



ABN 81 125 176 703

17 October 2018

Mr Ben Secrett
Senior Advisor, Listings Compliance (Perth)
ASX Compliance Pty Limited
Level 40, Central Park
152-158 St George's Terrace
Perth WA 6000

Via email: Ben.Secrett@asx.com.au

Dear Ben,

AVZ Minerals Limited - ASX Query Letter

AVZ Minerals Ltd (ASX: **AVZ**) ("the Company") refers to your Query Letter dated 10 October 2018 and provides the following responses:

1. Please advise who wrote the content of the Interview?

The article was a transposition of a telephone interview and Mr Ferguson was asked a question in respect of potential offtake arrangements in addition to other questions. The content was written by an independent GBR business journalist.

2. Did AVZ commission any consultants or advisers to arrange the interview content? If so, please set out who was engaged in this regard.

No consultant, nor advisor was engaged by AVZ.

3. Did the board of directors of AVZ approve the content of the Interview?

The Board of Directors did not formally approve the content of the interview (nor was it necessary to do so) as it was undertaken as a telephone interview and responses provided by the Executive Director during that interview. It was made by the Executive Director as an officer of AVZ with delegated authority from the Board of Directors.

4. Please explain the basis for Mr Ferguson's statement that a 20% offtake would translate into US\$30 million and US\$70 million and set out why this option was not addressed in the Scoping Study. In answering this question you should have regard to ASIC RG 170.

The question was answered by Mr Ferguson in the context of 3 potential options being considered by the Company to take the project into production, options consistent with the recent announcement by AVZ relating to funding for the project and comments within the Scoping Study announcement on 9 October 2018. Mr. Ferguson did make a comment in relation to an option being explored of a

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potential capital raising and offtake arrangement of 20% for a total of between say US\$30 million to US\$70 million (to the best of his knowledge, Mr Ferguson did not use the word “and”), however this comment was made based on what AVZ would like to achieve, it was not a definitive statement about pricing nor an amount. Importantly, the comment was not that a “20% offtake would translate into US\$30 million and US\$70 million”, the comment was considering an option of a funding package of equity and offtake of 20% in that range.

In broad terms, the option of equity and to sell offtake has been included in the recent Scoping Study release, as described in the section on “Project Funding”. This is set out below with an extract from the release and our underlining to reflect the reference to the comments made in the interview:

- “A mix of debt, equity and off-take financing is the Company’s most likely funding model. AVZ has an active ongoing dialogue with potential financing and investment partners and continues to receive unsolicited expressions of interest with regard to assisting the Company with its financing needs. These parties include substantial mining funds and companies including global diversified Chinese companies, Chinese off-take parties and Sub Continent interests. AVZ still has live MoU’s with Guangzhou Tinci Materials Technology Co and Beijing National Battery Technology Co that remain in discussion with AVZ on the project.
- The Company is also able to pursue other methods of value realisation to assist funding the project, such as a partial sale of the asset, long term offtake and joint venture arrangements.
- The Company previously rejected funding based on providing off take of product being mindful of the need for economic value to be ascribed to the project and the dilutive effect on shareholders at that time. The Company can now engage in discussions with potential off-takers for advanced funding based on securing long term off-take for product given the project economics.
- Announcement of the project financial metrics in this report can now allow AVZ to advance discussions with selected potential customers. AVZ believes these advances in the Manono project firmly underpin a more favourable climate to engage with and conclude, binding off take arrangements.”

Furthermore, and as also set out in the Scoping Study announced on 9 October 2018, the context of the comment of US\$30M to US\$70M was based on several other companies within Australia, at a similar stage in development having been successful in raising capital and selling offtake for similar amounts. By way of example, Pilbara Minerals with funding of up to US\$100M of debt and or prepayments from Gangfeng Lithium and Great Wall and an equity arrangement with POSCO for A\$80M, Kidman Resources which entity has entered into offtake agreements with Tesla and earlier into a Joint Venture (“JV”) with SQM whereby Kidman received US\$25M and the JV received US\$60M of funding, and Argosy Minerals which entity has had several financings and offtake arrangements with Qingdao Qiabyun High Tec New Material Co.

However, the statement made in relation to the potential offtake values is not consistent with the detailed disclosures required to form a reasonable basis in accordance to ASIC RG 170.

5. Please explain the basis for Mr Ferguson’s statement AVZ could sell the northern half of the project for US\$250 million - US\$350 million and set out why this option was not addressed in the Scoping Study. In answering this question you should have regard to ASIC RG 170.

In terms of an additional comment about a further option being the potential sale of part of the project, the selling price noted was purely as an example on a what if basis and was the posing the question as “If AVZ could sell...then...”. That is, if for example half of the project could be sold for US\$250m – US\$300m then the Company would be able to use those funds for the capital expenditure, be debt free and shareholders would suffer no dilution.

Again, this was a possible option and was included in the recent Scoping Study release within the section on "Project Financing" albeit, without the example figures. This is set out below with an extract from the release and our underlining to reflect the reference to the comments made in the interview:

- "The Company is also able to pursue other methods of value realisation to assist funding the project, such as a partial sale of the asset, long term offtake and joint venture arrangements.
- Other companies at a similar stage in development have been able to raise similar amounts of capital in recent capital raisings. This includes Galaxy Resources through the sale of a portion of their Argentinian Salar del Hombre Muerto licences for US\$280m to fund the remaining licences and other operations within the group; Pilbara Minerals with funding of up to US\$100M of debt and or prepayments from Gangfeng Lithium and Great Wall and an equity arrangements with POSCO for A\$80M and Kidman Resources entered into offtake agreements with Tesla and earlier into a Joint Venture ("JV") with SQM whereby Kidman received US\$25M and the JV received US\$60M of funding, and Argosy Minerals have had several financings and offtake arrangements with Qingdao Qiabyun High Tec New Material Co."

However, the statement made in relation to the potential sale values of the asset is not consistent with the detailed disclosures required to form a reasonable basis in accordance to ASIC RG 170.

6. When did AVZ first become aware of the Relevant Information?

The Relevant Information you refer to are the comments in the interview, and it is not a case of becoming "aware" of this information given that these comments were made in the actual interview and are merely examples of funding options being considered by AVZ.

7. Does AVZ consider the Relevant Information to be information that a reasonable person would expect to have a material effect on the price or value of its securities?

Our comments in respect of our answer to question 6 applies to this question.

8. If the answer to question 2 is "no", please advise the basis for that view.

Not applicable.

9. If the answer to question 2 is "yes" and AVZ first became aware of the Relevant Information before the Relevant Date, did AVZ make any announcement prior to the Relevant Date which disclosed the Relevant Information? If so, please provide details. If not, please explain why the Relevant Information was not released to the market at an earlier time, commenting specifically on when you believe AVZ was obliged to release the Relevant Information under Listing Rules 3.1 and 3.1A and what steps AVZ took to ensure that the Relevant Information was released promptly and without delay.

Not applicable

10. Please confirm that AVZ has released an announcement which retracts any reference to potential offtake values and potential sale values.

AVZ confirms that an announcement has been released to retract the references to potential offtake values and potential sale values

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

The Company confirms it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

12. Please confirm that AVZ's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AVZ with delegated authority from the board to respond to ASX on disclosure matters.

The Company confirms that its response has been authorised and approved by officers of the Company that have delegated authority from the Board to respond to ASX disclosure matters.



10 October 2018

Leonard Math
AVZ Minerals Limited
Level 2, 389 Oxford Street
MOUNT HAWTHORN WA 6016

By email

Dear Mr Math

AVZ MINERALS LIMITED (“AVZ”): QUERY LETTER

ASX Limited (“ASX”) refers to the following.

- A. An interview transcript between Nigel Ferguson and Global Business Reports dated 24 September 2018 about AVZ (“Interview”), not released to the ASX Market Announcements Platform, which among other things contains the following statements:

“Are you looking at the potential for offtake agreements?”

So far, we have stayed in full ownership, but to get the project into production we have to consider this option. One pathway is a traditional debt/equity model, and the second is to take onboard a partner. We are in discussions with several Chinese groups about taking an investment in the company. We are talking about a premium to share price, and a 20% offtake would translate into between US\$30 million and US\$70 million into the company. The third and final option would be to sell half of the asset. For example, we could sell the northern half of the project for US\$250m-US\$300m and funnel the profit back into the remaining side. If choosing the latter, we could be debt-free – no dilution.

Which option is most attractive to you at the moment?

At the moment, our primary option is a Chinese offtake, the reason being the possibility of a full buy-out in the future. We have a few leading prospects; one that could be considered a multinational engineering firm, hence capable of providing us with the earth-moving equipment and construction assistance, and another is a multinational mining company with a number of current projects in the DRC. The third alternative is an electronics firm without any mining experience but interested in moving into lithium. The company wishes to build their upstream capacity and is debating the construction of a hydroxide plant. This would be an excellent option for us if we aspire to it.”

(“Relevant Information”)

- B. AVZ’s announcement entitled ‘Scoping Study Highlights Strong Economic Potential of Manono’ and released on the ASX Market Announcements Platform on 9 October 2018 (“Scoping Study”).

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C. ASIC's Regulatory Guide 170: Prospective financial information, in particular:

RG 170.11 - We believe the general test of whether prospective financial information must be disclosed is whether it is:

- (a) *relevant to its audience; and*
- (b) *reliable (i.e. there must be a reasonable basis for it: see GIO Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd (1998) 29 ACSR 584).*

RG 170.17 - *The making of a statement that contains prospective financial information (i.e. a forward-looking statement) must have reasonable grounds or it will be taken to be misleading under s728(2) or 769C of the Corporations Act. What are 'reasonable grounds' should be determined objectively in light of all of the circumstances at the time of the statement, so that a reasonable person would view as reasonable the grounds for the statement.*

RG 170.18 - *We consider that prospective financial information based on hypothetical assumptions (rather than reasonable grounds) is likely to be misleading and provide little information value to investors. In our view, prospective financial information without reasonable grounds is not material to investors, nor would an investor reasonably require it or reasonably expect to find it in a disclosure document or PDS.*

RG 170.41 - *We generally consider that prospective financial information for a period of more than two years may require independent or objectively verifiable sources of information to establish that there are reasonable grounds to provide it. However, for an existing business preparing a statement on estimates for up to two years, we will generally not regard as necessary independent verification if there otherwise appear to be reasonable grounds to make the statement. Directors should state why they believe the information is objectively reasonable. We may still take action on a statement on estimates for up to two years if we believe there are no reasonable grounds to provide it.*

RG 170.42- *The reasonable grounds requirement means that there should be a relevant factual foundation for the prospective financial information and that the information is not contrived: see George v. Rockett (1990) 170 CLR 104 and Re Aldred & Dept of the Treasury (1994) 35 ALD 685.*

RG 170.50 - ***The general principles in this regulatory guide also apply to advertising because of the interaction of s769C and 1041H.*** [emphasis added]

Section 769C states:

For the purposes of this Chapter, or of a proceeding under this Chapter, if:

- (a) *a person makes a representation with respect to any future matter (including the doing of, or refusing to do, any act); and*
- (b) *the person does not have reasonable grounds for making the representation; the representation is taken to be misleading.*

Section 1041H states:

A person must not, in this jurisdiction, engage in conduct, in relation to a financial product or a financial service, that is misleading or deceptive or is likely to mislead or deceive.



RG 170.59 - Investors should be given enough information to enable them to:

- (a) assess whether the prospective financial information is relevant and reliable (i.e. to form their own view about how reasonable the grounds are for making the statement); and
- (b) identify with certainty the facts and circumstances that support prospective financial information, as well as being able to demonstrate that the information is reasonable.

RG 170.61 - A disclosure document or PDS must specifically disclose any assumptions used in compiling prospective financial information that materially affect the forecast outcome. The assumptions should be detailed and specific enough to enable the investor to work through all of the prospective financial information. This may require details about how returns are calculated during each year that the information covers. Among other things, assumptions about expenditures, revenues, inflation rates and other such variables should be clearly disclosed and highlighted if different assumptions have been used for different parts of the term that the prospective financial information covers.

RG 170.62 Investors must be able to assess:

- (a) the validity of the assumptions on which the prospective financial information is based;
- (b) the likelihood of the assumptions actually occurring; and
- (c) the effect on the prospective financial information if the assumptions vary.

RG 170.63 - We expect a disclosure document or PDS to disclose material assumptions about:

- (a) specific future economic conditions; and
- (b) particular circumstances affecting a company or financial product and the industries relevant to that company or financial product.

RG 170.64 - Disclosure of the material assumptions allows an investor or adviser to make an informed assessment of an issuer's prospects, or a person as a retail client to make an informed decision whether to acquire the product.

RG 170.65 - An assessment of the impact of these assumptions on prospective financial information should also be included. However, a disclosure document or PDS does not have to:

- (a) state general assumptions, such as the absence of war or natural disasters, unless the forecast takes these events into account; or
- (b) disclose assumptions that would not materially affect the prospective financial information.

RG 170.66 - It is not sufficient to state the general nature of an assumption. Specific quantities or amounts should be set out. For example, it may not be sufficient to state that prospective financial information is based on an anticipated recovery in equity markets, without setting out the amount of the required recovery: see *GIO Australia Holdings Ltd v. AMP Insurance Investment Holdings Pty Ltd* (1998) 29 ACSR 584.

RG 170.67 - We consider that because the presence or absence of reasonable assumptions is a factor in any determination of whether an issuer has satisfied the relevant disclosure obligation, the basis for the assumptions underlying the prospective financial information should be stated in the disclosure

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document or PDS in order that an investor has some means of assessing that information: see *Miba Pty Ltd v. Nescor Industries (1996) 141 ALR 525* and *Wesfi Ltd v. Blend Investments Pty Ltd (1999) 31 ACSR 69*.

RG 170.68 - *Disclosure of the basis for prospective financial information may reduce the capacity of the information to mislead because such disclosure assists the assessment/decision of an investor or retail client.*

RG 170.78 - *Investors must be able to assess the reliability of prospective financial information. To do this, they should be able to assess whether the key assumptions are likely to occur. Therefore, a disclosure document or PDS must disclose material details about the enquiries and research undertaken and the process followed in preparing the information.*

A complete copy of the Regulatory Guide is available at <http://download.asic.gov.au/media/1240943/rg170-010411.pdf>

D. 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.

E. The definition of "aware" in Chapter 19 of the Listing Rules, which 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"

and section 4.4 in Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B "When does an entity become aware of information"*.

F. 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 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.*"

- G. 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*. 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, ASX asks AVZ to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market in accordance with Listing Rule 18.7A.

1. Please advise who wrote the content of the Interview?
2. Did AVZ commission any consultants or advisers to arrange the interview content? If so, please set out who was engaged in this regard.
3. Did the board of directors of AVZ approve the content of the Interview?
4. Please explain the basis for Mr Ferguson's statement that a 20% offtake would translate into US\$30 million and US\$70 million and set out why this option was not addressed in the Scoping Study. In answering this question you should have regard to ASIC RG 170.
5. Please explain the basis for Mr Ferguson's statement AVZ could sell the northern half of the project for US\$250 million - US\$350 million and set out why this option was not addressed in the Scoping Study. In answering this question you should have regard to ASIC RG 170.
6. When did AVZ first become aware of the Relevant Information?
7. Does AVZ consider the Relevant Information to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
8. If the answer to question 2 is "no", please advise the basis for that view.
9. If the answer to question 2 is "yes" and AVZ first became aware of the Relevant Information before the Relevant Date, did AVZ make any announcement prior to the Relevant Date which disclosed the Relevant Information? If so, please provide details. If not, please explain why the Relevant Information was not released to the market at an earlier time, commenting specifically on when you believe AVZ was obliged to release the Relevant Information under Listing Rules 3.1 and 3.1A and what steps AVZ took to ensure that the Relevant Information was released promptly and without delay.
10. Please confirm that AVZ has released an announcement which retracts any reference to potential offtake values and potential sale values.
11. Please confirm that AVZ is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
12. Please confirm that AVZ's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of AVZ with delegated authority from the board to respond to ASX on disclosure matters.



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.

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 to me by e-mail at 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.

Please contact me immediately if you have any queries about the above.

Yours sincerely

[sent electronically without signature]

Ben Secrett
Principal Adviser, ASX Listings Compliance