Mega Minerals Long-term Iron Ore Offtake Contracts - EuroSteel

Table of Contents

Introduction

This document details the long-term iron ore offtake agreement between Mega Minerals and EuroSteel, model TM-OFK-EUROSTEEL-2025. It encompasses contractual terms related to pricing, delivery, quality, and regulatory considerations, emphasizing the linkage to market indices, freight rates, foreign exchange rates (FX), and optional clauses addressing environmental taxes and market-based adjustments. This extensive contractual framework supports transparent and flexible trading relationships aligned with ESG policies and evolving carbon regulations.

Contract Overview

The agreement, identified by Contract ID: **MM-EUROSTEEL/2025-ITF**, establishes binding commitments for low-carbon iron ore supply over a ten-year horizon with potential re-openers based on environmental policies or market shifts. It references model TM-OFK-EUROSTEEL-2025, designed to align pricing mechanisms with transparency and market efficiency. The key components include:

- Pricing linked to 62% Fe ore index with freight and FX adjustments
- Volume commitments measured in metric tonnes (MT)
- Specific delivery windows (laycan)
- Rules governing demurrage and delays
- Optional clauses for carbon tax pass-through and market re-openers

Pricing Formula and Indexation

The contractual price per tonne is calculated based on a reference index, freight rates, and foreign exchange adjustments as specified below:

```
Price per tonne (USD) = (Base Index Price) + (Freight Adjustment) +
```

Index Reference and Adjustment Components

Component	Description	Calculation Method
Base Index Price	62% Fe iron ore index referencing the Platts IODEX	Reference monthly average of the IODEX published by S&P Global
Freight Adjustment	Sea freight rate adjustment based on published Baltic Freight Index	Plus or minus the percentage difference from the agreed baseline freight rate
FX Adjustment	Currency exchange rate adjustment applicable if USD/EUR or other relevant FX rate fluctuates	Difference between spot FX rate at quotation date and baseline FX rate, multiplied by designated hedge percentages

Example Calculation

Suppose the base IODEX is USD 120/tonne, freight increases by 5%, and FX weakens by 2%. The total adjusted price would be:

```
USD 120 + (USD 120 x 0.05) + (USD 120 x -0.02) = USD 120 + 6 - 2.4 =
```

Adjustments are reconciled monthly with published index data and recorded in contractual reports.

Volume Commitments & Delivery Terms

EuroSteel commits to purchase a minimum of **3 million MT** annually, with a firm scope outlined as follows:

- Initial Annual Volume: 3,000,000 MT, adjustable based on market conditions with mutual agreement
- Delivery Window (Laycan): **January 1 - January 15, 2025**, extendable upon mutual consent
- Notification Period: Minimum 30 days prior to selected laycan window

Deliveries are scheduled at the cargo terminal specified in Schedule A, and volume forecasts are reviewed quarterly to accommodate market fluctuations.

Quality Specifications

The contractual quality standards specify the acceptable ranges of the following parameters:

Parameter	Specification Range	Method of Measurement
Fe (Iron Content)	62% ± 0.5%	X-ray fluorescence (XRF) analysis
Moisture	≤ 7%	Gravimetric analysis
SiO2 (Silica)	≤ 5%	XRF analysis
Al2O3 (Alumina)	≤ 1.5%	XRF analysis
P (Phosphorus)	≤ 0.1%	Fusion acidity analysis

Samples are tested at accredited laboratories, and results are documented in delivery confirmation reports. Any deviations beyond specified ranges may invoke penalty clauses or require adjustments according to contractual procedures.

Laycan Windows & Demurrage Rules

Laycan Window

Defined as the agreed period for cargo arrival at the loading port. The default laycan is from **January 1, 2025** to **January 15, 2025**. Extensions are possible under mutual agreement but must be notified at least 10 days in advance.

Demurrage Rules

Days Allowed	Demurrage Rate (USD per day)	Applicable Conditions
0-5 days	Zero	Within laycan window
6-10 days	1,500	Overstay beyond laycan window
>10 days	3,000	Extended delays due to vessel or external factors

The demurrage charges are invoiced monthly, and disputes are resolved via arbitration outlined in Section X of the main contract.

Optional Contract Clauses

Carbon Tax Pass-through

This clause allows EuroSteel to pass through applicable carbon taxes or levies directly to Mega Minerals, subject to prior notification and documentation. Requirements include:

- Submission of official tax notices and invoices
- Calculation basis aligned with internal methodologies
- Limitations up to a maximum of USD 10 per tonne

Price Re-Opener Clause

This clause stipulates that in cases of significant market shifts, such as the imposition of new environmental levies or changes in key indices, either party can trigger a price review mechanism. The process includes:

- Written notice within 30 days of the event

- Submission of supporting documentation
- Independent review and mutual agreement on adjusted prices

Environmental Tax & Market Adjustment Clauses

This section details specific contractual provisions related to environmental taxes such as carbon taxes, CBAM (Carbon Border Adjustment Mechanism), and other market-based adjustments.

Environmental Tax Conditions

Environmental taxes cumulatively affecting the price shall be divided as follows:

Tax Type	Description	Applicable Clause
EU CBAM	Imposed on imported iron ore from non-EU countries	Clause 7.4
Country-Specific Carbon Tax	Levied by the exporting country based on emission intensity	Clause 7.5

Market-Based Adjustments

Adjustments to base price may occur quarterly, based on:

- Changes in emission allowance prices
- Market shifts in carbon credit costs
- Implementation of new carbon taxes

All adjustments shall be documented and validated through third-party audits, with notices issued within 15 days of change occurrence.

Example: CBAM Cost Impact

Scenario	Annual Carbon Cost per Tonne (USD)	Notes
Baseline	USD 0	No additional taxes applied
CBAM Implemented	USD 5	Estimated cost per tonne, passed through to buyer

Market Adjustment	USD 7	Includes market-based carbon credit price fluctuations

Internal ESG & Scope 3 Policy

Mega Minerals commits to reducing scope 1, 2, and 3 emissions, aligning with international standards such as the GHG Protocol and ISO 14064. The key principles include:

- Measurement and reporting thresholds for Scope 3 emissions at > 20,000 MT of CO_2e/year
- Implementation of reduction projects targeting a 20% reduction in carbon intensity of our iron ore products by 2030
- Engagement with suppliers and customers for collaborative decarbonization initiatives

Thresholds Triggering Additional Reporting

Scope	Threshold	Reporting Requirements
Scope 1	> 5,000 MT CO_2e annually	Internal emissions reports, external disclosures
Scope 2	> 10,000 MT CO_2e annually	Emission factor calculations based on energy consumption
Scope 3	> 20,000 MT CO_2e annually	Supplier emissions data and carbon footprint analysis

Sustainability & Climate Reports

Decarbonization Pathways

Mega Minerals has committed to a decarbonization pathway aligned with the Science Based Targets initiative (SBTi), aiming for net-zero emissions by 2050. Key initiatives include:

- Investments in renewable energy projects at mining sites
- Enhancement of energy efficiency measures
- Development of low-carbon logistics solutions

Carbon Intensity Metrics

Parameter	Current Value	Target Value (2025/2030)
kg CO_2e per tonne of iron ore	15	12 by 2025, 9 by 2030
Renewable Energy Share	25%	50% by 2030

Customer Commitments

Mega Minerals pledges to supply low-carbon, high-quality iron ore, and to publish annual sustainability reports detailing progress and innovations for decarbonization efforts.

Internal Memos on Carbon Pricing & CBAM