



UK Export
Finance

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Stephen Promnitz
Managing Director, Lake Resources
Level 5, 126 Phillip Street
Sydney New South Wales 2000

23/07/2021

Dear Mr Promnitz,

EXPRESSION OF INTEREST: LITHIUM BRINE EXTRACTION PROJECT IN KACHI (“the Project”)

Regulation 12(5)(e)

I write with reference to the information on the Project that your financial adviser GKB Ventures (GKB) recently shared with UK Export Finance (“UKEF”). I also refer to the additional exchanges of emails through which GKB provided certain clarifications to our initial queries. Based on the above, I am pleased to inform you that UK Export Finance (“UKEF”) is willing to consider support for your proposed Project.

UKEF is a department of the UK Government and is the UK’s official Export Credit Agency (“ECA”). It operates under an Act of Parliament to support UK exports in various ways, predominantly through the provision of guarantees that facilitate loans to overseas buyers to purchase supplies from UK exporters as part of an overall contract package. Our guarantees (typically 100% and unconditional) commit the full faith and credit of the UK Government.

Currently UKEF’s risk appetite for Argentina is limited to those projects that earn foreign exchange revenues and have other structural and legal mitigants, some of which are described below. Subject to the above conditions inter-alia, [REDACTED]

[REDACTED]. The export credit facility, guaranteed by UK Export Finance, could be used to finance up to 85% of each contract value of imported goods and services plus up to 50% of each contract value of the imported goods and services for local, Argentinian content. A maximum repayment term of up to 8.5 years following the completion of the Project could be considered for this Project in line with the OECD Arrangement for Officially Supported Export Credits (the “OECD Arrangement”)

Our Cover for Argentina is made available on a selective, first come, first served, basis but it may be appropriate to obtain reinsurance from another ECA for supplies to the Project sourced from other countries through the use of UKEF reinsurance arrangements with other ECAs around the world. Support by UKEF would be in the form of a Buyer Credit facility arranged by a commercial bank (or an alternative financial institution acceptable to UKEF), that would benefit from a guarantee of repayment from Her Britannic Majesty’s Government through UKEF either for its own funding or for funding through the use of the capital markets, or a combination thereof. UKEF can consider guaranteeing

[REDACTED]

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loans in all major currencies and some local currencies. [REDACTED]

A support fee (i.e. premium) would be payable to UKEF for providing its support. This charge would reflect our assessment of the risks and be based upon Benchmark Rates set by the OECD. UKEF would be willing to consider the support fee being financed from the loan (so that the cost can be spread over the repayment period) rather than having to be paid directly by the borrower.

Before UKEF can provide an indication of the amount of the support fee or its commitment, UKEF would analyse the structure of the Project and the mitigation of the risks involved. In a project financing case such as this, UKEF would need to review those issues highlighted in the Appendices, as well as those set out below, to be addressed to our satisfaction. Our analysis would normally commence at the time an Application is received by UKEF for its support.

Support from UKEF would be available on the basis that, but not limited to:

- KYC and other due diligence of the Project and parties relating to the Project, which UKEF considers appropriate to the circumstances of this request to consider support, is carried out to UKEF's satisfaction;
- the financing structure including equity funding is acceptable to the interested parties and full due diligence of all relevant parts of the financing and contract/offtake structure is carried out to UKEF's satisfaction;
- the terms of any export credit loan meet the requirements of the OECD Arrangement;
- the Project meets UKEF's minimum risk standards (including supplier performance and completion risk) including any risk mitigation such as may be offered;
- the Project meets the relevant environmental and social standards in accordance with the OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence, and with the Equator Principles. Under OECD (Category A) it is a requirement that an independent consultant is engaged for all Category A Projects to review the ESIA work on behalf of the Lenders with scope to be agreed to UKEF's satisfaction;
- the project meets UKEF's minimum UK content requirements;
- such support would not contravene the requirements of any sanctions regime applicable to UKEF;
- Project earnings will be in hard currencies from suitably structured offtake contracts of adequate duration with the Buyers, who are sufficiently credit worthy as per UKEF's risk standards and with terms acceptable to all parties. Such hard currency revenues should be structured to flow into an offshore bank account in an acceptable location with appropriate regulatory approvals;

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- [REDACTED]
- Satisfactory due-diligence outcome of parameters in projects that involve resource extraction and conversion into a useful end-product for sale.

- The Project's sourcing of solar panels and the raw materials they may use is deemed acceptable following enhanced due-diligence, which could place a limitation on UKEF's ability to provide support.

It is not a requirement or condition for UKEF to progress this Project for other Export Credit Agencies to be participating in the financing of this Project. However, we would encourage their participation. If the financing structure is a limited recourse project financing, UKEF would also have to conduct due diligence usual for this type of structure. A non-exhaustive indicative list of our due diligence requirements is provided in the Appendix to this letter.

We would welcome further discussion as this export opportunity progresses. Please note that this letter is not intended to create any legally binding commitment on our part but merely to provide an indication of potential support which UKEF may offer. If UKEF does not hear anything by 20/01/2022 it will assume that support is no longer required and will take no further action.

If you have any questions on this letter, please contact 



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Appendix

UKEF can provide support for bank lending into Project Finance transactions. Below is a summary guide to process. These transactions are often complex and differ from case to case, so the guide below should not be taken as exhaustive.

What is Project Finance?

Project Finance for the purposes of this note is where the revenues from the project substantially or entirely meet the cost of the debt. It is usual that any assets created by the project will provide security for debt repayments. There is usually no direct access to the project company's (borrower's) assets by the lenders/UKEF. There may be guarantee from a creditworthy party for completion risks, e.g. a shortfall guarantee where completion of the project is delayed.

What does this mean if I want to seek UKEF support for a Project Finance transaction?

This type of business is more complicated than 'standard' UKEF supported finance transactions. Because of the greater complexity there must be an enhanced level of due diligence so that UKEF and other lenders/funders can understand the risks they are being asked to take.

Greater due diligence usually means higher transaction costs. The cost of this work is borne by the project sponsor. Because of the higher transaction costs smaller transactions can pose a challenge to undertake sufficient due diligence at a suitably proportionate cost.

Risks Covered

UKEF can provide either a guarantee for losses arising from political and commercial causes of loss or can tailor the risk coverage it provides. It is usual for UKEF to provide full risk coverage either by means of a Buyer Credit guarantee or through its Direct Lending Facility or a combination of both.

Eligibility/Exporter requirements

The underlying export must be by an exporter carrying on business in the UK to persons carrying on business overseas. UKEF will endeavour to be flexible within these terms in looking at contract structures.

In this respect, the exporter is required to provide UKEF certain contract details at the application stage, and then information at the time when monies are drawn (by the project borrower) from the loan.

UKEF is keen to work closely with UK exporters to ensure that all UKEF requirements are fully understood as early in the process as possible and to maximise the benefit to UK companies.

Maximum level of Support

As for any other UKEF-supported financing the maximum amount of any eligible export contract that can be covered is 85% of its value. A minimum of 15% must be paid to the exporter by the starting point of credit under the UKEF supported loan facility.

In terms of UK content, the minimum level that UKEF can support is 20% (with some additional restrictions, required by the OECD Arrangement on Officially Supported Export Credits, on in-country costs). The flexibility in this regard is dependent, to some extent, on country capacity and the overall risk rating of the project.

Project Finance Requirements

UKEF will normally require a suitable equity contribution as a proportion of project cost. The level of equity contribution will depend on the project structure and relative risks. The remaining proportion of project costs can be funded by UKEF supported debt. Where possible UKEF prefers to see risk sharing with other funding parties (other than the equity providers). In most instances this will entail international commercial bank finance being made available on the same security and terms as that offered for the UKEF backed finance. This requirement will be determined on a case by case basis.

Key financing terms are subject to the OECD Arrangement on Officially Supported Export Credits. All OECD member states have to comply with these regulations.

UKEF charges a risk support fee which will be calculated once UKEF can fully ascertain the project's risk rating. In addition, any external costs that UKEF necessarily incurs will be charged to the project.

UKEF's approach is flexible and normally the process works like this –

Initial approach to UKEF

An approach can be made by would-be exporters, lenders/financial advisers or project sponsors. Whilst at an initial stage no firm details may be known, meeting at the beginning of the project development lifecycle can help identify any major UKEF requirements or potential show-stoppers as well as enabling all parties to fully understand what is required to move to the next stage.

A 'bankability study', early stage Project Information Memorandum, or similar is normally necessary to provide sufficient up-front information needed. To make the approach to UKEF as productive as possible the project sponsor will need to provide UKEF with information as set out in the box below.

Early stage information needed

- What the project is;
- What is being supplied from/through the UK;
- Who are the (potential) major stakeholders (sponsors, equity providers, would be lenders/other sources of funds and any host government involvement);
- An indicative (even if very early stage) financing plan showing the possible proportions of equity, commercial debt, Export Credit Agency supported debt, and other funding (e.g. development bank funding);
- Any debt/project security package details available;
- Any technical or other feasibility studies available including environmental due diligence; and
- The status of negotiations/indicative timeline.

What happens next

Getting a UKEF Commitment to Provide Support

The following are normal minimum requirements so that UKEF can consider providing a commitment to provide support. These may vary from case to case.

Appointment of External Consultants

UKEF will require independent appraisal of the project viability and feasibility including assessment of the technical risks, marketing risks, operations, construction risk and any other specific risk issues associated with the project. Full independent environmental due diligence is a formal requirement.

There will also be a need to appoint suitable external legal counsel acting for UKEF and the lenders.

It is usual for UKEF to share external consultants with the lenders and any other Export Credit Agencies. To do this UKEF will need to agree suitable terms of reference for all the independent advisers.

UKEF may use its own external financial adviser, if necessary, at any stage of the process.

Environmental, Social and Human Rights (ESHR) Due Diligence

UKEF, like other OECD Export Credit Agencies complies with the OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence. For projects with the most potentially significant impacts this means, in simple summary, full environmental and social impact assessment to appropriate local and

international standards. UKEF works closely with the project sponsor, alongside the whole funder group, to ensure that this due diligence process is properly carried out as closely aligned as possible with the optimal project implementation plan.

Provision of a detailed Project Information Memorandum (PIM)

This should be for the benefit of the lender/funder group and cover all normal project variables. It is normally prepared by an independent financial adviser. See the box below for what the PIM should cover.

The PIM

- Project summary
- Key risks and mitigants
- Proposed security package
- Sovereign and Market risk
- Project sponsor information
- Counterparty details
- Funding plan
- Sources and uses
- Detailed project description
- Forecast cashflow
- Financial and operational KPIs
- Project plans

Provision of a lenders' cash-flow model

This is a key requirement for UKEF and other lenders. The cash-flow model needs to demonstrate the project proposal and be used by lenders to understand the cash flow dynamics of the project. Models are normally built by independent parties and reviewed and audited by other independent specialists. UKEF and other lenders need to approve the terms of reference for all of these stages.

Provision of a lenders' term sheet

This should detail all key finance structuring/documentation requirements and provide a good route map to putting the detailed financing documentation in place.

Full details of all participants

This enables UKEF to do its own due diligence on the project parties. The parties must be able to show the managerial, technical and financial capabilities to perform the project.

Provision of international commercial bank finance

As mentioned above there is a preference for there to be free-standing commercial finance from experienced and reputable banks/other funding providers on the basis of taking the same risks and project security as the Export Credit Agencies.