



ASX Announcement 24 July 2024

Signed Term Sheet with Shenghe for A\$96m Investment and Fully Funded Project Solution for Ngualla

- **Peak and Shenghe have extended their partnership and signed a non-binding Term Sheet supporting the development and funding of a low cost and technically enhanced Ngualla Project**
- **Shenghe to provide a fully funded solution with no requirement for Peak to contribute further equity funding towards the development of the Ngualla Project**
- **Targeting to finalise binding transaction documentation by the end of September and a Final Investment Decision by the end of December 2024**
- **Key elements of the Term Sheet include:**
 - Shenghe to subscribe for a 50% interest in Ngualla Group UK Limited (“NGUK”), which holds an 84% interest in the Ngualla Project, for ~A\$96m
 - Implied Peak valuation on a post-transaction basis of ~A\$0.36/share, representing a +100% premium to the current share price¹
 - Balance of Ngualla Project capital costs to be met by a Shenghe arranged debt facility with no requirement for Peak to contribute development equity funding
 - Opportunity to leverage Shenghe’s proven rare earth experience and development expertise
 - Peak and Shenghe to each hold a 50% interest in NGUK and have equal board representation with Peak retaining a casting vote
 - Shenghe EPC, EPCM or EPS agreement to include incentive / penalty mechanisms to strongly incentivise Shenghe to deliver material capital cost savings
 - Target Final Investment Decision of 31 December 2024
- **Further strengthens the Ngualla Project’s position as one of the most attractive and advanced rare earth projects in the world**
 - High-grade REE/NdPr deposit with substantial exploration upside
 - Completed Bankable Feasibility Update and FEED studies²
 - Binding Framework Agreement with the Government of Tanzania
 - Special Mining Licence for the Ngualla Project
 - Binding offtake agreement for all concentrate production
 - Supportive and technically proficient shareholder and partner, Shenghe
 - Development and funding solution

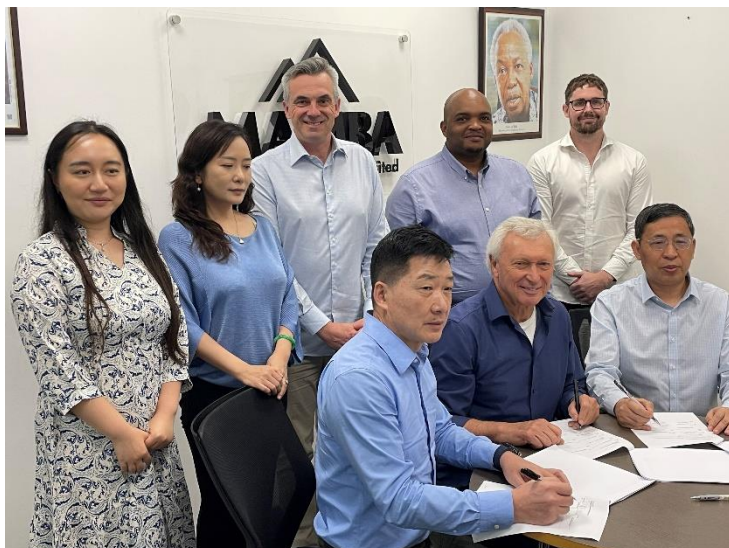


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Peak Rare Earths Limited (ASX: **PEK**) ("**Peak**" or the "**Company**") is pleased to announce that it has signed a non-binding Term Sheet with Shenghe Resources Holding Co., Ltd. ("**Shenghe**") covering an investment, funding and development solution for the Ngualla Rare Earth Project ("**Ngualla Project**").

Shenghe is a major Chinese rare earth company listed on the Shanghai Stock Exchange (SSE: 600392.SS) and has a market capitalisation of approximately US\$2.0 billion. Its wholly owned subsidiary, Shenghe Resources (Singapore) Pte. Ltd. ("**Shenghe Singapore**") holds an approximate 19.9% interest in Peak and appointed a Non-Executive Director to the Company's Board in December 2022. Shenghe is the largest importer of rare earth concentrate into China and its operations span rare earth mining, beneficiation, refining, trading and alloy and metals production. Shenghe also holds an approximate 7.7% interest in MP Materials Corp (NYSE:MP) which operates the Mountain Pass Rare Earths Project in California. MP Materials has a market capitalisation of approximately US\$2.4 billion and Shenghe has been a supportive major shareholder through long-term offtake and historical technical and funding cooperation. The signing of the Term Sheet with Shenghe follows the execution of a binding rare earth offtake agreement with Shenghe Singapore, which was approved by Peak shareholders on 17 June 2024.

Signing of the Term Sheet at Mamba Minerals' Dar es Salaam office



Deputy Chairman of Shenghe, Huang Ping, and Founder, Wang Quangen, sign the Term Sheet with Peak Chair, Russell Scrimshaw.

In the background, Managing Director of Shenghe Resources Overseas Development and Peak Director, Shasha Lu, Investment Manager of Shenghe Resources Overseas Development, Mona Xu, CEO of Peak, Bardin Davis, CEO of Mamba Minerals, Ismail Diwani and Peak Head of Corporate Development, Matt Horgan.

¹ Supporting assumptions and calculations are set out at the end of this announcement.

² See 24 October 2022 and 30 November 2023 ASX announcements. The Company confirms that at this time, other than the rare earth price assumptions as set out in the December 2023 Quarterly Activities Report and Review of Operations in the December 2023 Half-Year Financial Report, it is not aware of any new information or data that materially affects the information included in the announcement and that all material assumptions and technical parameters underpinning the estimates in the announcements continue to apply and have not materially changed.



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Commenting on the Term Sheet with Shenghe, Dr. Russell Scrimshaw (AM), the Executive Chairman of Peak, said:

"This marks another major milestone for Peak, Mamba Minerals and the Ngualla Project. With the benefit of strong support from our partners, Shenghe and the Government of Tanzania, the Ngualla Project is positioned to become the world's next rare earth operation. Importantly, the Ngualla Project will benefit from a fully funded solution, which will avoid the need for further equity funding from Peak shareholders."

Mr. Huang Ping, Deputy Executive Chairman of Shenghe, made the following comments:

"We continue to believe that the Ngualla Project is the premier undeveloped rare earth project in the world. This Term Sheet demonstrates our commitment to work with Peak and Mamba Minerals to further optimise the Ngualla Project and to expedite its development and funding."

Term Sheet

Key elements of the agreed Term Sheet between Peak and Shenghe include the following:

- **Investment structure** – Shenghe to acquire a 50% interest in Ngualla Group UK Limited ("NGUK"), which holds an 84% effective interest in the Ngualla Project, through a subscription of new shares for ~A\$96m;
- **Fully funded solution** – upon completion, Peak will not be required to contribute any additional equity funding towards the development of the Ngualla Project. The difference between the Ngualla Project's total development costs and Shenghe's NGUK investment of ~A\$96m will be funded via a Shenghe arranged debt facility, which is expected to be on terms more favourable than a typical international project financing facility;
- **Profit sharing mechanism** – in recognition of Shenghe's rare earth experience, development expertise and its commitment to secure a funding solution for the development of the Ngualla Project, it shall be entitled to a 55% share of NGUK's net earnings after tax and will incur a 55% share of net losses after tax for the first 60 months following the commencement of commercial production;
- **Conditions precedent** – completion of the NGUK investment is conditional upon:
 - Following a successful tendering process, Shenghe being awarded an EPC, EPCM or EPS contract to develop the Ngualla Project;
 - Shenghe arranging an actionable project funding solution that supports the economic feasibility and a Final Investment Decision for the Ngualla Project; and
 - Approvals from Chinese regulators as well as Peak and Shenghe shareholders under ASX Listing Rule 10.1;



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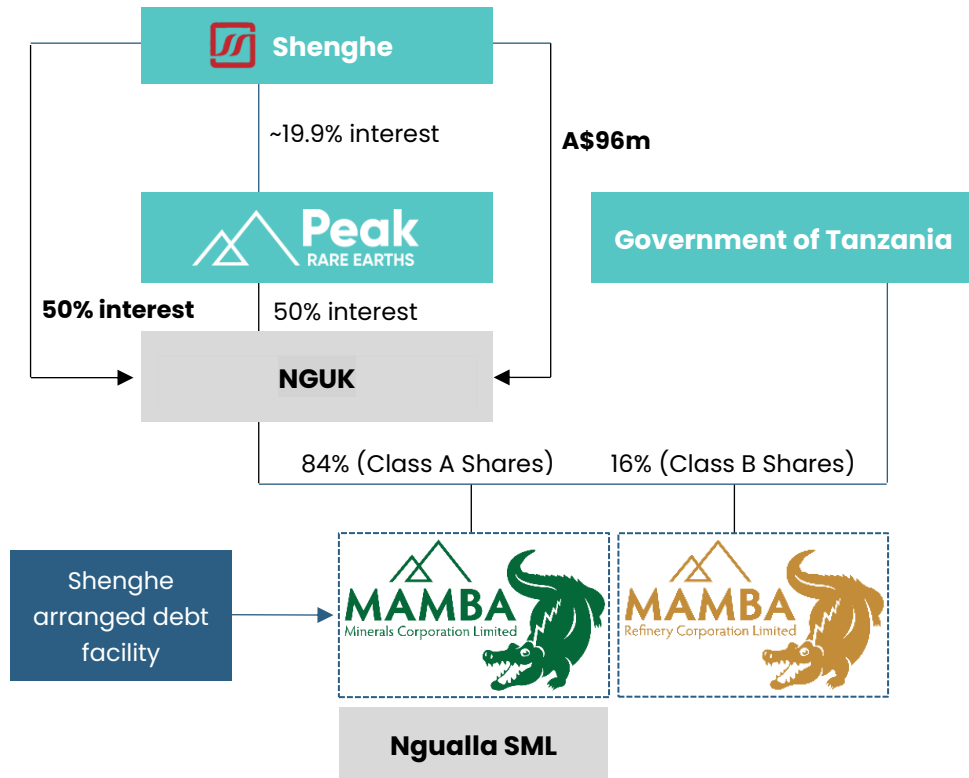
- **Engineering delivery solution** – Shenghe to participate in a broader EPC, EPCM or EPS tendering process. Any contract shall reflect reasonable industry terms and conditions and comply with all relevant Tanzanian legal requirements including competitive tendering, local content and foreign /local employment thresholds;
- **Engineering solution incentivisation** – in support of a material reduction in total capital costs, a Shenghe EPC, EPCM or EPS solution to include a combination of cost incentivisation and recovery payments covering³:
 - Incentivisation payments to Shenghe where total capital costs are below US\$220m and/or construction is completed within 18 months of a Final Investment Decision; and
 - Cost recovery payments from Shenghe where total capital costs exceed the FEED estimate of US\$287m and/or construction is completed after 18 months from a Final Investment Decision (subject to no external influences beyond Shenghe's control);
- **NGUK board representation** – Shenghe and Peak to each appoint two Directors to the Board of NGUK, such that the total number of Directors shall be four. Peak to appoint the NGUK Chair and in the case of a deadlock, have a casting vote;
- **Mamba board representation** – Peak and Shenghe to each have the right to appoint one Director to the Board of Directors of Mamba Minerals and Mamba Refinery. The Mamba Minerals and Mamba Refinery Chair to be appointed by NGUK in consultation with both Peak and Shenghe. Subject to Directors' and fiduciary duties, the Board appointees of Peak, Shenghe and NGUK shall vote in accordance with the instructions of NGUK;
- **Integrated Owner's Team** – the project Owner's Team to comprise suitably experienced individuals from Peak and Shenghe;
- **Pre-emptive rights** – industry standard right of refusal mechanisms to be included in the NGUK Shareholder's Agreement;
- **Downstream collaboration** – subject to regulatory approvals, Peak and Shenghe shall collaborate on the potential future development of Tanzanian downstream rare earth operations and refineries;
- **Term** – in the absence of execution of transaction documentation the Term Sheet to expire on 31 March 2025 unless mutually extended; and
- **Standstill period** – the existing standstill restrictions which limit Shenghe Singapore to a 19.9% interest in Peak shall be extended until 30 September 2027.

³ Further details are set out at the end of this announcement.



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Investment and funding structure



Timing and next steps

Peak and Shenghe have agreed to work collaboratively to further optimise the Ngualla Project and to expedite its development and construction.

The following target timeline has been agreed:

- Finalise transaction documentation and execution – September 2024;
- Shareholder meetings to approve the transaction (including under ASX Listing Rule 10.1) – October 2024; and
- Final Investment Decision – 31 December 2024.

This announcement is authorised for release by the Company’s Board of Directors.

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Forward-Looking Statements

This announcement contains forward-looking information and prospective financial material, which is predictive in nature and may be affected by inaccurate assumptions or by known or unknown risks and uncertainties and may differ materially from results ultimately achieved. Such forward-looking statements are expectations or beliefs of the Company based on information currently available to it. All references in this announcement, to potential financing arrangements should be read subject to this cautionary statement.

Implied Peak Valuation

The implied Peak valuation on a post-transaction basis is ~A\$0.36/share.

Supporting calculations:

- Shenghe subscribes for new shares in NGUK to acquire a 50% interest for total consideration of ~A\$96m
- Net impact of the transaction for Peak:
 - Its interest in NGUK falls from 100% to 50%;
 - Peak benefits from an effective 50% interest in NGUK's cash balance of ~A\$96m (i.e. ~A\$48m);
 - Implied valuation for 100% of NGUK is ~A\$96m; and
 - Implied valuation on a Peak per share basis is ~A\$96m / ~266.4m outstanding shares, which is ~A\$0.36/share.

EPC, EPCM and EPS incentivisation and recovery payments

Any EPC, EPCM or EPS ("EPC/M/S") contract with Shenghe should contain an incentivisation mechanism where Shenghe would receive incentive bonus payments linked to a reduction in capital costs and/or a shortening of the project development and commissioning schedule. The incentivisation payments are conditional upon a plant installed capacity commensurate with the FEED Study.

It is proposed that Shenghe would be entitled to the following EPC/M/S incentivisation payments in addition to a base EPC/M/S fee.

For the purposes of the following arrangements, Total Capital Costs include the total costs to develop the Ngualla Project including all cost categories that were referenced in the completed FEED Study estimate (inclusive of Owner's Costs and EPC/M/S base fees).

Cost incentivisation payments:

- A. Total Capital Costs greater than US\$220m – zero; plus
- B. Total Capital Costs between nil – US\$220m – 20% of ((x) US\$220m minus (y) the greater of (i) US\$200m or (ii) the total capital cost); plus
- C. Total Capital Costs between nil – US\$200m – 25% of ((x) US\$200m minus (y) the greater of (i) US\$180m or (ii) the total capital cost); plus
- D. Total Capital Costs between nil – US\$180m – 30% of ((x) US\$180m minus (y) the greater of (i) US\$160m or (ii) the total capital cost); plus
- E. Total Capital Costs between nil – US\$160m – 35% of ((x) US\$160m minus (y) the greater of (i) US\$140m or (ii) the total capital cost); plus
- F. Total Capital Costs between nil – US\$140m – 40% of ((x) US\$140m minus (y) the greater of (i) US\$120m or (ii) the total capital cost); plus
- G. Total Capital Costs between nil – US\$120m – 45% of ((x) US\$120m minus (y) the greater of (i) US\$100m or (ii) the total capital cost); plus
- H. Total Capital Costs below US\$100m – 50% of ((x) US\$100m minus (y) the total capital cost).



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Schedule incentivisation payments:

- A. Construction completed within 18 months of a Final Investment Decision ("FID") – 5% increase in the base EPC/M/S fee; and
- B. Construction completed within 12 months of a Final Investment Decision ("FID") – 7.5% increase in the base EPC/M/S fee.

In the event that total capital costs (inclusive of EPC/M/S costs) exceeds the FEED Study estimate of US\$287m and/or is subject to a delay in schedule, the EPC/M/S fee shall be reduced by the following price adjustment arrangements.

Cost recoveries:

- A. Total Capital Costs above US\$287m – 20% of (the lower of (x) US\$20m and (y) the amount by which the total capital costs is above US\$287m); plus
- B. Total Capital Costs above US\$307m – 25% of (the lower of (x) US\$20m and (y) the amount by which the total capital costs is above US\$307m); plus
- C. Total Capital Costs above US\$327m – 30% of (the lower of (x) US\$20m and (y) the amount by which the total capital costs is above US\$327m); plus
- D. Total Capital Costs above US\$347m – 35% of (the lower of (x) US\$20m and (y) the amount by which the total capital costs is above US\$347m); plus
- E. Total Capital Costs above US\$367m – 40% of (the lower of (x) US\$20m and (y) the amount by which the total capital costs is above US\$367m); plus
- F. Total Capital Costs above US\$387m – 45% of (the lower of (x) the total capital costs and (y) the amount by which the total capital costs is above US\$387m); plus
- G. Total Capital Costs above US\$407m – 50% of the amount by which the total capital costs is above US\$407m.

Schedule recoveries:

- A. Construction completed after 18 months but within 24 months of a Final Investment Decision ("FID") and subject to no material external factors beyond the control of Shenghe – 5% decrease in the base EPC/M/S fee; and
- B. Construction completed after 24 months of a Final Investment Decision ("FID") and subject to no material external factors beyond the control of Shenghe – 7.5% decrease in the base EPC/M/S fee.