

## Tanzanian Legislative Changes

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Peak Resources Limited (ASX: **PEK**) ("**Peak**" or the "**Company**") notes the recent passing of the following legislation in Tanzania concerning the legal framework governing the natural resources sector:

- Act Supplement No. 5: *The Natural Wealth and Resources (Permanent Sovereignty) Act, 2017*,
- Act Supplement No. 6: *The Natural Wealth and Resources Contracts (Review and Re-negotiation of Unconscionable Terms) Act, 2017*,
- Act Supplement No. 7: *The Written Laws (Miscellaneous Amendments) Act, 2017*.

The three Bills were passed by the Tanzanian National Assembly on 3 and 4 July 2017, assented by the President on 7 July and are available in full on Peak's website:

<http://www.peakresources.com.au/tanzania>.

Peak has reviewed the legislative changes and obtained legal advice from the Tanzanian office of an international legal firm regarding the potential impacts on the Company and the planned development of the Ngualla Rare Earth Project.

Based on this internal and external review process, Peak provides the following provisional guidance. In summary, the legislative changes are not sufficient to cause the Company to halt or change its development plans for the Ngualla Rare Earth Project.

### Overview

Peak has completed a Bankable Feasibility Study ("**BFS**", ASX Announcement "**Bankable Feasibility Study positions Ngualla as one of world's lowest cost rare earth projects**" of 12 April 2017). The BFS contemplates the mining and processing of rare earth ore on site at its 75% owned Ngualla Rare Earth Project through a multi stage plant and a total capital investment of US \$196 million in Tanzania, producing a high grade beneficiated rare earth product. Peak is developing the Ngualla Rare Earth Project with partners Appian Natural Resources Fund ("**Appian**") and International Finance Corporation ("**IFC**") to be a low cost producer of the magnet metal rare earths neodymium and praseodymium.

Peak understands that a key underlying purpose of the legislation is to address the mining and export of base and precious metals ores and concentrates from existing operations in Tanzania, which have recently been the focus of review by Presidential Committee.

Many of the legislative changes enable the government to renegotiate existing Mining Development Agreements ("**MDA**"s). Peak does not hold any such agreements and therefore is not affected by these particular changes.

Managing Director Mr Darren Townsend said "*The new legislation brings some significant changes to the regulatory framework in Tanzania governing natural resources but appears to be focused on precious and base metal producers with Mining Development Agreements containing historic concessions. The Company looks forward to progressing the development of Ngualla and working collaboratively with the Tanzanian government to attain a mutually beneficial outcome for all stakeholders*".

### Natural Resources Legislative Changes

The main legislative changes are summarised below. Comments are provided in italics discussing how the changes may relate to Peak, the Ngualla Rare Earth Project and its shareholders.

#### 1. Protection of Permanent Sovereignty

The amendment denies the seeking of relief or arbitration regarding any resources matter in a court or tribunal outside of Tanzania.

*The proposed legislation purports to remove the ability of the Company to settle any future disputes by international arbitration. (The Company does not have any pre-existing mining agreements in place and is therefore not impacted by this change.)*

#### 2. Government Free Carried Interest

New provisions concerning the Government's previously negotiable and unspecified level of free carry and interest in mining operations now set at a minimum Free Carried Interest ("FCI") of 16%.

*Although a FCI does not affect project returns, it may impact development funding arrangements and the distribution of future cash or dividends to remaining shareholders. Peak's application for a Special Mining Licence may have attracted a negotiated government FCI under the Mining Act (2010). Hence the principle of a Government FCI is not a new concept and the expected level of FCI is clarified by the new legislation.*

The new legislation further provides that Government may acquire up to 50% interest in a mining company commensurate with the total tax expenditures incurred by the Government in favour of the mining company.

*Peak has not received nor does it intend to apply for concessional tax arrangements and therefore does not expect to trigger this provision as stated in the new legislation.*

#### 3. Return of Income into Tanzania

Earnings and payments for minerals derived from Tanzania must initially be received and accounted for in Tanzania.

*This accounting process does not affect the right or ability of the Company to thereafter repatriate dividends and expenses internationally.*

#### 4. Requirement to Beneficiate All Mined Materials in Tanzania

The legislation states that ".....no licence or permit shall be issued under this Act or any other written law for exportation of raw minerals and mineral concentrates" but also goes on to say "Where Government authorisation is given for the export of raw minerals (*including mineral concentrates*) any benefits for promotion of Tanzanian products in external markets shall not extend to such exportation of raw minerals."

*As described in the BFS, the Company plans to beneficiate ore on site at Ngualla in an advanced, multi-stage processing plant. Similarly, the ban on the export of raw materials (direct shipping of ore) is not expected to impact on the Company as it has no plans to export raw materials. The presidential review committee findings and new legislation target the smelting of base and precious metal concentrates within Tanzania. Rare earths are recognized as different to these metal concentrates and the Company believes their export will be authorised by the government. The Company does not seek any promotional benefits for its exports.*

**5. Restrictions and Control of Raw Materials and Concentrates**

*Some provisions relate to the commercialisation, accounting, storage and transport of raw materials and concentrates. Although onerous in terms of reporting requirements and processes, these operational compliance and performance controls are currently thought to have little material impact on the valuation of the project.*

**6. Stabilisation Clauses**

Mining contracts allowing the freezing of laws beyond a specific time period are prohibited and the Government must be compensated for any tax incentives based on economic equilibrium.

*Peak does not hold or seek any such contracts, nor are they assumed in the financial analysis for the BFS. In practice, although theoretically possible to be negotiated between the Company and Government under the previous Mining Development Agreement system, the granting of such tax incentives has already ceased.*

**7. Valuation of Minerals**

A new Commission will be appointed to supervise and regulate the Mining Act and industry. One of the Commission's functions is to produce indicative prices of minerals with reference to prevailing local and international markets for the purposes of the assessment and valuation of minerals and assessment of royalty.

*The indicative price references are expected to include a valuation of the processed rare earth product to be exported from Tanzania. Rare earth prices are generally determined under contract between the producer and end user. It is unclear at this stage how the valuation procedures will be administered for a rare earth project.*

**8. Royalty Rates**

New royalty provisions and method of valuation on gemstones and base and precious metals (such as copper, gold, silver, and platinum) are increased from 5% and 4% respectively to 6% for all.

*In the case of other minerals (including rare earths), the royalty rate remains unchanged at 3%. In separate legislation, Parliament recently approved the new Finance Act, which imposes a 1% clearing fee on the value of all minerals exported from the country from the 1<sup>st</sup> July 2017, which is expected to impact on Ngualla's products.*

#### **9. Abolition of Retention Licences**

The new Act removes all provisions which provided for retention licences.

*A Retention Licence could be applied for under the previous legislation if the holder of a prospecting licence is unable to develop the project at present due to low commodity low prices. With rare earth prices continuing to rise strongly, Peak's strategy is to apply for a mining licence for Ngualla in order to permit the project ready for development and hence is not affected by this change in legislation.*

#### **10. Guarantee of Returns and Benefits to Tanzania From Natural Resources**

Mineral right holders are required to demonstrate how mining projects benefit the Tanzanian economy and people. A portion of returns from mining projects must be re-invested in Tanzania. Preference must be given to goods produced in Tanzania. The mining company is to provide a program of recruitment and training for Tanzanians and must give preference to Tanzanian goods and services.

*Peak is committed to operating its business responsibly and with the utmost integrity. Peak encourages and promotes initiatives which generate local employment, training, local procurement and pro-active community engagement. The new legislation does not vary significantly from the Company's existing policies and plans in these requirements and is not expected to materially impact the planned development of the Ngualla Rare Earth Project.*

#### **11. Social, Environmental and Health and Safety**

The new legislation addresses standards and reporting requirements for local content, training, social, environmental protection, and health and safety management.

*Peak is compliant with IFC Performance Standards, World Bank Guidelines and the Equator principles regarding social engagement, social development, health and safety and environment. IFC is a direct investor partner with Peak in the Ngualla Project and actively monitors and sets standards for the performance of the Company in respect of these matters. Furthermore, Peak has completed an Environmental and Social Impact Assessment under the direction of Tanzanian regulators National Environment Management Council (NEMC). The plans and principles in relation to the above matters are already a condition of the Company's Environmental Certificate issued in March 2017 (ASX Announcement "Environmental Certificate received for Ngualla" of 20 March 2017). Although onerous in terms of reporting requirements, these legislative changes do not vary significantly from Peak's current operating standards and are not expected to adversely impact the planned development of the Ngualla Rare Earth Project.*

In conclusion, the 16% minimum FCI and the 1% clearing fee appear to apply to Ngualla and will negatively impact on returns to other shareholders. At this stage, the Company believes that other impacts, although significant for some mining companies in Tanzania, are manageable in respect of Ngualla if rare earth prices continue to rise. The Company will provide further updates on any material changes or impacts as

appropriate. Regulations to accompany these new Acts are expected but have yet to be released and the practical application of the new laws is presently unknown.

The Government of Tanzania has always been supportive of Peak and its development plan for the Ngualla Project, as it is a development that would position the country as an important supplier of these strategic commodities. The local community and regional authorities are also strongly supportive. The Company will continue to monitor the implementation of these legislative changes and looks forward to engaging with the Tanzanian government during the mining licence application process to ensure a mutually beneficial outcome can be achieved for the successful development of the Ngualla Project.

For and on behalf of Peak Resources Limited.



**Darren Townsend**  
Managing Director