



We acknowledge the Gunaikurnai People as the Traditional Aboriginal Owners of country that encompasses the proposed Fingerboards Project area. We pay our respects to their culture and their Elders past, present and emerging. Kalbar Operations is committed to creating a safe and inclusive environment for all its employees.

SHAREHOLDER FINGERBOARDS MINERAL SANDS PROJECT UPDATE

25 March 2022

Dear Shareholders

As advised last November, the Minister for Planning's ("Minister") assessment of the Fingerboards Mineral Sands Project ("Project") Environment Effects Statement ("EES") was received by Kalbar Operations Pty Ltd ("KOPL"), being the EES proponent, and to our disappointment the Minister's assessment of the EES Tribunal's (*Inquiry and Advisory Committee's* (IAC)) report concluded that the Project had been evaluated as posing an unacceptable environmental risk as presented in the EES.

The purpose of the Minister's Assessment was to "inform" the various regulatory authorities such as Earth Resources Regulation (ERR) and the Environmental Protection Agency (EPA); and while not binding, it strongly influences the decision-making process of all government agencies and for this reason it is the view of KOPL management and board that approvals for the Project are unlikely to be moved forward within the term of this parliament (the Victorian election will occur in November 2022).

The Minister's Assessment does, however, open the door to a future approval as he says in his report: *"In the event that a Decision Maker does entertain an approval for the Project, I generally support the Inquiry and Advisory Committee's (IAC) recommendations for further work"*.

The decision by the Minister has raised concerns across the minerals industry in Victoria as it was the first time that a mineral sands project had an adverse finding after an EES, and it followed an adverse decision in late 2020 by the Minister regarding the development of AGL's LNG gas terminal in Westernport Bay. While the two projects' impacts are quite different, the two decisions back-to-back have highlighted an increased risk to approvals through the EES process in Victoria through which all significant resource projects proceed.

KOPL's Review of the Ministers Decision

A thorough review of the Minister's determination and the recommendations of the Tribunal's (*Inquiry and Advisory Committee's* (IAC)) report has been carried out by KOPL, recognising that the Minister's decision was primarily but not solely informed by the 43 recommendations in relation to the Project, many of which had already been anticipated by KOPL during the Tribunal process. Many of these recommendations had been predicted during the EES process and it was expected by KOPL that the minister would most likely make a positive finding that would be subject to certain conditions which would be based on the IAC report recommendations.

During the final stage of the EES and during the hearings, it became increasingly evident to KOPL that some elements of the community and within government agencies had concerns relating to various aspects of the Project. Despite KOPL

management's attempts to address those concerns directly through late modifications to the Project those concerns were demonstrably not overcome. For example, removing tailings dams by introducing centrifuges and dry stacking tails, a process which is widely used in other industries other than mineral sands, representing a first in the mineral sands industry.

KOPL is now considering how it might be possible to modify the Project to address all concerns raised and to re-optimize the Project within those constraints. Major considerations include rescoping the Project to reduce the mine's footprint and greenhouse gas emissions, evaluating alternative mine starting location, and minimisation of biodiversity impacts by fewer or no road moves, practical demonstration at a pilot scale of centrifuges and dry stacking tails, and importantly the company's Environmental, Social & Governance (ESG) strategy (refer below).

Rising commodity prices and the importance of rare earths

Despite the Project's approval challenges, the macro-economic view for the Project has strengthened considerably with significant increases in pricing for zircon, ilmenite, and rutile since the publication of the Bankable Feasibility Study (BFS) in 2018. Most markedly, the rare earth market is undergoing a major structural reform driven by tensions with China and the increasing pace of global electrification. Demand has surged for the magnetic rare earth metals Neodymium, Praseodymium (Nd-Pr), Dysprosium and Terbium (Dy-Tb) which are used in electric motors. These critical metals are increasingly being sourced from the rare earth minerals monazite and xenotime which are particularly enriched in the heavy mineral concentrate from the Fingerboards Project.

Since 2018 prices for these metals have more than tripled and monazite in turn has risen in price from approximately US\$3,000 to over US\$10,000 in the same period with the potential revenue to the Project from the rare earths credits now being equal to that of the zircon. Importantly, from a critical minerals' viewpoint, new processing options for these rare earth minerals are emerging in Australia which will in the board's view ensure that the Fingerboards Project is an important Critical Minerals Project for Australia.

Board Changes

Mr Rob Bishop, the founder, ex-Chairman and long serving director of Kalbar, left the board at the end of December 2021 after 8 years' service to the company to focus his energies on other projects outside the resource sector. We thank Rob for his years of work and dedication to the Project and wish him well. As a major shareholder, he will remain close to the company in the years to come.

We welcomed Mr Richard Crookes to the Kalbar board on 19 January 2022. Richard brings over 35 years' experience in mining and resource investment. He has broad resources industry experience having been involved in the delivery and management of major projects and the development of corporate strategy with principally the Mount Isa Mines Group (MIM) companies for 15 years, coupled with a successful career in investment management over the last 20 years; with Macquarie Group Ltd for 12 years, becoming an Executive Director in the Metals Energy Capital Division, thence as principal in two mining Private Equity Funds, first with EMR Capital and more recently as the current Managing Partner of Lionhead Resources, who became a significant investor in Kalbar Limited in 2020.

ESG focus

Considering the Minister's decision and lessons learned from the EES process, the board of Kalbar recognises that there is a need to review the company's Environmental, Social & Governance (ESG) strategy and to position the Project to ensure better alignment with community, state and national interests and ensure that this is communicated effectively to all stakeholders, including local communities and all levels of government.

Victoria's previous Minister for Agriculture and Resources Jaclyn Symes commented on the Fingerboards Project in July 2019: "Through the Mineral Resources Strategy we are supporting the development of an industry that can coexist with other regional industries and create additional jobs for local communities". While the EES did carefully consider those issues such as the potential impacts on the irrigation industry in the Lindenow Valley, many opportunities, for example

in collaborative water storage have yet to be fully explored.

Another important initiative is to highlight the strategic importance of critical minerals, monazite and xenotime, within the Fingerboards Project and demonstrate that these minerals containing the heavy rare earth metals, Neodymium (Nd), Praseodymium (Pr), Dysprosium (Dy) and Terbium (Tb) are essential in global electrification and the development of green energy solutions and that they can form part of a sustainable, long term supply chain to manufacturers of electric motors in applications such as electric vehicles and wind turbines.

There is a need to ensure that further consideration is given to the Fingerboards Project's environmental footprint and that the power and water supply strategies are aligned with community expectations and other users to demonstrate benefits across the broader community, including first nations stakeholders.

Next Steps

The board of Kalbar remains determined and focussed on supporting KOPL's continuing review of the EES and its consideration and implementation of potential amendments to the Project that could lead to future Project approval. The Minister's decision, however, has prompted a temporary suspension of much of the project development activity which has allowed a substantial reduction in costs. KOPL's shareholders Appian and Kalbar are currently revising the Project funding strategies and determining the forward program. Critical on ground activities continue such as environmental monitoring and the maintenance of the nursery, while KOPL's management continues to engage with community and the Victorian Government.

Notwithstanding, KOPL's forward funding and program strategy for 2022 is still being developed, priorities for the Kalbar board are to ensure the re-scoping of the Project by KOPL to adjust for the recommendations of the IAC report, and to update the 2018 Mineral Resource Estimate to reflect the changing commodity prices and the significance of the rare earths from the Fingerboards Project to Australia's Critical Minerals Plan.

On a positive note, it is important to point out that there is significant and evident support from within the Gippsland community and the Victorian Government for the Project and for the mineral sands industry. We know from experience in the mineral sands industry across Australia, that this the Project can co-exist and benefit other local Gippsland industries and the community, and we are confident that this can be demonstrated to the Victorian government.

In conclusion, the board of Kalbar appreciates your ongoing support, and we will be in communication with shareholders as soon as KOPL's forward program is fully determined, and realistic Project timelines are known.



Dr Brad Farrell
Chairman
Kalbar Limited