

AEM Chairman's update to Shareholders May 2022

Dear Fellow Shareholders,

With four months now past since I took on the role of Chairman and, with plans starting to come together, I thought it would be an appropriate time to write to you to give you some feedback on initial impressions and progress being made.

In any new role, it takes a little time to get one's feet under the desk, so to speak, and AEM has been no different. Over the past four months I have been getting familiar with the history, the projects, and the people. There is no doubt in my mind that we have a team of highly motivated and skilled people led by a highly capable and competent CEO/MD, Mick Adams. I have been very pleased with the positive and enthusiastic engagement I get from the entire team. Everyone is pulling in the same direction and with a strong belief in the company's future. This is a great foundation for us.

Over the past couple of months, we have added two additional people to the team, Daniele Fregonese as Sales Director for the HPA business, and Steven Petersohn as our Finance Director (part time). Daniele is Italian by birth and based in Germany and comes with an impressive track record in sales and marketing of specialty materials including HPA. Daniele will lead our market development and sales function, a critical area for us as we move towards commercial production. Steve is an experienced financial markets professional having held various positions in New York, London and Hong Kong with Jefferies & Co and Morgan Stanley. Steve was an important part of last year's capital raising and is working with me to develop the strategy for financing for Company's growth. He is currently in New York heading our initiative to monetize surplus equipment from Cap-Chat.

At Cap-Chat, we continue to make strong progress. The engineering/equipment issues which caused such challenges some years ago are well understood and the point of failure in the flow sheet now operates successfully as a two-stage process, albeit at a smaller scale. There is every confidence this can be successfully scaled up to >3tpd commercial scale. The plant continues to produce highest quality 5N HPA and is providing samples for qualification with a number of potential customers. With engineering challenges fully understood, the focus is very much on market development, and this is expected to gain acceleration with the employment of Daniele Fregonese as previously mentioned.

We have recently completed our technical feasibility study of an HPA plant, located in the UK, with 70% of the cost of the study funded by the UK government. This study provided us the opportunity to undertake design development, pilot testing and laboratory-based R&D that not only informed the design developed for the UK plant, but also significantly benefited our development plans for Cap-Chat, as well as informing our future strategic planning. It is unlikely that we will press ahead with the UK plant for the time being because of the high cost of energy currently prevailing there, but our relationship with the UK government remains good. The challenges for energy intensive industries in UK, and the need to address them if the UK is to develop a successful electric vehicle supply chain, are well understood by the government. We will therefore continue to promote our project by supporting national and regional initiatives aimed at resolving these issues.

Capital requirements to ramp up production to commercial rates at Cap-Chat are modest as the project can take advantage of the CAD275m spent by Orbite including on the substantive plant and infrastructure there today. The company is advancing negotiations with a Canadian financial institution and economic development agency regarding a comprehensive debt package for the commercial development. Equity requirements, we believe, will appeal to investors attracted by the de-carbonisation and ESG thematic based on HPA product use, low-cost hydro power and “green” aluminium hydroxide feedstock.

The strategy for our Kendall River kaolin project, led by Peter Thomson, is developing. Originally, the company’s HPA strategy developed from ways to add value to the Kendall River project using kaolin as the feedstock. However, it is now clear from our UK project studies that the production of HPA from kaolin has both higher capital and operating costs. Our focus, therefore, is to consider Kendall River as a large-scale hydrous kaolin export project and not as an integrated kaolin/HPA project in the first stage.

There is a steadily growing global market for kaolin across a whole range of industries, with the fastest growing markets being found in Asian manufacturing centres. At the same time, supply of high-quality kaolin is becoming increasingly constrained by the on-going depletion of traditional mining areas. Because of this tightening supply, kaolin prices are going up and there a growing sentiment that the time has come for Australian kaolin with 13 kaolin companies now on the ASX market. This backdrop strengthens the potential for our high quality, well located, Kendall River Kaolin asset to become a significant regional supplier.

There is no doubt AEM has some great assets in the form of the HPA business in Quebec and the Kendall River Kaolin project in Cape York. Both are quality projects and deserve to be pushed ahead aggressively, by the high-quality management team we have ready to deliver these projects.

It is our intention to organise an investor/shareholder virtual briefing in the next couple of months to set out our plans for the projects and the company. We will let you know details in due course. In the meantime, if you want to have a call with me to discuss the company’s progress and plans, please reach out to me at rseville@aem-international.com.

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