

Talga Resources Ltd**ABN 32 138 405 419**1st Floor, 2 Richardson St,
West Perth, WA 6005

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www.talgaresources.com**Corporate Information**ASX Code **TLG**Shares on issue **181.9m**Options (unlisted) **23.3m****Company Directors****Keith Coughlan**

Non-Executive Chairman

Mark Thompson

Managing Director

Grant Mooney

Non-Executive Director

Stephen Lowe

Non-Executive Director

Jill Hewitt

Adviser, Listings Compliance (Perth)

ASX Compliance Pty Ltd

Level 40, Central Park

152-158 St Georges Terrace

Perth WA 6000

Dear Ms Hewitt

TALGA RESOURCES LTD (COMPANY OR TALGA OR ENTITY): ASX AWARE QUERY

1. We refer to ASX's letter to the Company dated 23 June 2016 in relation to the ASX aware query (**ASX Letter**), as enclosed with this letter.
2. Defined terms in this letter have the same meaning as in the ASX Letter unless otherwise indicated.
3. The ASX Letter requests that the Company respond to a number of questions relating to:
 - 3.1. The "Capital Raising" which is defined in the ASX Letter as:

"...the funding initiative by the Entity to raise gross proceeds of approximately \$10.87 million by way of:

 - 3.1.1. *a placement to raise approximately \$9.996 million to a small group of European investors; and*
 - 3.1.2. *a proposed entitlement issue (full terms and conditions contained in the Entity's announcement entitled "Entitlement Offer Prospectus" lodged with the ASX Market Announcements Platform and released at 9.31am (AEST) on Monday 20, June 2016."*
4. The ASX letter also refers to a variance in the Entity's share price of between \$0.255 to \$0.35 over a 9 day period between 7 June 2016 and 15 June 2016.

Background

5. The "European based investors" referred to in the Announcement conducted several months of due diligence on Talga which began around mid-April 2016 and culminated in the execution of binding placement letters on Friday, 17 June 2016.
6. At all times during the period in which due diligence was conducted there was high degree of risk that such process would



not culminate in an investment being made by any or all of the "European based investors".

7. On Wednesday, 15 June 2016 at approximately 4.00pm (AWST) (after the close of trading on ASX) the Company had a lengthy phone call with representatives from cornerstone investor, Smedvig (which was conducting the most detailed due diligence), to address various questions still outstanding from the due diligence process. At the conclusion of that call, there was no agreement that Smedvig (or any of the other "European based investors") would proceed with an investment in the Company.
8. It was not until a second call between the Company and representatives of Smedvig held at approximately 5.00 pm (AWST) on Wednesday, 15 June 2016, that the parties agreed to proceed with documenting the proposed investment.
9. Accordingly, the Trading Halt Request was made by the Company at 9.03am (AEST) on Thursday, 16 June 2016.
10. Placement letters were dispatched to the "European based investors" during Thursday, 16 June 2016.
11. Final executed placement letters were received by Talga after the close of trading on ASX on Friday, 17 June 2016.
12. The Announcement was released before the commencement of trading on ASX on Monday, 20 June 2016.
13. The process conducted with the European based investors was confidential and the Company has no reason to believe that any information relating to the proposed investment ceased to be confidential prior to the release of the Announcement on Monday, 20 June 2016.
14. Similarly, the due diligence process run by the Company and its legal advisors in relation to the proposed entitlement offer (**Entitlement Offer**) was confidential and the Company has no reason to believe that any information relating to the Entitlement Offer ceased to be confidential prior to the release of the Announcement on Monday, 20 June 2016. The due diligence process in relation to the Entitlement Offer commenced on or around 8 June 2016. At the time of commencement of the preparation for the Entitlement Offer there was no certainty that any transaction with the European based investors would proceed and the Board engaged in the due diligence process to ensure the Company would be in a position to launch the Entitlement Offer if a transaction with the European based investors was subsequently agreed and documented.
15. The Company notes that between 1 June 2016 and 17 June 2016, (which includes the period referred to in the ASX Letter in the context of the movement of the Company's share price from \$0.255 to \$0.35) the graphite sector rallied with share prices of numerous ASX listed graphite companies appreciating significantly. For example, during this period the share prices of the following ASX listed graphite companies increased by approximately 10% to 40%, in line with the gains experienced by Talga:
 - 15.1. KNL: 41%
 - 15.2. LML: 37%
 - 15.3. MNS: 16%
 - 15.4. SYR: 12%This sector wide performance may be related to a number of positive factors relevant to the sector during this period including but not limited to:
 - 15.5. Increased awareness of graphite as a critical battery supply chain mineral as result of Talga presentations made at certain investor and industry events such as the Benchmark Minerals world tour in the United Kingdom on 6 June 2016 and Germany on 9-10 June 2016.
 - 15.6. Media reporting of Tesla Motor Company CEO highlighting the scale of graphite required for lithium ion batteries in his quote "Our lithium ion batteries should be called Nickel-Graphite batteries." (for example, see <https://chargedevs.com/newswire/elon-musk-debunks-scare-stories-about-a-shortage-of-lithium/>).

- 15.7. Media reports of major automotive companies planning increases to electric vehicle production which suggests associated demand for graphite in lithium ion batteries powering said vehicles. (for example <http://electrek.co/2016/06/16/vw-2-3-million-all-electric-cars-2025/>).
- 15.8. Announcement of significant industry off-take agreement by graphite sector leader, Syrah Resources Limited (ASX: SYR dated 9 June 2016 entitled "SYR Signs 50KT Spherical Graphite Offtake with Marubeni").

Response to Questions in ASX Letter

Question 1

Does the Entity consider the information in the Announcement regarding the Capital Raising, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

16. Yes.

Question 2

If the answer to question 1 is "no", please advise the basis for that view.

17. N/A.

Question 3

When did Talga first become aware of information disclosed in the Announcement?

18. See paragraphs 5 to 14 above.

Question 4

If the answer to question 1 is "yes" and the Entity first became aware of the information disclosed in the Announcement regarding the Capital Raising, or any part thereof, before the Entity's Trading Halt Request, did the Entity make any announcement prior to this date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the Entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay?

19. See paragraphs 5 to 14 above.

20. Talga did not make an announcement regarding the Capital Raising prior to the Announcement (and was under no obligation to do so) due to the fact that prior to entering into the trading halt on Thursday, 16 June 2016, the proposed investors were still undertaking due diligence on the Company and its operations and there was no certainty that any transaction would proceed. It was not until Thursday, 16 June 2016 that documentation to effect the transaction was sent to the proposed investors and not until Friday, 17 June 2016 (after the close of trading on ASX) that all executed placement letters were received by Talga. In addition, it was not until the investment by the European based investors had been confirmed that the Board confirmed the Company would also proceed with the Entitlements Offer. Accordingly, it was only during the trading halt that the Capital Raising ceased to be an incomplete proposal. As stated in paragraphs 13 and 14 above, the Company has no reason to believe the information relating to the Capital Raising ceased to be confidential prior to the release of the Announcement on Monday, 20 June 2016. Finally, based on the sequence and facts described above, a reasonable person would not expect any information relating to the Capital Raising to be have been disclosed to the market prior to the release of the Announcement.

21. In order to manage its continuous disclosure obligations, Talga correctly entered into a trading halt on Thursday, 16 June 2016 while the investment by the European based investors was confirmed and documented, and the documentation relating to the Entitlements Offer was finalised and approved by the Company's Board.

Question 5

Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

22. The Company confirms that it is in compliance with the Listing Rules and its continuous disclosure obligations pursuant to Listing Rule 3.1.

Please contact me should you have any queries in relation to the above.



Yours sincerely

Dean Scarparolo
Company Secretary

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23 June 2016

Mr Dean Scarparolo
Company Secretary
Talga Resources Limited
First Floor, 2 Richardson Street
WEST PERTH WA 6005

By email: dean@talgaresources.com

Dear Mr Scarparolo

Talga Resources Limited (the "Entity"): ASX aware query

ASX Limited ("ASX") refers to the following:

1. The Entity's announcement entitled "Talga Benchmarks Minerals Tour London Presentation" lodged with the ASX Market Announcements Platform and released at 10.16 am (AEST) on Tuesday, 7 June 2016.
2. The change in the price of the Entity's securities from a closing price of \$0.255 on Tuesday, 7 June 2016 to an intra-day high of \$0.35 on Wednesday, 15 June 2016 and an increase in the volume of the Entity's securities traded over this period to a level in excess of the average trading volume on days when the Entity's securities are traded.
3. The Entity's request for a trading halt in its securities lodged with the ASX Market Announcements Platform and released at 9.03 am (AEST) on Thursday, 16 June 2016 ("Trading Halt Request").
4. The Entity's announcement entitled "\$10m strategic placement to European based investors" lodged with the ASX Market Announcements Platform and released at 9:30 am (AEST) on Monday, 20 June 2016 (the "Announcement"), disclosing details of a funding initiative by the Entity to raise gross proceeds of approximately \$10.87 million by way of:
 - a) a placement to raise approximately \$9.96 million to a small group of European investors; and
 - b) a proposed entitlement issue (full terms and conditions contained in the Entity's announcement entitled "Entitlement Offer Prospectus" lodged with the ASX Market Announcements Platform and released at 9.31 (AEST) on Monday, 20 June 2016), ("Capital Raising").
5. The increase in the price of the Entity's securities to an intra-day high and closing price of \$0.395 on Monday 20 June 2016, following the release of the Announcement.

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6. Listing Rule 3.1, which requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
7. The definition of "aware" in Chapter 19 of the Listing Rules. This definition states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity."

Additionally, you should refer to section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information"*.

8. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure, provided that each of the following are satisfied.

"3.1A Listing rule 3.1 does not apply to particular information while each of the following requirements is satisfied in relation to the information:

3.1A.1 One or more of the following applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed."

9. ASX's policy position on the concept of "confidentiality" which is detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "Listing Rule 3.1A.2 – the requirement for information to be confidential"*. In particular, the Guidance Note states that:

"Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the listed entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it ceases to be confidential information for the purposes of this rule."



Having regard to the above, we ask that you answer the following questions in a format suitable for release to the market in accordance with Listing Rule 18.7A:

1. Does the Entity consider the information in the Announcement regarding the Capital Raising, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
2. If the answer to question 1 is “no”, please advise the basis for that view.
3. When did the Entity first become aware of the information disclosed in the Announcement?
4. If the answer to question 1 is “yes” and the Entity first became aware of the information disclosed in the Announcement regarding the Capital Raising, or any part thereof, before the Entity’s Trading Halt Request, did the Entity make any announcement prior to this date which disclosed the information? If so, please provide details. If not, please explain why this information was not released to the market at an earlier time, commenting specifically on when you believe the entity was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps the Entity took to ensure that the information was released promptly and without delay.
5. Please confirm that the Entity is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than 1.00pm WST on Monday, 27 June 2016. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity’s securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent by e-mail to tradinghaltspert@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities. Exceptions to this requirement are set out in Listing Rule 3.1A.



The obligation of the Entity to disclose information under Listing Rules 3.1 and 3.1A is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

In responding to this letter, you should have regard to the Entity's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in the Entity's securities under Listing Rule 17.1.

If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 Trading Halts & Voluntary Suspensions.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

Jill Hewitt
Senior Adviser, Listings Compliance (Perth)