Receivables with Credit Balances	R23 425 622	R23 425 622
Related Party Receivables with Credit Balances	R36 579 197	R36 579 197
Non-Current Liabilities	**R293 471 518**	**R289 792 340**
Finance Lease Liability	R59 768 929	R59 768 929
Related Party Loans	R230 023 411	R230 023 411
Deferred Tax	R3 679 177	R0
Total Liabilities	R1 156 605 263	R1 135 567 377

The total value estimated to be recouped from the realisation of assets is R179 978 990. In terms of the Insolvency Act, the following distribution applies to these funds:

Creditor	Amount	Notes
Liquidator Costs	R17 997 899	1
Administration Costs	R15 000 000	2
SARS	R1 364 599	3
Employees	R352 000	4
Lessors	R17 991 040	5
Secured Creditors	R127 273 453	6
Unsecured Creditors	R0	7
Total	**R179 978 990**	

1. Liquidator and administration costs take preference in terms of the Insolvency Act. The liquidator fees and other administrative expenses are based on 10% of the assets for available distribution. The additional administration expenses are our best estimate of the costs involved to maintain and safeguard the assets available for distribution.

2. SARS is a preferred creditor in terms of the Insolvency Act.

3. Employees are preferential creditors in terms of the Insolvency Act. Employees pay-outs during liquidation proceedings are capped at R 32 000 per employee.

4. The lessors' amounts presented represents the net book value of the leased assets in the records of Sail Minerals. Lessors are secured by the assets leased to Sail Minerals.

5. The secured creditors of Sail Minerals are ABSA and Jubilee Metals Group. These creditors have security over all the inventory of Sail Minerals. Their security of Sail's stock grants them preference over unsecured creditors in terms of the Insolvency Act. Secured creditors, in this scenario, will receive R0.3 in a rand.

6. Based on the asset realisation value and waterfall of preferential payments in the Insolvency Act, unsecured creditors will receive R0 in a rand.