

4 August 2022

Dear Fellow Shareholders,

### **Chairperson's letter to shareholders August 2022**

I'm writing to update you on AEM's progress, provide some details on our plans going forward, and inform you of a capital raise to fund those plans.

As mentioned in my note to shareholders in May, the plant in Cap Chat continues to consistently produce 4N/5N HPA at low volumes for marketing purposes. Customer interface has picked up significantly led by our newly appointed Head of Sales, Daniele Fregonese. We received a very positive response to our first trade fair in Munich last month and we are now working with a number of potential customers through product qualification both for HPA in powder form as well as pucks (high density briquettes). In addition, we are considering requests for differentiated products based on particular specifications required and we now expect to be able to sell Aluminium Chloride Hexahydrate (ACH), an intermediate product in the HPA production process. While all of this is promising, we do not have a clear picture as to if or when these trial orders will convert to commercial scale orders and this creates a level of uncertainty in estimating working capital requirements through to positive cashflow.

With regard to the financing of the Cap Chat plant upgrade and expansion plans, we are advanced in negotiations with financing parties and expect to receive a formal proposal in the coming weeks, which would enable us to proceed with the first stage of our upgrade. Whilst our hope is that we will be able to close this financing in the next 2 or 3 months, there is always a risk that this anticipated financing gets delayed or terms are introduced which are unattractive, causing us to look elsewhere. That said, the package being progressed has the potential to finance a large proportion of the capital works programme planned over the next 2-3 years.

Our UK study re-confirmed kaolin's viability as a feedstock for production of HPA. However, with lower operating cost feedstocks available to us in Quebec (with no additional capex requirement), there is no necessary linkage between Kendall River sourced kaolin and Cap Chat HPA production. With these two projects no longer linked, at different stages of development and on opposite sides of the world, and both needing focussed management it raises the question of the best way forward. After due consideration, our view is that the best way to provide appropriate focus for each project and maximise returns for shareholders is to split the company to create a Canadian based HPA production business and an Australian based kaolin exploration and development business with each accessing their local capital and debt markets as appropriate.

In anticipation of this, we have started the process of re-structuring which will result in removal of the Cypriot JV company and the establishment of a Canadian holding company owning all the

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HPA assets. This sets up the structure for a later demerger of the HPA business from AEM (the company that you now own shares in) effected by an in-specie distribution to AEM shareholders (pro rata to your AEM shareholding) of new shares in the Canadian HPA holding company, which will at that point hold 100% of the HPA assets. Our 40% joint venture partner shareholders in the Cypriot JV company are taking similar steps in preparation of the restructuring. We have taken tax and legal advice in the various jurisdictions and have a high level of confidence that this can be achieved without negative tax impacts.

On the Australian side of the AEM equation, we are negotiating heads of terms with a potential kaolin off-taker and have initiated discussions with finance professionals in Australia to access the Australian capital market. At the end of the restructuring exercise, investors in AEM will own shares in two separate companies - one in Canada and one in Australia with IPO prospects at the appropriate time for both.

During this period (prior to receipt of 3rd party finance and build-up of HPA/ACH orders,) we will need to continue to provide interim funding for our 60% share in the Canadian HPA business. Allowing for support to the end of the year and making allowance for expenses relating to the Kendal River Kaolin Project, ongoing litigation and remuneration, restructuring costs and working capital buffer, we have estimated a total AEM requirement of A\$4.2million (approx. US\$3million). In the event we are able to achieve stronger than expected sales (alumina products and/or surplus equipment) or we get a high degree of certainty with regard to the funding currently being discussed in Canada prior to the completion of this A\$4.2m capital raise, we may consider downsizing the offering.

Whilst we are optimistic about the future of the Company, there remain risks. On balance, taking into account the progress made, future risks and general economic conditions, the board has decided to raise capital at A\$0.20/share - which represents an 11.1% premium to the last issued price late last year. It is planned to do this by way of placement to investors who meet the definition of a "sophisticated investor" or "professional investor" under ss 708(8) and 708(11) of the Corporations Act 2001 (Cth). Priority will be given to existing qualified shareholders over external investors, with allocations on a pro-rata basis prior to over allocations. I have offered to subscribe for shares up to a value of A\$1million in the event of a shortfall.

It is planned to arrange zoom/teams style meetings for shareholders to discuss the company's progress during the week beginning Monday 15th August. We will be contacting you shortly with a number of options. In the meantime, please [click here](#) for an updated company presentation for your review.

If you would like more information on the capital raising please contact either myself or Steve Petersohn at [rseville@aem-international.com](mailto:rseville@aem-international.com) and [spetersohn@aem-international.com](mailto:spetersohn@aem-international.com).

Richard Seville  
Chairperson