

## ASX ANNOUNCEMENT

23 July 2018

### BINDING HEADS OF AGREEMENT FOR COBALT PRODUCTION JOINT VENTURE



Figure 1: The Luapula Processing Facility located in Likasi in the Democratic Republic of Congo

- **Heads of Agreement executed with African Holding Investment Company Limited and Societe Luapula SARL for Winmar to hold a 50% interest in the Luapula Cobalt Processing Facility located near the town of Likasi in Haut-Katanga Province, the Democratic Republic of Congo**
- **The Luapula Processing Facility was constructed in 2014 at a reported cost of US\$80m and is a conventional copper-cobalt leaching plant built on a 125,000m<sup>2</sup> area and with a design throughput of 250,000tpa of run-of-mine feed, with capacity to produce up to 12,000tpa of high grade concentrates, comprising a high grade, 30%-40% cobalt hydroxide product and a 15%-20% copper hydroxide product for sale into the international markets**
- **Independent audit review and process facility assessment completed in May 2018 has confirmed the Luapula Processing Facility's operating capabilities and technical fundamentals**
- **Independent review included a detailed capital, working capital and operating cost analyses and scheduling, that has demonstrated that an US\$0.5m upgrade of the crushing and leaching circuit is required. This work is to be completed over a 4-6 month period**
- **Detailed engineering and scheduling work has now commenced with key project management and metallurgical consultants appointed in Australia and the DRC to oversee the capital works**
- **Heads of Agreements also executed for the acquisition of a portfolio of several exploration licenses that are located close to the Luapula Processing Facility and are considered suitable by the Company's technical consultants to potentially supply the run-of-mine feed**
- **All technical and legal due diligence work has now been completed on both the exploration licenses and Luapula Processing Facility by the Company's management and consultants**

- Winmar to appoint a leading international consultancy group to ensure its cobalt production practices are aligned with relevant international standards to provide confidence to all its stakeholders and offtakers and financiers, that its cobalt has been responsibly and ethically produced
- Under the terms of the binding Heads of Agreement with AHIC, Winmar retains the sale and marketing rights to 100% of any future cobalt and copper concentrate production
- The Company's strategic advisor, Airguide International Pte Limited, has commenced initial discussions with European and Chinese based global trading and commodities groups in respect to a potential cobalt and copper offtake agreement and associated cash prepayment
- Consideration for the 50% interest in the Luapula Cobalt Processing Facility to comprise US\$5.5m in reimbursements of historic development expenditure and 100m shares to be issued upon execution of the Joint Venture and Development Agreement, and a further 100m shares to be issued on the commencement of production and 100m shares upon the Luapula Cobalt Processing Facility exceeding 1,000t of contained cobalt in concentrate sales
- A further US\$1.2m in reimbursements of historic exploration and development expenditure is to be paid to acquire the 100% interest in the exploration licenses, with 20m shares to be issued upon the transfer of the licenses to Winmar and an amount of US\$15/t of ore mined to be paid upon production commencing
- To fund the up-front acquisition costs and initial capital and working capital requirements of the Luapula Processing Facility and exploration and development activities on the licenses, the Company is proposing to complete a capital raising to raise A\$8.0m
- Winmar has already received firm over-commitments for the capital raising, from institutional and sophisticated investors, at the last closing price prior to the trading halt, of A\$0.024 per share. The capital raising will be finalised on completion of the acquisitions
- On completion, the acquisitions will amount to a significant change in the nature and scale of Winmar's current activities and as such, Winmar has been advised that it will be required to satisfy Listing Rules 11.1.2 and 11.1.3 and obtain approval from its shareholders, and to re-comply with Chapters 1 and 2 of the ASX Listing Rules in order to complete the acquisitions

Winmar Resources Ltd (**Winmar** or the **Company**) (**ASX:WFE**) is pleased to announce that it has entered into a binding Heads of Agreement with African Holding Investment Company Limited (**AHIC**), to establish a new 50/50 joint venture to operate the existing Luapula Processing Facility located near the town of Likasi in the Democratic Republic of Congo (**DRC**).

In addition, Winmar has entered into two further binding Heads of Agreement to acquire a portfolio of highly prospective cobalt exploration licenses which the Company will aim to develop to provide run-of-mine feed for the Luapula Cobalt Processing Facility. The Company continues to review other acquisition opportunities including nearby cobalt tailings projects and the purchase of third party high-grade cobalt feed.

Winmar considers the acquisitions, which are conditional upon obtaining shareholder approvals and recompliance with Chapters 1 and 2 of the ASX Listing Rules, to be an exciting opportunity for its shareholders, and one which has the potential to transform the Company as it aims to become one of the world's leading, publicly listed, primary producers of high grade cobalt concentrates.

The Company has completed its legal and technical due diligence work on the exploration licenses, and detailed exploration planning and budgets finalized. An experienced exploration and mine development team is ready to commence activities on completion of the acquisitions.

In addition, the Company has completed its legal due diligence and an independent audit of the Luapula Processing Facility including a detailed capital, working capital and operating cost analyses and scheduling, that has set out the basis upon which Winmar may proceed with a forecast US\$0.5m capital upgrade program to process potential economic mineralisation defined from the Company's to be acquired exploration licenses.

Under the terms of the various Heads of Agreement, new subsidiary companies are to be established in the DRC to hold Winmar's 100% interests in the exploration licenses and a new joint venture company and Joint Venture and Development Agreement to be established and executed with AHIC, setting out the role of Winmar as the future operator and manager of the Luapula Processing Facility, and with the aim of commencing processing operations at the Luapula Processing Facility from material from the Company's exploration licenses and other potential tailings projects.

The Company is well advanced with the appointment of a leading international consultancy group to provide confidence to all its stakeholders, that its potential production of cobalt has been responsibly and ethically produced and addresses the significant and growing concerns from downstream consumers of cobalt, about the risks of cobalt production in the DRC being associated with adverse impacts.

In this regard, Winmar will develop and implement cobalt sourcing and production practices that are aligned with relevant international standards, in particular, the *OECD Due Diligence Guidance for Responsible Mineral Supply Chains in Conflict-Affected and High-Risk Areas* (the OECD Guidance) and will ensure independent monitoring of performance and communication on responsible sourcing matters to key stakeholders. Winmar is committed to develop a traceable chain of custody system that enables 'responsibly produced' cobalt from Winmar's operations to be tracked and traced through the cobalt value chain to downstream companies.

The Company's Chairman, Mr Jason Brewer commented:

*"the completion of the acquisition of the large portfolio of exploration licenses and the establishment of the new production focused cobalt joint venture, which will include assuming management and operation of the Luapula Processing Facility, will allow Winmar to rapidly deliver on a DRC focused cobalt strategy that has the potential to position us as we aim to be a future major primary cobalt producer."*

The Company securities will continue to remain in voluntary suspension, following the release of this announcement. The Company is preparing a more detailed announcement on the acquisitions and to satisfy ASX that all relevant information required under *Guidance Note 12: Change to Activities* has been announced to the market. This announcement will be released as soon as possible in consultation with ASX. Once released, it is anticipated that the Company's shares will continue to trade until shareholders approve the acquisitions.

## **1. LUAPULA PROCESSING FACILITY**

The Luapula Processing Facility is located on the outskirts of the DRC Copperbelt town of Likasi. It has been constructed on Land Plot 2008-2040 on an area of 125,000m<sup>2</sup>.

Likasi is located in the heart of the DRC Copperbelt, mid-way between the main mining towns of Kolwezi to the west and Lubumbashi to the south-east. Likasi is the technical headquarters for DRC state copper and cobalt mining company, La Générale des Carrières et des Mines (**Gécamines**).



**Figure 2:** Location of the exploration licenses and Luapula Processing Facility in the centre of the DRC Copperbelt, the world's largest cobalt producing region.



**Figure 3:** The Luapula Processing Facility located in Likasi in the Democratic Republic of Congo

The processing facility is approx. 400m off Route Nationale N1, the country's main roadway which links the capital Kinshasa to its second largest city Lubumbashi.

The Luapula Processing Facility was constructed in 2014 at a reported cost of US\$80m. It is a permitted, conventional copper-cobalt leaching plant, built with a design throughput of 250,000tpa of run-of-mine feed and capacity to produce up to 12,000tpa of a high grade, 30%-40% cobalt hydroxide product and a 15%-20% copper hydroxide product for sale into the international markets.

The Luapula Processing Facility has been designed with 7 distinct processes/sections:

- ROM feed and primary and secondary crushing circuit
- Milling and slurry storage circuit
- Leaching and solid-liquid separation circuit
- Final product drying section
- Leach tailings storage section
- Utility and services



**Figure 4, 5 and 6: The Luapula Processing Facility Milling and Slurry Storage Sections**



**Figure 7, 8 and 9: The Luapula Processing Facility Leaching and Leach Filter Sections**



**Figure 10, 11 and 12: The Luapula Processing Facility Precipitation Section**



**Figure 13, 14 and 15: The Luapula Processing Facility Warehouse and Product Stockpiling**



**Figure 16, 17 and 18: The Luapula Processing Facility Offices and Accommodation**

The Luapula Processing Facility was initially operated to produce a predominantly copper hydroxide concentrate that was sold into the domestic and international markets. 100% of the ore feed to the facility was previously purchased from third parties, including local Congolese mining companies and co-operatives.

In late 2016, AHIC elected to cease production of copper concentrates and complete further feasibility study work on process flowsheet upgrades to produce a high grade cobalt hydroxide saleable product for the international markets and the establishment of a SX-EW process to produce copper cathodes, also for sales into the international markets.

Winmar's technical consultants and management have completed a review of the Luapula Processing Facility and feasibility study work that has been completed to date.

In May 2018, the Company appointed DRC based metallurgical consultants Groupe EJKK (**EJKK**) to complete an independent audit and assessment of the Luapula Processing Facility.

EJKK are a well-established and highly experienced independent consultancy group based in the DRC, with a particular focus on copper-cobalt extraction plants and the production of cobalt hydroxide concentrates and production of copper cathodes by electro-winning processes.

The independent audit and assessment completed by EJKK, included several site visits, a full audit of the processing facility and installed plant and equipment to determine its operating capabilities.

It further included a detailed capital, working capital and operating cost analyses and scheduling of the work required to re-commence operations and complete a US\$0.5m upgrade of the crushing and leaching circuit in order for the Luapula Processing Facility to operate at sustained levels to process 250,000tpa of run-of-mine feed with the capacity for initial production of 8,000tpa of high grade concentrates rising to 12,000tpa of a high grade cobalt hydroxide product at grades of 30% - 40% Co and a copper hydroxide product at grades of 15% - 20% Cu.

The audit review and process facility assessment confirmed the Luapula Processing Facility's operating capabilities and robust financial and technical fundamentals.

It has further confirmed the low capital costs to recommence operations and forecast operating costs and a 4 to 6 month timetable to complete the recommended capital upgrades necessary to recommence production of high grade cobalt hydroxide.

## **2. EXPLORATION LICENSES AND COBALT TAILINGS PROJECT ACQUISITIONS**

The Company has executed two binding Heads of Agreement with Congolese companies for Winmar to acquire 100% interests in 6 granted and contiguous Exploration Licenses located on the DRC Copperbelt and in close proximity to the Luapula Processing Plant.

These licenses which extend over approx. 500km<sup>2</sup> are underlain by the main Roan Group which is the host to a number of large sediment-hosted copper-cobalt deposits located along structures to the west and east of the license areas.

The licenses are at various stages of exploration and development, with historical exploration activities including airborne geophysics, geochemical surveys, detailed geological mapping, trenching and pitting and both RC and DD drilling programs.

This historical work has defined several project areas where the Company's consultants have proposed further activities. Winmar aims to undertake resource definition work, including metallurgical bulk sampling and mine planning to establish a JORC (2012) compliant resource.

These license areas are also subject to current artisanal cobalt and copper mining activities that have extended over a number of major structures identified on the license areas.

The Company is further completing legal and technical due diligence on a number of nearby cobalt tailings projects. A review of the historical records of the tailings dams, including volumes and cobalt and copper grades of the material deposited in the tailings are underway and being assessed. Surveys of the tailings dams are underway, as is sampling and metallurgical testwork. Detailed resource definition drilling programs, budgets and schedules have also been prepared.

In addition, the Company has commenced early stage negotiations for the supply of third party feed to the Luapula Processing Facility. The Company seeks to acquire feed at a rate of 10,000t per month and at grades of approx. +1.00% Cobalt. In the event that these negotiations are successful, the purchase of this material will be subject to it meeting the Company's cobalt responsible sourcing policies and production practices that it is in the process of implementing.

The exploration licenses secured under the Binding Heads of Agreements and material from the tailings projects under review are considered suitable by the Company's technical consultants to potentially supply 100% of the run-of-mine feed to the Luapula Processing Facility.

### **3. COBALT OFFTAKE AND PRE-PAYMENT FUNDING**

The Company is working with its Strategic Advisor, Airguide International Pte Limited (**Airguide**) in order to develop and finalise a cobalt and copper concentrates offtake and related prepayment funding strategy for the Luapula Processing Facility.

Singapore-based Airguide has a proven track record of successfully advising ASX-listed battery materials companies with regard to investment funding and off-take partnerships in China. Airguide's principals have been actively involved in the China commodity space for more than 15 years and the global industry for more than 20 years individually. In that time, they have established a clear track record for investing-in and advising companies across multiple commodities with respect to successfully completing agreements for off-take, joint-venture partnerships and investment.

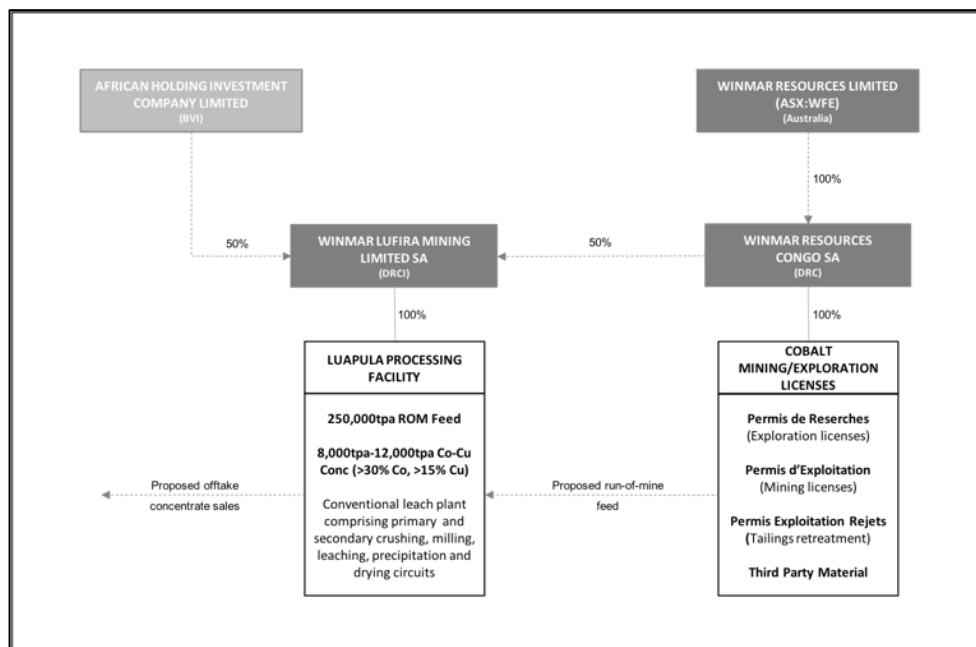
Airguide has commenced discussions with a number of European and Asian based global commodity trading groups and end-users of cobalt in this regards. Meetings with a number of these groups has taken place in China, Europe, South Africa and the DRC, and several technical site visits already completed to the Luapula Processing Facility and Exploration Licenses.

### **4. KEY TERMS OF THE TRANSACTION AND HEADS OF AGREEMENTS**

The Company has entered into a binding Heads of Agreement with AHIC, the 100% shareholder and the sole legal and beneficial owner of the Luapula Processing Facility and associated plant and equipment.

AHIC was established in 2008 and holds interests in a number of mining, construction and trading businesses in the DRC and throughout Africa and the Middle East. AHIC holds its interest in the Luapula Processing Facility through a wholly owned DRC subsidiary, Luapula.

Under the terms of the HOA, Winmar will acquire a 50% interest in a new joint venture company, Winmar Lufira Mining Limited SA, to be established and which will include the Luapula Processing Facility.



**Figure 19:** Proposed new cobalt production joint venture structure between Winmar and AHIC

Winmar will be the operator and manager of the new joint venture company and will aim to supply the run-of-mine feed from its 100% hard rock or tailings licenses and where applicable third party material to the Luapula Processing Facility.

Winmar will also have the sale and marketing rights to 100% of any cobalt and copper concentrate production from the Luapula Processing facility.

Winmar will be further responsible for 100% of the cost associated with the re-commencement of operations at the Luapula Processing Facility, including all capital and working capital costs. Winmar will further meet the costs of the optimisation work and Feasibility Study for the expansion of the Luapula Processing Plant to a throughput of 1Mtpa.

Winmar is responsible for securing the ore feed and any related exploration costs in bringing any cobalt mining operations into production. To achieve this Winmar has entered into binding Heads of Agreements with Mr Albert Kampangwe (**Kampangwe**) and Muya Resources Limited (**Muya**) for the acquisition of 100% interests in six granted Exploration Licenses located within 30km of Likasi and within 5km of the Luapula Processing Plant.

## 5. CONSIDERATION

Winmar is required to make a US\$5.5m cash payment comprising reimbursement of development expenditure to acquire the 50% interest in the Luapula Cobalt Processing Facility and new joint venture company, on execution of the Joint Venture and Development Agreement and receipt of all shareholder, governmental and regulatory approvals.

In addition, Winmar will pay AHIC a royalty on sales revenue of between 1% and 3%, depending on the prevailing LME cobalt price, in Years 1 to 3 and royalty on sales revenue of between 1% and 2%,

depending on the prevailing LME cobalt price, in Years 4 to 10 and 1% for years 11 to 15. The Company retains the right to pre-pay the royalty in years 11 to 15 by making a single cash payment of US\$9.5m at anytime during the first 12 months of the joint venture, subject to the application of the ASX Listing Rules and shareholder approval, if required.

In addition, the following share based payments are also to be paid in respect to the acquisition of the 50% interest in the Luapula Cobalt Processing Facility and new joint venture company:

- (a) 100m fully ordinary shares issued on execution of the Joint Venture and Development Agreement;
- (b) 100m fully ordinary shares issued on the commencement of concentrate sales by the new joint venture company; and
- (c) 100m shares fully ordinary shares issued on the new joint venture company reaching 1,000t of contained cobalt in concentrate sales

The issue of the shares will also be subject to receipt of any regulatory and shareholder approvals and may be subject to ASX escrow.

Winmar is also required to make cash payments of US\$1.25m comprising the reimbursement of exploration and development expenditures or the acquisition of the 100% interest in the six Exploration Licenses from Kampangwe and Muya, with approx. US\$1.0m on completion of the acquisitions and US\$280,000 three months after execution of a sale and purchase agreement with Kampangwe. Further milestone based consideration, includes the issue of 20m shares (which may be subject to ASX escrow) on the commencement of mining on any of the Exploration Licences and the payment of an amount of US\$15 per tonne of ore mined from the Exploration Licences.

## 6. CAPITAL RAISING

To fund the up-front acquisition costs and initial capital and working capital requirements of the Luapula Processing Facility and the acquisition costs and exploration and development activities on the Exploration Licenses, the Company is proposing to complete a capital raising to raise A\$8.0m by way of the issue of 333,333,333 new shares in the Company at the last closing price prior to the trading halt, of A\$0.024 per share (**Capital Raising**).

Winmar has already received firm over commitments for the Capital Raising from institutional and sophisticated investors, including commitments from the Company's Chairman for A\$0.5m and the Company's strategic advisor Airguide and its principals for A\$1.7m.

The Company will seek shareholder approval for the issue of the shares under ASX Listing Rules 7.1 and 10.11.

The new shares will rank equally with all existing fully paid ordinary shares on issue.

The Capital Raising is being managed by Sixty Two Capital Pty Ltd (**62 Capital**). The Company and 62 Capital entered into a formal mandate agreement under which 62 Capital will be paid a total fee of 6% of moneys raised.

Shares will be issued to participants in the Capital Raising upon the Company satisfying Listing Rules 11.1.2 and 11.1.3 and obtaining approval from its shareholders for the proposed acquisitions and joint venture, and any applicable ASX waivers.

## 7. FURTHER EXTENSION OF VOLUNTARY SUSPENSION

The Company requests that its voluntary suspension be extended to allow the Company sufficient time to prepare a more detailed announcement on the acquisitions and to satisfy ASX that all relevant information required under *Guidance Note 12: Change to Activities* is provided.

The Company advises:

1. The voluntary suspension is necessary to assist the Company in managing its continuous disclosure obligations.
2. The Company requests that the voluntary suspension remain in place until the earlier of the commencement of normal trading on Monday, 6 August 2018, or when the announcement is released to the market.
3. The Company anticipates making the announcement prior to the commencement of normal trading on Monday, 6 August 2018.
4. The Company is not aware of any reason why the voluntary suspension should not be granted.

Ms Nicola Betteridge

**Company Secretary**

Winmar Resources Limited

+61 (0)2 8016 2833

[nicola.betteridge@boardroomlimited.com.au](mailto:nicola.betteridge@boardroomlimited.com.au)