

Demerger of Sierra Rutile Holdings
Limited by Iluka Resources Limited



Sierra Rutile Limited

Demerger Booklet

VOTE IN FAVOUR

Each Iluka Director recommends that Iluka Shareholders vote in favour of the Demerger Resolution to give effect to the Demerger of Sierra Rutile.

The Independent Expert has concluded that the Demerger is in the best interests of Iluka Shareholders.

This is an important document and requires your immediate attention. You should read this document in its entirety prior to deciding whether or not to vote in favour of the resolution to effect the Demerger. If you are in any doubt as to what you should do, you should seek independent legal, financial, taxation or other professional advice before voting on the Demerger Resolution.

Financial adviser



Legal advisers



HERBERT
SMITH
FREEHILLS

KING & WOOD
MALLESONS
金杜律师事务所

Joint ECM adviser

EUROZ HARTLEYS

Joint ECM adviser



IMPORTANT INFORMATION

GENERAL

This Demerger Booklet is important. Iluka Shareholders should carefully read this Demerger Booklet in its entirety before making a decision as to how to vote on the Demerger Resolution to be considered at the Extraordinary General Meeting.

INVESTMENT DECISIONS

This Demerger Booklet does not take into account the individual investment objectives, financial situation or needs of any particular Iluka Shareholder or any other person. The information in this Demerger Booklet should not be relied upon as the sole basis for any investment decision. Iluka Shareholders should seek independent legal, financial, taxation and other professional advice before making any investment decision.

RISK FACTORS

There are risk factors associated with the Demerger itself, and with an investment in Sierra Rutile Shares or Iluka Shares, which are discussed in this Demerger Booklet and which Iluka Shareholders should consider carefully.

PURPOSE OF THIS DEMERGER BOOKLET

This Demerger Booklet sets out all information known to the Iluka Directors which is material to the decision of Iluka Shareholders in deciding how to vote on the Demerger Resolution as required by section 256C(4) of the Corporations Act, other than information Iluka has previously disclosed to Iluka Shareholders and, as such, it would be unreasonable for Iluka to disclose.

PREPARATION OF AND RESPONSIBILITY FOR THIS DEMERGER BOOKLET

- This Demerger Booklet (other than the Independent Expert's Report and the Independent Limited Assurance Report) has been prepared by Iluka as at the date of this Demerger Booklet and Iluka is responsible for the content of this Demerger Booklet.
- Greenwoods & Herbert Smith Freehills Pty Limited has reviewed and agrees with Section 6 relating to the description given of the income tax and goods and services tax implications of the Demerger for Iluka Shareholders who, amongst other things, are residents of Australia for Australian tax purposes.
- PricewaterhouseCoopers Securities Ltd has prepared the Independent Limited Assurance Report and takes responsibility for that report. A copy of that report is set out in Section 7.
- Deloitte Corporate Finance Pty Limited has prepared the Independent Expert's Report, which is contained in Section 8. Deloitte Corporate Finance Pty Limited takes responsibility for that report.

ROLE OF ASIC AND ASX

A copy of this Demerger Booklet has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of this Demerger Booklet.

Sierra Rutile will apply for admission to the Official List and for official quotation of Sierra Rutile Shares on the ASX shortly after the date of this Demerger Booklet, conditional on approval of the Demerger. Neither ASX nor any of its officers takes any responsibility for the contents of this Demerger Booklet. The fact that ASX may admit Sierra Rutile to the Official List does not make any statement regarding, and should not be taken in any way as an indication of, the merits of an investment in Sierra Rutile.

NOTICE OF EXTRAORDINARY GENERAL MEETING

The Notice of Extraordinary General Meeting is set out in Section 11.

STATUS OF THIS DEMERGER BOOKLET

This Demerger Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act.

FOREIGN JURISDICTIONS AND SHAREHOLDERS

Iluka Shareholders who are Ineligible Overseas Shareholders will not receive Sierra Rutile Shares under the Demerger. Sierra Rutile Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sale Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders. Refer to Section 5.8.2 for further information.

Iluka Shareholders resident outside Australia for tax purposes should seek specific tax advice in relation to the Australian and overseas tax implications of the Demerger.

This Demerger Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer. No action has been taken to register or qualify the Sierra Rutile Shares or otherwise permit a public offering of Sierra Rutile Shares in any jurisdiction outside Australia.

Based on the information available to Iluka as at the date of this Demerger Booklet, Iluka Shareholders whose addresses are shown in the register on the Record Date as being in the following jurisdictions will be entitled to have Sierra Rutile Shares transferred to them under the Demerger:

- Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; or
- any other jurisdiction in respect of which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer Sierra Rutile Shares to the Iluka Shareholder.

Nominees, custodians and other Iluka Shareholders who hold Iluka Shares on behalf of a beneficial owner resident outside Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States may not forward this Demerger Booklet (or any accompanying document) to anyone outside these countries.

FORWARD LOOKING STATEMENTS

Forward looking statements may generally be identified by the use of forward looking words such as “believe”, “aim”, “expect”, “anticipate”, “intend”, “foresee”, “likely”, “should”, “planned”, “may”, “might”, “is confident”, “estimate”, “potential” or other similar words or phrases. These statements discuss future expectations concerning the results of operations or financial condition of the Iluka Group or the Sierra Rutile Group, or provide other forward looking statements.

These forward looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which may be beyond Iluka’s or Sierra Rutile’s control, and which may cause the actual results, performance or achievements of Iluka or Sierra Rutile to be materially different from future results, performance or achievements expressed or implied by such statements.

Other than as required by law, none of Iluka, Sierra Rutile, their officers, advisers nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Demerger Booklet will actually occur.

Additionally, statements of the intentions of the Iluka Board or the Sierra Rutile Board reflect the present intentions of the Iluka Directors and Sierra Rutile Directors respectively as at the date of this Demerger Booklet and may be subject to change as the composition of the Iluka Board and Sierra Rutile Board alters, or as circumstances require.

Except as required by law, Iluka and Sierra Rutile disclaim any obligation or undertaking to update or revise any forward looking statement in this Demerger Booklet.

ORE RESERVE AND MINERAL RESOURCE ESTIMATES AND PRODUCTION TARGET

The information in this Demerger Booklet that relates to Mineral Resource estimates for Area 1 is based on information compiled by Mr Brett Gibson, who is a member of the Australian Institute of Geoscientists. The information in this report that relates to Ore Reserve estimates for Area 1 is based on information compiled by Mr Andrew Walkenhorst who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Gibson and Mr Walkenhorst are full time employees of Iluka Resources Limited. Mr Gibson and Mr Walkenhorst have sufficient experience that is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which is being undertaken to qualify as a Competent Person as defined in the 2012 edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’ (**JORC Code**). Mr Gibson and Mr Walkenhorst consent to the inclusion in this Demerger Booklet of the matters based on their information in the form and context in which it appears.

The Ore Reserve and Mineral Resource estimates for Sembehun were presented in an announcement released by Iluka on the ASX on 24 February 2022 “Sembehun Ore Reserve and Mineral Resource Update, Sierra Leone” and is available to view at www.iluka.com/investors-media/asx-releases. Iluka confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement for Sembehun and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement for Sembehun continue to apply and have not materially changed.

The Production Target and forecast financial information derived from the Production Target for Sembehun referred to in this Demerger Booklet are based on 36% Probable Ore Reserves and 64% Proved Ore Reserves. The material assumptions used in the estimation of the Production Target and associated forecast financial information are set out in Section 3.12 of this Demerger Booklet. The Ore Reserve estimates underpinning the Production Target for Sembehun were prepared by Competent Persons in accordance with the JORC Code.

The Mineral Resource estimates for the Gambia, Jagbahun, Nyandahun and Taninahun Boka deposits separate to Area 1 and Sembehun were presented in an announcement released by Iluka on the ASX on 20 February 2017 “Updated Mineral Resource and Ore Reserve Statement” and is available to view at www.iluka.com/investors-media/asx-releases. Iluka confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement for Gambia, Jagbahun, Nyandahun and Taninahun Boka and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement for Gambia, Jagbahun, Nyandahun and Taninahun Boka continue to apply and have not materially changed.

PRESENTATION OF FINANCIAL INFORMATION

The Iluka Historical Financial Information within this Demerger Booklet has been derived from the financial reports of Iluka for the years ended 31 December 2019, 31 December 2020 and 31 December 2021, which were audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards. PricewaterhouseCoopers issued unqualified audit opinions on these financial statements. The financial statements for these periods are available from Iluka's website (www.iluka.com) or the ASX website (www.asx.com.au).

The Sierra Rutile Pro Forma Historical Financial Information has been derived from the Sierra Rutile Investments (BVI) Limited's (**Sierra Rutile BVI**) financial statements, audited by PricewaterhouseCoopers, and adjusted for the effects of the pro forma adjustments described below. PricewaterhouseCoopers issued unqualified audit opinions with an emphasis of matter on going concern and on the basis of accounting and restriction on distribution and use on the 2019 and 2020 financial statements and an unqualified opinion with an emphasis of matter on basis of accounting and restriction on use on the 2021 financial statements. The emphasis of matter on the basis of accounting and restriction on distribution and use relates to the Sierra Rutile BVI financial statements having been prepared to satisfy the requirements of the IFC Shareholders Agreement (which terminated on 13 May 2022). The accounting records behind these financial statements were also used to generate Iluka's financial statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

Sierra Rutile BVI is a direct subsidiary of Sierra Rutile. Sierra Rutile is a holding entity, therefore the results of the Sierra Rutile BVI consolidated group materially reflect the historical financial information of Sierra Rutile.

The Iluka Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards (**AAS**), which are consistent with International Financial Reporting Standards (**IFRS**).

The Iluka (post Demerger) Pro Forma Historical Financial Information and the Sierra Rutile Pro Forma Historical Financial Information within this Demerger Booklet has been prepared consistent with the recognition and measurement principles contained in AAS, which are consistent to IFRS, other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflects:

- the recognition of certain items in periods different from the applicable period under AAS;
- the exclusion of certain transactions that occurred in the relevant periods; and
- the impact of certain transactions as if they occurred as at 31 December 2021 in the pro forma historical balance sheets and immediately prior to 1 January 2019 in the pro forma historical income statements and free cash flow statements.

The Iluka (post Demerger) Pro Forma Historical Financial Information and the Sierra Rutile Pro Forma Historical Financial Information has been prepared on a consistent basis to the accounting policies set out in Iluka's financial statements for the year ended 31 December 2021.

The Sierra Rutile Pro Forma Historical Financial Information has been prepared on a consistent basis to the accounting policies set out in Sierra Rutile BVI's audited financial statements for the year ended 31 December 2021.

In preparing the Iluka (post Demerger) Pro Forma Historical Financial Information and the Sierra Rutile Pro Forma Historical Financial Information, certain adjustments were made to the historical financial information of Iluka and Sierra Rutile that Iluka and Sierra Rutile considered appropriate to reflect the effect of the Demerger, as described in this Demerger Booklet. The financial information contained in this Demerger Booklet is historical only. Past financial performance is not necessarily a guide to future financial performance.

PRIVACY AND PERSONAL INFORMATION

Iluka, Sierra Rutile and their respective share registries (each an **Organisation**), may collect personal information in the process of implementing the Demerger. The personal information may include the names, addresses, other contact details and details of the shareholdings of Iluka Shareholders, and the names of individuals appointed by Iluka Shareholders as proxies, corporate representatives or attorneys at the Extraordinary General Meeting.

Iluka Shareholders who are individuals, and individuals appointed as proxies, corporate representatives or attorneys in respect of whom personal information is collected as outlined in this Section have certain rights to access their personal information. They should call the Shareholder Information Line on 1300 733 043 (within Australia) or +61 3 9415 4801 (international) on weekdays between 8.30am and 5.00pm (AEST) if they wish to request access to the personal information held by any of the Organisations. Iluka Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote on the Demerger Resolution should inform those individuals of the matters outlined in this Section.

The personal information will be collected for the purpose of implementing and administering the shareholdings arising from the Demerger. An Organisation may, to the extent permitted by law, disclose personal information collected by it to another Organisation, to securities brokers, to print and mail service providers and any other service providers and advisers engaged by an Organisation in relation to the implementation and administration of the shareholdings arising from the Demerger. The personal information of Ineligible Overseas Shareholders and Selling Shareholders may also be disclosed to the Sale Agent for the purposes of operating the Sale Facility.

The main consequence of not collecting the personal information outlined in this Section would be that Iluka may be hindered in, or prevented from, conducting the Extraordinary General Meeting and implementing the Demerger.

INTERPRETATION

Capitalised terms and certain abbreviations used in this Demerger Booklet are defined in the Glossary in Section 10.

In this Demerger Booklet, the term “Iluka (post Demerger)” is used to describe Iluka as it will exist after the Demerger has been implemented. The term “Iluka (post Demerger)” is used in this Demerger Booklet for simplicity of explanation only, to distinguish between that entity during the period prior to, and the period after, the Demerger. However, Iluka and Iluka (post Demerger) are and will remain the same legal entity and corporate group, which is Iluka Resources Limited and, where the context requires, its Subsidiaries from time to time.

The term “Sierra Rutile” used in this Demerger Booklet reflects the separation principles outlined in Section 5.2, with references to Sierra Rutile in the historic period as it will exist after the Demerger has been implemented. The term “standalone” is used to describe Sierra Rutile as it will exist after the Demerger, with a separate board and management team from Iluka (post Demerger).

References in this Demerger Booklet to the “Sierra Rutile Board” or to “Sierra Rutile Directors” means the board or directors of Sierra Rutile immediately prior to implementation of the Demerger (or from the time following the implementation of the Demerger). It is intended that the board of Sierra Rutile will be reconstituted prior to Implementation to reflect the board composition set out in Section 3.23.1. References in this Demerger Booklet to strategies or policies to be applied by Sierra Rutile following the Demerger reflect the views and intentions of the intended directors of Sierra Rutile immediately prior to implementation of the Demerger and Sierra Rutile senior executives.

Unless otherwise stated, all times and dates referred to in this Demerger Booklet are times and dates in Australian Western Standard Time (**AWST**). All dates and times following the date of the Extraordinary General Meeting are indicative only and, among other things, are subject to all necessary approvals from regulatory authorities. Any changes to the timetable will be announced through ASX and will be notified on Iluka’s website at www.iluka.com.

In this Demerger Booklet, unless otherwise specified or the context otherwise requires, references to \$ or A\$ are to Australian dollars.

All references to years are references to Iluka’s financial years, ending 31 December, unless otherwise indicated.

Any discrepancies between totals in tables and sums of components contained in this Demerger Booklet and between those figures and figures referred to in other parts of this Demerger Booklet are due to rounding.

DATE

This Demerger Booklet is dated 20 June 2022.

SUPPLEMENTARY INFORMATION

Refer to Section 9.10 for information about the steps that Iluka will take if information about the Demerger needs to be updated.

CONTENTS

Important information	1
Chairman's letter	6
Important dates	8
Actions for Iluka Shareholders	9
Frequently asked questions	15
1. Advantages, disadvantages and other relevant considerations	22
2. Mineral sands industry overview	27
3. Overview of Sierra Rutile	35
4. Overview of Iluka (post Demerger)	114
5. Details of the Demerger	131
6. Taxation implications	140
7. Independent Limited Assurance Report	146
8. Independent Expert's Report	155
9. Additional information	225
10. Glossary	236
11. Notice of Extraordinary General Meeting	243
12. Corporate directory	Inside Back Cover

CHAIRMAN'S LETTER

On behalf of the Iluka Board, I am pleased to present this Demerger Booklet, and invite you to support the proposed Demerger of Sierra Rutile from Iluka. The effect of the Demerger will be to create an independent company listed on the ASX, also owned by Iluka Shareholders.

The Iluka Board unanimously believes the Demerger of Sierra Rutile is in the best interests of Iluka Shareholders and will, over time, deliver greater value to Iluka Shareholders than the current structure. In arriving at this view, the Iluka Board has considered a range of alternatives, with the Demerger providing a balance between the benefits of separating the business, and Iluka Shareholders having the option to retain longer term exposure to its future development and growth.

A Demerger Resolution to approve the proposed Demerger will be put to Iluka Shareholders at an Extraordinary General Meeting to be held on Friday, 22 July 2022.

The Iluka Board strongly encourages you to support the Demerger by voting in favour of the Demerger Resolution.

In addition to the Iluka Board's recommendation, Deloitte Corporate Finance Pty Limited, the Independent Expert appointed by Iluka, has also concluded that the Demerger is in the best interests of Iluka Shareholders. The Independent Expert's Report is contained in Section 8.

RATIONALE FOR THE DEMERGER

As many Iluka Shareholders are aware, Sierra Rutile is a multi-mine mineral sands operation located in southern Sierra Leone with an established operating history of more than 50 years.

Iluka's business has evolved significantly since it acquired Sierra Rutile in 2016, with Iluka's strategic and capital allocation priorities now focused on key Australian operations and development projects. Key among these is Iluka's continued diversification into rare earths, with the recent Board approval of the development of the fully integrated Eneabba Rare Earths Refinery in April 2022.

This evolution in Iluka's strategic priorities has led to the determination that a separation of Sierra Rutile by way of demerger is the optimal pathway for Sierra Rutile to reach its potential and maximise value for Iluka Shareholders.

Sierra Rutile is in a unique position. It is currently generating cashflow from its existing operations, and has recently completed a Preliminary Feasibility Study for its Sembehun Project, representing one of the world's largest natural rutile deposits. Any development of the globally significant Sembehun Project would be a significant step-change for the company. Sierra Rutile will be established with a dedicated high quality Board and management team, and will be well equipped to implement strategies to maximise the value from the remaining producing deposits at Area 1, and to continue to progress the globally significant Sembehun Project.

The Sembehun Preliminary Feasibility Study announced in conjunction with this Demerger Booklet sets out a pathway to developing Sembehun that leverages the significant Area 1 infrastructure in place and future Area 1 cash flows, post the ratification of adjustments to the Area 1 fiscal regime, to develop Sembehun in a two phased approach. Subject to the new Sierra Rutile Board reaching a positive final investment decision for the development of Sembehun, this approach is expected to see the development of Sembehun integrated with the remaining operations at Area 1, with mining activities expected to transition to the Sembehun group of deposits over time. This would underpin a mine life for Sembehun of over 13 years post completion of steady state operations at Area 1 (based on the current Sembehun Ore Reserve). The approach is intended to optimise Sembehun's pre-production capital expenditure and maximise Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun. Importantly, the Demerger allows Iluka Shareholders the option to continue to participate in any future value creation associated with the development of Sembehun.

Sierra Rutile is in a strong position to succeed as a standalone entity as a result of:

- the improved operating performance delivered under the leadership of Sierra Rutile's Chief Executive Officer, Theuns de Bruyn;
- the recently ratified adjustments to the Sierra Rutile fiscal regime providing improved operational economics for Area 1;
- Sierra Rutile's robust balance sheet with no debt and a cash balance of US\$20.7 million (at 31 May 2022), post pro forma adjustments. Further, Iluka will establish a US\$45 million cash funded rehabilitation trust to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021; and
- the favourable outlook for natural rutile and the titanium feedstock market generally.

Further, following its ownership by Iluka, Sierra Rutile benefits from robust sustainability frameworks with a focus on safety, environmental management, community relations and anti-bribery and corruption.

BENEFITS OF THE DEMERGER

Should the Demerger be approved, Iluka will continue to be a leading global supplier of critical minerals, with a diversified set of producing assets in Australia and development options serving as the foundation to deliver sustainable value. Sierra Rutile will be an Australian headquartered, West African focused mineral sands producer and developer listed on the ASX. Sierra Rutile's principal business activities will be the management and operation of its existing Area 1 mine and progressing the development of the globally significant Sembehun Project.

The Iluka Board believes the separation of these two businesses into two separate ASX listed companies has potential to unlock shareholder value over time as a consequence of:

- the Board and management of each of Sierra Rutile and Iluka being able to focus on the distinct strategies for each business;
- a demerger of Sierra Rutile maximising the potential for the globally significant Sembehun Project to be developed, due to the strategic focus of the demerged business on this objective;
- Iluka Shareholders having greater flexibility to choose their level of investment in Iluka and Sierra Rutile based on their individual preferences for differing geographic exposures and risk-return profiles; and
- greater flexibility to align incentive plans with underlying strategy, performance and shareholder value creation for each business.

SIERRA RUTILE WILL CONTINUE TO BE OWNED BY ILUKA SHAREHOLDERS

If the Demerger Resolution is approved by Iluka Shareholders and the Demerger proceeds, eligible Iluka Shareholders will receive one Sierra Rutile Share for each Iluka Share they hold on the Record Date. Iluka Shareholders will also retain their shareholding in Iluka. Post implementation of the Demerger, Eligible Shareholders will have the choice to retain their Iluka and Sierra Rutile shares, buy and/or sell either or both of them.

YOUR VOTE IS IMPORTANT

I encourage you to read this Demerger Booklet thoroughly as it contains important information that will assist you to make an informed decision, including the advantages, disadvantages, and risks of the Demerger (see Section 1) and an investment in Sierra Rutile (see Section 3.27).

If you have any questions about the Demerger Booklet or the Demerger, please consult your financial, legal, taxation or other relevant professional adviser. You are also welcome to call the Shareholder Information Line on 1300 733 043 (within Australia) or +61 3 9415 4801 (international) on weekdays between 8.30am and 5.00pm (AEST) or visit the company's website, www.iluka.com.

In order for the Demerger to proceed, the Demerger Resolution must be approved by Iluka Shareholders and your vote is important. I urge you to vote on the Demerger Resolution by attending the Extraordinary General Meeting to be held at 9.30am (AWST) on Friday, 22 July 2022 and casting your vote online or by voting by proxy. For your Proxy Form to be effective, it must be received by 9.30am (AWST) on Wednesday, 20 July 2022.

Each Iluka Director recommends you vote in favour of the Demerger Resolution and each Iluka Director intends to vote any Iluka Shares they hold or control in favour of the Demerger Resolution. I look forward to discussing this important opportunity with you further during the Extraordinary General Meeting on Friday, 22 July 2022.

Yours sincerely



Rob Cole
Chairman
Iluka Resources Limited

IMPORTANT DATES

Event	Indicative Date
Date of this Demerger Booklet	Monday, 20 June 2022
Last time and date by which proxy forms for the Extraordinary General Meeting must be received by the Iluka Share Registry	9.30am (AWST) on Wednesday, 20 July 2022
Last time and date for determining eligibility to vote at the Extraordinary General Meeting	5.00pm (AWST) on Wednesday, 20 July 2022
Extraordinary General Meeting	9.30am (AWST) on Friday, 22 July 2022
Last time and date by which Sale Facility Forms must be received by the Iluka Share Registry (for Eligible Shareholders who individually hold 2,000 Iluka Shares or less as at the Record Date)	3.00pm (AWST) on Monday, 25 July 2022
Last date Iluka Shares trade on ASX cum-entitlements under the Demerger	Tuesday, 26 July 2022
ASX listing of Sierra Rutile. Sierra Rutile Shares to be distributed to Iluka Shareholders and commence trading on ASX on a deferred settlement basis	Wednesday, 27 July 2022
Iluka Shares trade on ASX on an ex-Demerger Entitlements basis	
Time and date for determining entitlement to Sierra Rutile Shares under the Demerger (Record Date)	5.00pm (AWST) on Thursday, 28 July 2022
Implementation Date and transfer of Sierra Rutile Shares to Eligible Shareholders (other than Selling Shareholders) and Sale Agent Dispatch of holding statements to Eligible Shareholders (other than Selling Shareholders)	Thursday, 4 August 2022
Normal trading of Sierra Rutile Shares on ASX commences	Friday, 5 August 2022
Completion of sale of Sierra Rutile Shares under Sale Facility	Monday, 5 September 2022
Dispatch of payment to Ineligible Overseas Shareholders and Selling Shareholders	Expected to occur on or before Wednesday, 21 September 2022

All dates and times following the date of the Extraordinary General Meeting are indicative only and, among other things, are subject to all necessary approvals from regulatory authorities. Any changes to the timetable will be announced through ASX and will be notified on Iluka's website at www.iluka.com.

ACTIONS FOR ILUKA SHAREHOLDERS

1. Carefully read this Demerger Booklet

You should read this Demerger Booklet in full, including the advantages, disadvantages and risks of the Demerger set out in Section 1 and of an investment in Sierra Rutile as set out in Section 2, before making any decision on how to vote on the Demerger Resolution.

There are answers to questions you may have about the Demerger in the 'Frequently asked questions' Section.

If you have any additional questions in relation to this document or the Demerger, please call the Shareholder Information Line on 1300 733 043 (within Australia) or +61 3 9415 4801 (international) on weekdays between 8.30am and 5.00pm (AEST).

2. Vote on the Capital Reduction

Iluka Shareholders who are registered on the Iluka Share Register at 5.00pm (AWST) on Wednesday, 20 July 2022 are entitled to vote to determine whether or not the Capital Reduction proceeds, subject to certain other conditions.

Iluka Shareholders can vote:

- in person, by attending the Extraordinary General Meeting;
- online at the www.investorvote.com.au website (Control Number: 181125) or scan the personalised QR code on your Proxy Form with your smartphone, and follow the prompts and instructions provided;
- by mailing the enclosed Proxy Form to Computershare Investor Services Pty Limited, GPO Box 1282, Melbourne VIC 3001, Australia (using the reply paid envelope provided); or
- by faxing the enclosed Proxy Form to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia);

To be valid, your Proxy Form must be received by the Iluka Share Registry by 9.30am (AWST) on Wednesday, 20 July 2022.

3. Choose whether to keep or sell the Sierra Rutile Shares that you would receive as a result of the Demerger

If you are an Iluka Shareholder with a registered address in Australia or who holds 2,000 Iluka Shares or less as at the Record Date, you may elect to have all the Sierra Rutile Shares that you would otherwise receive under the Demerger sold by the Sale Agent and the proceeds remitted to you, free of any brokerage costs or stamp duty.

To make this election, complete and return the Sale Facility Form using the enclosed reply paid envelope, or by fax on (03) 9473 2093 (within Australia) or +61 3 9473 2093 (outside Australia), or by email to corpactprocessing@computershare.com.au so that it is received by the Iluka Share Registry by 3.00pm (AWST) on Monday, 25 July 2022.

FREQUENTLY ASKED QUESTIONS

Question	Answer	Section
Demerger Proposal		
What is the Demerger?	<p>The Demerger will result in the formation of an independent ASX listed company, Sierra Rutile (ASX:SRX).</p> <p>Iluka Shareholders will retain their Iluka Shares and Eligible Shareholders will be entitled to receive one share in Sierra Rutile for every Iluka Share held at the Record Date.</p> <p>The Demerger does not require any Iluka Shareholder to pay cash for the Sierra Rutile Shares which they are entitled to as a result of the Demerger.</p>	1.1
Why has the Demerger been proposed by the Iluka Board?	<p>The evolution of Iluka and the shift of its strategic priorities towards its core Australian critical minerals business, led Iluka to determine that it would not fund the development of the Sembehun mineral sands project in Sierra Leone alone. As a result, Iluka commenced a process in late 2020 seeking to identify third parties willing to invest in the next phase of Sierra Rutile's growth. Earlier this year Iluka announced that this process had been expanded to consider the merits of a demerger of Sierra Rutile.</p> <p>Following the conclusion of this process, the Iluka Board has determined that a separation of Sierra Rutile by way of demerger is the optimal pathway for Sierra Rutile to achieve its growth objectives, reach its potential and maximise value for Iluka Shareholders.</p> <p>A demerger of Sierra Rutile will allow Iluka to focus its capital and management attention on its core Australian assets and development opportunities, particularly at Eneabba where Iluka is developing a fully integrated rare earths refinery.</p> <p>At the same time, a demerger provides Sierra Rutile, and its shareholders, with a clear focus on maximising returns from the company's existing operations and developing the globally significant Sembehun Project.</p> <p>After considering the advantages, disadvantages and risks of the Demerger, the Iluka Board has concluded the Demerger is in the best interests of Iluka Shareholders and will, over time, deliver greater value to Iluka Shareholders than the current structure.</p>	1.1
What alternatives did the Iluka Board consider?	<p>The Iluka Board considered a number of alternatives including maintaining the current structure, undertaking a sale of or an initial public offering of Sierra Rutile.</p> <p>Having regard to the available alternatives that were considered and the advantages, disadvantages and risks as set out in Section 1, the Iluka Board concluded that the Demerger is in the best interests of Iluka Shareholders.</p>	1.2

Question	Answer	Section
Demerger Proposal		
What is the business of Sierra Rutile?	<p>Sierra Rutile is a multi-mine operation straddling the Bonthe and Moyamba districts in southern Sierra Leone.</p> <p>Sierra Rutile holds one of the world's largest known natural rutile deposits and encompasses current mining and mineral processing operations at Area 1, including four wet concentrator plants; the Sembehun development project; a mineral separation plant and associated infrastructure; residential camps; and a dedicated port facility.</p> <p>Sierra Rutile's key strengths include:</p> <ul style="list-style-type: none"> attractive market fundamentals as a result of a structural deficit for natural rutile and declining grades of existing market participants, as projected by global market consultant, TZMI; a proven and established mining operation spanning over 50 years, with a positive outlook for Area 1 mining operations; the Sembehun Project, which is one of the largest and highest-grade natural rutile deposits in the world; highly sought-after titanium feedstock product which has laid the foundation for Sierra Rutile to develop long-term customer relationships; financially well positioned, with no debt and a cash balance of US\$20.7 million (at 31 May 2022), post pro forma adjustments. Further, Iluka will establish a US\$45 million rehabilitation trust cash funded on a one-off basis to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021; sound ESG credentials supported by Sierra Rutile's commitment to its local communities and progressive rehabilitation approach; and a strong board and management team. 	2
Recommendations		
What is the recommendation of the Iluka Directors?	Each Iluka Director recommends that you vote in favour of the Demerger Resolution. Each Iluka Director intends to vote any Iluka Shares held or controlled by him or her in favour of the Demerger Resolution.	1.1
What is the Independent Expert's opinion on the Demerger?	<p>The Independent Expert has concluded that the Demerger is in the best interests of Iluka Shareholders.</p> <p>The Independent Expert's Report is contained in Section 8.</p>	8
Advantages, disadvantages and risks of the Demerger		
What are the key advantages of the Demerger?	<p>The advantages of the Demerger include the following:</p> <ul style="list-style-type: none"> the Board and management of each of Sierra Rutile and Iluka being able to focus on the distinct strategies for each business; a demerger of Sierra Rutile maximises the potential for the globally significant Sembehun Project to be developed; Iluka Shareholders will have greater flexibility to choose their level of investment in Iluka and Sierra Rutile based on their individual preferences for differing geographic exposures and risk-return profiles; and greater flexibility to align incentive plans with underlying strategy, performance and shareholder value creation for each business. <p>These advantages are discussed in Section 1.3.</p>	1.3

Question	Answer	Section
Advantages, disadvantages and risks of the Demerger		
What are the key disadvantages of the Demerger?	<p>The disadvantages of the Demerger include:</p> <ul style="list-style-type: none"> the Demerger will create two separate companies listed on the ASX, each of which will be smaller and less diversified than Iluka immediately before the Demerger. Sierra Rutile will not have the support of the broader Iluka Group post Demerger; following the Demerger, Sierra Rutile will be a separately listed entity on the ASX, which it is estimated will result in additional costs of approximately A\$7.0 million per annum; there is expected to be approximately A\$7.5 million (pre-tax) in one-off transaction and separation costs associated with the Demerger; and some Iluka Shareholders will not be eligible to receive Sierra Rutile Shares, though this is not expected to be a material proportion of the Iluka Share Register. <p>These disadvantages, together with other disadvantages of the Demerger, are discussed in Section 1.4.</p>	1.4
What are the potential risks associated with the Demerger?	<p>The key potential risks of the Demerger include:</p> <ul style="list-style-type: none"> the combined market value of Iluka Shares and Sierra Rutile Shares after the Demerger may be less than the market value of Iluka Shares prior to the Demerger; changes in index inclusion may result in certain shareholders selling their shares immediately following the Demerger to comply with their investment mandates or preference; and potential delays and unexpected costs associated with the Demerger and the establishment of Sierra Rutile as a standalone entity. <p>These risks are discussed in Section 1.5. You should review Section 1.5 carefully before deciding whether or not to vote in favour of the Demerger Resolution.</p>	1.5

Question	Answer	Section
Advantages, disadvantages and risks of the Demerger		
What are the risks with respect to an investment in Sierra Rutile?	<p>Sierra Rutile will be subject to risks which may adversely affect its future operating or financial performance, or the investment return or value of Sierra Rutile Shares. Many of these risks are existing business risks, to which Iluka Shareholders are already exposed, while others arise out of, or increase as a result of, the Demerger.</p> <p>The key potential risks of an investment in Sierra Rutile include:</p> <ul style="list-style-type: none"> the risk that the development of Sembehun may not proceed or may be adversely impacted. Whilst the Sembehun Preliminary Feasibility Study results are positive, Sierra Rutile plans to undertake a Definitive Feasibility Study (DFS) to support a final investment decision in relation to Sembehun and there can be no guarantee that the results of the DFS will be positive or that Sierra Rutile will be able to obtain finance for the development of Sembehun on acceptable terms; the risk that operational and technical difficulties may be encountered in development and operations; risks associated with operating in Sierra Leone, including, but not limited to, economic, social, labour or political instability and future material adverse changes in laws or their interpretation. If such risks eventuated, their adverse impact on Sierra Rutile would be increased as a result of Sierra Rutile not being geographically diversified; risks that Sierra Rutile's rehabilitation and mine closure costs will be greater than the estimated provision as at 31 December 2021; the need for ongoing government approvals, licences and permits as well as new approvals, licences and permits to pursue the development of Sembehun; and the potential for adverse movements in the prices of commodities produced or costs of production achieved by Sierra Rutile. <p>These risks are discussed further in Section 3.27. You should review Section 3.27 carefully before deciding whether or not to vote in favour of the Demerger Resolution.</p>	3.27
What are the risks with respect to an investment in Iluka following the Demerger?	<p>The risks currently faced by Iluka will continue to be faced by the company following the Demerger. Investors are already exposed to these risks through their investment in Iluka, however, the nature of some of these risks may be altered due to the reduced diversification and loss of revenues resulting from Demerger.</p> <p>These risks are discussed further in Section 4.8.</p>	4.8
Sierra Rutile after the Demerger		
When will Sierra Rutile Shares commence trading on the ASX separately?	<p>It is expected that Sierra Rutile Shares will commence trading on the ASX on Wednesday, 27 July 2022, initially on a deferred settlement basis.</p> <p>It is the responsibility of Eligible Shareholders to determine their entitlement to Sierra Rutile Shares before trading in Sierra Rutile Shares, especially during the deferred settlement period.</p> <p>Trading on the ASX of Sierra Rutile Shares on a normal settlement basis is expected to commence on Friday, 5 August 2022.</p>	5.7

Question	Answer	Section
Sierra Rutile after the Demerger		
What will the Sierra Rutile share price be after the Demerger?	There is no certainty as to the price at which Sierra Rutile Shares will trade after the Demerger. Sierra Rutile's share price will be determined when it commences trading on the ASX on a deferred settlement basis, which is expected to be on Wednesday, 27 July 2022.	5.7
What will Sierra Rutile's strategic priorities be after the Demerger?	<p>Sierra Rutile's current strategic priorities are set out in Section 3.5. The Sierra Rutile Board intends to continue to focus on these strategic priorities following the Demerger.</p> <p>The future strategy of Sierra Rutile will be a matter for the Sierra Rutile Board and Sierra Rutile senior management to update over time.</p>	3.5
What additional ongoing costs will Sierra Rutile have as a standalone listed company?	Sierra Rutile is expected to incur incremental, net ongoing costs of approximately A\$7.0 million per annum as a standalone listed entity. These costs are associated with Sierra Rutile's ongoing ASX fees, share registry, insurance, maintaining a separate board of directors and management team, and operating company secretarial, treasury and other corporate functions required as a separate listed entity.	1.4.2
What will Sierra Rutile's dividend policy be?	<p>Given Sierra Rutile's focus on developing the Sembehun Project and the pre-production capital required to bring Sembehun into production, Sierra Rutile will not have an active dividend policy immediately post Demerger.</p> <p>Sierra Rutile's approach to dividends and dividend policy will be determined by the Sierra Rutile Board at its discretion and may change over time.</p>	3.6
What will Sierra Rutile's capital structure be?	<p>Following the Demerger, Sierra Rutile will have no debt. Sierra Rutile will have a cash balance of US\$20.7 million (at 31 May 2022), post pro forma adjustments. Further, Iluka will establish a US\$45 million cash funded rehabilitation trust to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021.</p> <p>Sierra Rutile will have only ordinary shares on issue and no other equity securities at the time of the Demerger.</p>	3.6
Who will be on the Sierra Rutile Board after the Demerger?	<p>The Sierra Rutile Board will initially comprise the following persons:</p> <ul style="list-style-type: none"> • Greg Martin – Independent Chair • Theuns de Bruyn – Managing Director and Chief Executive Officer • Martin Alciaturi – Finance Director • Graham Davidson – Independent Non-Executive Director • Joanne Palmer – Independent Non-Executive Director 	3.23.1
Who will be on the senior management team of Sierra Rutile after the Demerger?	<p>Sierra Rutile's senior leadership team will comprise:</p> <ul style="list-style-type: none"> • Theuns de Bruyn – Managing Director and Chief Executive Officer • Martin Alciaturi – Finance Director • Eben Lombard – Chief Operating Officer • Maurice Cole – Chief Financial Officer • Derek Folmer – General Manager Marketing • Sue Wilson – General Counsel and Company Secretary 	3.23.2

Question	Answer	Section
Iluka after the Demerger		
Will Iluka own any Sierra Rutile Shares after the Demerger?	No. Iluka's strategic and capital allocation priorities are now focused on its key Australian operations and development projects, particularly at Eneabba, where Iluka is developing a fully integrated rare earths refinery. Accordingly, Iluka will not retain any Sierra Rutile Shares after the Demerger.	
What will Iluka's share price be after the Demerger?	<p>There is no certainty as to the price at which Iluka Shares will trade after the Demerger. Iluka will, however, no longer own the assets of Sierra Rutile and as a result, the price at which Iluka Shares trade may change post Demerger.</p> <p>Iluka (post Demerger)'s share price will be determined when it begins trading on the ASX ex-Demerger Entitlement, which is expected to be on Wednesday, 27 July 2022.</p>	5.7
What will be Iluka's strategy after the Demerger?	<p>Post demerger, Iluka will be an international critical minerals company with expertise in exploration, project development, mining, processing, marketing and rehabilitation. With over 70 years industry experience, Iluka will continue to be a producer of the critical minerals zircon, high grade titanium feedstocks (rutile and synthetic rutile) and rare earths.</p> <p>Iluka is seeking to address depleting supply across the mineral sands industry by pursuing the development of technically challenging opportunities in Australia. This includes mining and processing solutions that could be material for both Iluka and the industry such as; the innovative underground mining technology under development for the Balranald project, and the zircon processing solution under development for the Wimmera deposits.</p> <p>The company has also approved the development of a fully integrated rare earths refinery at Eneabba in Western Australia, representing an important and logical step in Iluka's strategy to be a leading global supplier of critical minerals. Eneabba is the world's highest grade rare earths operation and provides a world class foundation for Iluka's diversification. Similarly, the Wimmera project in Victoria has the potential to serve as a long life source of both rare earths and zircon.</p> <p>Iluka's objective to deliver sustainable value will remain.</p>	4.3
Who will be on the Iluka Board after the Demerger?	<p>Following the Demerger, the Iluka Board will comprise 6 directors:</p> <ul style="list-style-type: none"> • Rob Cole – Independent Chairman • Tom O'Leary – Managing Director • Marcelo Bastos – Independent Non-Executive Director • Susie Corlett – Independent Non-Executive Director • Lynne Saint – Independent Non-Executive Director • Andrea Sutton – Independent Non-Executive Director 	4.6

Question	Answer	Section
Iluka after the Demerger		
Who will be on the senior management team of Iluka after the Demerger?	<p>Following the Demerger, Iluka's senior management team will comprise:</p> <ul style="list-style-type: none"> • Tom O'Leary – Managing Director and CEO • Adele Stratton – Chief Financial Officer and Head of Development • Matthew Blackwell – Head of Projects and Sales & Marketing • Daniel McGrath – Chief Technical Officer and Head of Rare Earths • Shane Tilka – General Manager, Australian Operations • Sarah Hodgson – General Manager, People and Sustainability • Rob Hattingh – Head of Climate Change Response • Ben Martin – General Counsel and Company Secretary 	4.6
What will be the impact of the Demerger on Iluka's dividends?	<p>Post Demerger, Iluka will maintain its current dividend framework to pay dividends equal to 100% of dividends received from Deterra Royalties and a minimum of 40% of free cash flow from its mineral sands business not required for investing or balance sheet activity. Iluka will seek to distribute the maximum franking credits available.</p> <p>However, Iluka's dividend policy will be determined by the Iluka Board at its discretion and may change over time.</p>	4.5
Implementation and process		
What are the mechanics of the Demerger?	<p>To implement the Demerger, Iluka will undertake a Capital Reduction and Dividend, which will be an in-specie distribution of Sierra Rutile Shares to Eligible Shareholders (other than Selling Shareholders). Eligible Shareholders (other than Selling Shareholders) will receive one Sierra Rutile Share for every Iluka Share held at the Record Date.</p> <p>Following implementation of the Demerger, Eligible Iluka Shareholders (other than Selling Shareholders) will hold 100% of the Sierra Rutile Shares on issue.</p>	5.4
What is the Capital Reduction?	<p>The Capital Reduction will involve Iluka reducing its share capital on the Implementation Date. The Capital Reduction Amount will not be paid in cash to Iluka Shareholders. The Capital Reduction (and the Dividend) will be effected by an in-specie distribution of Sierra Rutile Shares under the Demerger.</p> <p>Iluka is of the view that, taking into account all relevant matters, the Capital Reduction is fair and reasonable to Iluka Shareholders as a whole and will not materially prejudice the ability of Iluka to pay its creditors.</p> <p>The Independent Expert has concluded that the Demerger (comprising the Capital Reduction and the Dividend) will not materially prejudice the ability of Iluka to pay its creditors. Refer to Section 8 for the Independent Expert's Report.</p>	5.4 and 8

Question	Answer	Section
Implementation and process		
What are the key steps to implement the Demerger?	<p>The key remaining steps to implement the Demerger are:</p> <p>approval of the Capital Reduction by Iluka Shareholders at the Extraordinary General Meeting;</p> <ul style="list-style-type: none"> approval of admission of Sierra Rutile to the Official List of the ASX and the quotation of Sierra Rutile Shares on the ASX (Listing); satisfaction or waiver of all other conditions precedent to the Demerger (including establishment of the US\$45m rehabilitation trust to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021); and Eligible Shareholders (other than Selling Shareholders) receiving Sierra Rutile Shares. <p>Trading on the ASX of Sierra Rutile Shares on a normal settlement basis is expected to commence on Friday, 5 August 2022.</p> <p>Sections 5.1, 5.2, 5.3 and 5.4 contain further details of the Demerger, including a description of the approval thresholds and other conditions that must be satisfied or waived for the Demerger to proceed.</p>	1
Is the Demerger subject to any conditions?	<p>The Demerger is subject to the satisfaction or waiver of certain conditions.</p> <p>The conditions precedent to implementation of the Demerger are set out in Section 5.1.</p>	5.1
Which Iluka Shareholders are eligible to participate in the Demerger?	<p>Iluka Shareholders registered on the Iluka Share Register as holders of Iluka Shares at the Record Date may be eligible to receive Sierra Rutile Shares, depending on the location of their registered address.</p> <p>Iluka Shareholders whose registered address on the Iluka Share Register at the Record Date is in the following jurisdictions will be Eligible Shareholders:</p> <ul style="list-style-type: none"> Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; or a jurisdiction in which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the Sierra Rutile Shares to the Iluka Shareholder. <p>Ineligible Overseas Shareholders, being Iluka Shareholders whose registered address on the Iluka Share Register at the Record Date is outside the jurisdictions listed above, will not receive Sierra Rutile Shares and should refer to Section 5.8 for further information.</p>	5.5
Will I need to make any payments to participate in the Demerger?	<p>No. The Capital Reduction and Dividend on your Iluka Shares will be effected by the in-specie distribution of Sierra Rutile Shares. You do not need to make any separate payment.</p>	5.5

Question	Answer	Section
Implementation and process		
Can I choose to receive cash instead of Sierra Rutile Shares under the Demerger?	<p>No. You cannot elect to receive cash instead of Sierra Rutile Shares under the Demerger.</p> <p>However, if you are an Ineligible Overseas Shareholder, the Sierra Rutile Shares you are otherwise entitled to under the Demerger will be sold on the ASX by the Sale Agent with the proceeds remitted to you, free of any brokerage costs or stamp duty.</p> <p>In addition, Eligible Shareholders who individually hold 2,000 Iluka Shares or less at the Record Date (Small Shareholders) may elect to have the Sierra Rutile Shares to which they are entitled sold on the ASX by the Sale Agent and the proceeds remitted to them under the Sale Facility, free of any brokerage costs or stamp duty. Small Shareholders who do not make an election to participate in the Sale Facility will receive Sierra Rutile Shares under the Demerger.</p> <p>The amount of money received by each Ineligible Overseas Shareholder and Selling Shareholder will be calculated on an averaged basis so that all Ineligible Overseas Shareholders and Selling Shareholders will receive the same price in Australian dollars per Sierra Rutile Share, subject to rounding to the nearest whole cent.</p>	5.8
What is the Sale Facility?	<p>The Sale Facility provides for the sale of Sierra Rutile Shares for Selling Shareholders or Ineligible Overseas Shareholders as set out below.</p> <p>SELLING SHAREHOLDERS</p> <p>If you are a Small Shareholder and you wish to have:</p> <ul style="list-style-type: none"> all of the Sierra Rutile Shares that you would receive under the Demerger sold on the ASX by the Sale Agent; and the proceeds (calculated on an averaged basis) remitted to you, free of any brokerage costs or stamp duty, <p>you should complete and return the Sale Facility Form using the enclosed reply paid envelope, or by fax on (03) 9473 2093 (within Australia) or +61 3 9473 2093 (international) or by email to corpactprocessing@computershare.com.au so that it is received by the Iluka Share Registry by 3.00pm (AWST) on Monday, 25 July 2022.</p> <p>The Sale Facility operates on an opt-in basis for Small Shareholders, so Small Shareholders who do not make an election to participate in the Sale Facility will receive Sierra Rutile Shares under the Demerger.</p> <p>The Sale Facility for Small Shareholders only applies to Sierra Rutile Shares. Iluka Shares cannot be sold under the Sale Facility.</p> <p>INELIGIBLE OVERSEAS SHAREHOLDERS</p> <p>Ineligible Overseas Shareholders will have their Sierra Rutile Shares sold through the Sale Facility, with the proceeds (calculated on an average basis) from the sale of the Sierra Rutile Shares to which they are entitled, remitted to them, free of any brokerage costs or stamp duty.</p> <p>Accordingly, Ineligible Overseas Shareholders do not need to take any steps to participate in the Sale Facility.</p>	5.8
What will Iluka Shareholders receive if the Demerger proceeds?	<p>Eligible Shareholders (other than Selling Shareholders) will receive one Sierra Rutile Share for every Iluka Share they hold at the Record Date. The Record Date is expected to be 5.00pm (AWST) on Thursday, 28 July 2022.</p>	5.4

Question	Answer	Section
Implementation and process		
What is the impact of the Demerger on my Iluka Shares?	The number of Iluka Shares will not change as a result of the Demerger. Iluka will, however, no longer own the Sierra Rutile business after the Demerger.	
What are the costs of the Demerger?	Total transaction and separation costs of the Demerger are estimated to be A\$7.5 million (pre-tax), of which A\$6.7 million is expected to be incurred by Iluka and the remaining A\$0.8 million to be incurred by Sierra Rutile. Of these costs, A\$4.1 million is expected to have been incurred prior to the Extraordinary General Meeting.	1.4.1
What happens if the Demerger does not proceed?	<p>If the Demerger does not proceed:</p> <ul style="list-style-type: none"> • Sierra Rutile will continue to operate as part of the Iluka Group; • Eligible Shareholders will not receive Sierra Rutile Shares (and Ineligible Overseas Shareholders and Selling Shareholders will not receive the proceeds from the sale of Sierra Rutile Shares); • Iluka will incur transaction costs of approximately A\$3.4 million; • Iluka will have incurred separation costs of approximately A\$0.7 million; and • the advantages of the Demerger described in Section 1.3 will not be realised, and the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 will not arise. 	5.9.5
Voting on the Demerger		
What is the resolution to be proposed at the Extraordinary General Meeting?	Iluka Shareholders are being asked to consider and vote on a resolution to approve the Capital Reduction to effect the Demerger.	5.3
What is the voting threshold for the Demerger Resolution?	The Capital Reduction must be approved by a simple majority (more than 50%) of votes cast by Iluka Shareholders on the Demerger Resolution.	5.3
Who can vote at the Extraordinary General Meeting?	Iluka Shareholders who are registered on the Iluka Share Register at 5.00pm (AWST) on Wednesday, 20 July 2022 are entitled to vote on the Demerger Resolution.	5.3
When and where is the Extraordinary General Meeting?	<p>The Extraordinary General Meeting for Iluka Shareholders to vote on the Demerger Resolution will be held at 9.30am (AWST) on Friday, 22 July 2022 as a hybrid meeting, online and at The Theatre on the Mezzanine level at 240 St Georges Terrace, Perth, Western Australia.</p> <p>Iluka will be closely monitoring the evolving COVID-19 situation. If it becomes necessary or appropriate to make alternative arrangements for the holding of the Extraordinary General Meeting, Iluka will ensure that Iluka Shareholders are given as much notice as possible via the ASX Market Announcements Platform and Iluka's website.</p>	11

Question	Answer	Section
Voting on the Demerger		
What is the procedure to vote at the Extraordinary General Meeting?	<p>VOTING IN PERSON</p> <p>Iluka Shareholders and proxyholders can attend and participate in the Extraordinary General Meeting in person at the Theatre on the Mezzanine level at 240 St Georges Terrace, Perth, Western Australia, including the ability to ask questions and cast votes during the meeting.</p> <p>VOTING VIA THE ONLINE PLATFORM</p> <p>Iluka Shareholders and proxyholders have the option to participate at the Extraordinary General Meeting in real-time using the online platform. To use the online platform you will require a computer, tablet or mobile device with an internet connection.</p> <p>Participating in the meeting online will enable Iluka Shareholders to view the Extraordinary General Meeting live, comment and ask questions, and vote in real time at the appropriate times during the meeting.</p> <p>More information about online participation is available in the Extraordinary General Meeting Online Guide at: http://www.computershare.com.au/virtualmeetingguide.</p> <p>VOTING BY PROXY</p> <p>If you are unable to attend the Extraordinary General Meeting, you can lodge your proxy online at www.investorvote.com.au or scan the personalised QR code on your Proxy Form with your smartphone and follow the prompts. Alternatively, complete and return the Proxy Form accompanying this Demerger Booklet by using the enclosed envelope, or by fax on 1800 783 447 (within Australia) or +61 3 9473 2555 (international).</p> <p>If an attorney signs a Proxy Form on your behalf, a copy of the authority under which the Proxy Form was signed must be received by the Iluka Share Registry at the same time as the Proxy Form (unless you have already provided a copy of the authority to the Iluka Share Registry).</p> <p>If you complete and return a Proxy Form, you may still attend the Extraordinary General Meeting online.</p>	11
What if I do not vote at the Extraordinary General Meeting or do not vote in favour of the Demerger Resolution?	<p>If Iluka Shareholders who support the Demerger do not vote, there is a risk the Demerger will not be approved. If you do not vote or vote against the Demerger Resolution, but the Demerger Resolution is approved by the requisite majority of Iluka Shareholders then, subject to the other conditions to the Demerger being satisfied or waived, the Demerger will be implemented and binding on all Iluka Shareholders, including those who did not vote or voted against the Demerger Resolution.</p>	11

Question	Answer	Section
Tax considerations		
What are the taxation implications of the Demerger for Iluka Shareholders?	<p>Iluka has applied to the Australian Commissioner of Taxation for a class ruling confirming certain income tax implications of the Demerger for Iluka Shareholders.</p> <p>A class ruling will only be received from the Commissioner after the Implementation Date for the Demerger.</p> <p>The general Australian taxation implications of the Demerger for Iluka Shareholders are set out in Section 6 including in the situation where demerger tax relief is available and where demerger tax relief is not available.</p> <p>The outline in Section 6 is general in nature and should not be relied upon as advice. The tax consequences for each shareholder may vary depending on individual circumstances. Accordingly, you are encouraged to seek your own professional advice as to the Australian, and, if applicable, foreign tax implications of participating in the Demerger.</p>	6
Other information		
If you have further questions	<p>If you have any further questions, you should:</p> <ul style="list-style-type: none"> • contact your stockbroker, solicitor, accountant and/or other professional adviser; or • call the Shareholder Information Line on 1300 733 043 (within Australia) or +61 3 9415 4801 (international) on weekdays between 8.30am and 5.00pm (AEST). <p>Further information can also be found on Iluka's website www.iluka.com.</p>	

1. Advantages, disadvantages and other relevant considerations



1.1 BACKGROUND TO THE DEMERGER

In late 2020, with its business evolving and its strategic priorities shifting towards its core Australian mineral sands and rare earths business, Iluka commenced a process to identify third parties willing to invest in the next phase of Sierra Rutile's growth.

In January 2022, Iluka announced the process had been broadened to include an assessment of a potential demerger of Sierra Rutile.

Following the conclusion of this process, the Iluka Board determined that it is too early to crystallise an appropriate value for the Sembehun project and that a demerger, which provides Iluka Shareholders with the opportunity to retain an exposure to Sembehun, is the optimal pathway for Sierra Rutile to reach its potential and maximise value for Iluka Shareholders.

A demerger of Sierra Rutile will allow Iluka to focus its capital and management attention on its core Australian assets and development opportunities, particularly at Eneabba, where Iluka is developing a fully integrated rare earths refinery.

For Sierra Rutile, a demerger will provide a dedicated Board and management team and appropriate capital structure, ensuring the company is well equipped to implement strategies to maximise the value from the remaining deposits at Area 1 and to continue to progress the globally significant Sembehun Project.

The Iluka Directors are of the view that the advantages of the Demerger outweigh its disadvantages and risks. As a result, each Iluka Director recommends that Iluka Shareholders vote in favour of the Demerger Resolution at the Extraordinary General Meeting.

Iluka Shareholders should carefully consider the following advantages, disadvantages and risks of the Demerger and other relevant considerations, as well as other information contained in this Demerger Booklet (including the risks associated with owning Sierra Rutile Shares as set out in Section 3.27, the risks associated with owning Iluka Shares (post-Demerger) as set out in Section 4.8 and the Independent Expert's Report in Section 8), in deciding whether or not to vote in favour of the Demerger Resolution required to implement the Demerger.

1.2 ALTERNATIVES CONSIDERED

Iluka has carefully considered, with its advisors, a number of alternative options to the Demerger, including maintaining the current structure, undertaking a sale of or an initial public offering of Sierra Rutile. The Iluka Directors

are of the view that separation of the businesses has the potential to unlock shareholder value over time relative to the current combined structure and that, of the options to separate, the Demerger is the most likely to enhance long term value for Iluka Shareholders compared to the alternative options. Accordingly, the Iluka Directors are of the view that the Demerger is the preferred mechanism to effect the separation of Sierra Rutile from Iluka.

1.2.1 MAINTAINING THE CURRENT STRUCTURE

The geographic, operational and development characteristics and risk profiles of Iluka's Australian business and Sierra Rutile differ and require different strategies, levels of capital investment, capital structures and financial policies.

As Iluka has elected to focus on its mineral sands and rare earths business in Australia, Sembehun is not one of Iluka's highest near term priorities for capital deployment despite being a globally significant deposit with potentially attractive returns based on the June 2022 Sembehun Preliminary Feasibility Study (**PFS**) (refer to Section 3.12 for details on the development of the Sembehun Project).

As a result, maintaining the current structure is not expected to maximise the potential of the Sembehun Project. Further, maintaining the current structure does not allow investors to choose their level of investment in the two distinct investment propositions. While maintaining the current structure does have some benefits including reduced transaction costs and revenue diversification, the Iluka Directors do not believe this will deliver the greatest long-term value for Iluka Shareholders compared to the Demerger.

1.2.2 TRADE SALE

While a sale of Sierra Rutile may result in cash proceeds being received by Iluka, given Sierra Rutile's current characteristics (particularly the rehabilitation obligations in relation to Area 1 and the capital requirements for the development of Sembehun) trade buyers and financial sponsors have not, at this time, offered terms that reflect fair value for the significant future option value that Sembehun represents for Iluka Shareholders. If Sierra Rutile was sold, Iluka Shareholders would not have the option to continue their investment and therefore could not participate in any future value uplift associated with the development of Sembehun. A sale may involve a higher degree of transaction uncertainty compared to the Demerger. Accordingly, the Iluka Board considers a sale is unlikely to realise the full underlying value of Sierra Rutile for Iluka Shareholders.

The Demerger does not preclude a third party from acquiring Sierra Rutile in the future. Whilst there is no guarantee an approach for an acquisition of Sierra Rutile may subsequently eventuate, Iluka Shareholders who retain

their investment in Sierra Rutile following the Demerger would potentially benefit from, and be able to make their own decision about participation in, any future corporate takeover activity involving Sierra Rutile.

1.2.3 INITIAL PUBLIC OFFERING (IPO)

Under an IPO of Sierra Rutile, Iluka would receive cash proceeds from investors for the sale of Sierra Rutile Shares. However, an IPO would also likely involve a significant degree of transaction uncertainty and would not allow Iluka Shareholders to participate in any future value associated with the development of Sembehun, unless Iluka Shareholders separately opted to participate in the IPO of Sierra Rutile or that future value was adequately recognised in the cash proceeds from IPO investors.

Separation via an IPO would also be likely to give rise to substantial additional execution costs compared to the Demerger.

1.2.4 DEMERGER

The Iluka Directors selected the Demerger as the preferred approach to the separation of Sierra Rutile as the Iluka Board considers that the Demerger:

- will establish Sierra Rutile with a dedicated Board and management team and capital structure so that Sierra Rutile is well equipped to implement strategies to maximise value from the remaining producing deposits at Area 1 and to continue to progress the globally significant Sembehun Project;
- does not crystallise a fixed value for Sierra Rutile but instead allows Eligible Shareholders to continue to retain their exposure to Sierra Rutile and benefit from the future growth of the business through the development of Sembehun;
- allows Eligible Shareholders to retain their existing ownership of Sierra Rutile, with the opportunity to increase or decrease that exposure by trading in Sierra Rutile Shares based on their individual preferences for differing geographic exposures and risk-return profiles;
- allows for greater flexibility to align Sierra Rutile's incentive plans with the company's underlying strategy, performance and shareholder value creation; and
- is the preferred method of separation relative to other options currently available, taking into account transaction costs, certainty and implementation timeframe.

1.3 ADVANTAGES OF THE DEMERGER

1.3.1 THE BOARD AND MANAGEMENT OF EACH OF SIERRA RUTILE AND ILUKA WILL FOCUS ON THE DISTINCT STRATEGIES FOR EACH BUSINESS

Iluka's Australian mineral sands and rare earths business and Sierra Rutile have differing geographic exposures and risk-return profiles. Following the Demerger, Iluka and Sierra Rutile will each be able to focus on their respective strategies and operational initiatives to drive long term value.

At present, strategic decisions and the allocation of capital relating to Sierra Rutile are considered against those of Iluka's core Australian mineral sands and rare earths business. The Demerger will create a board and management team focused solely on implementing strategies to maximise the value from the remaining producing deposits at Area 1 and to continue to progress the globally significant Sembehun Project.

Refer to Section 3.5 for additional information on the proposed business strategy of Sierra Rutile and to Section 4.3 for additional information on the business overview of Iluka.

1.3.2 A DEMERGER OF SIERRA RUTILE MAXIMISES THE POTENTIAL FOR THE GLOBALLY SIGNIFICANT SEMBEHUN PROJECT TO BE DEVELOPED

Subject to the Demerger proceeding, Sierra Rutile will be focused on advancing its globally significant Sembehun Project, representing one of the largest and highest grade natural rutile deposits in the world. The June 2022 Sembehun PFS sets out an attractive project and pathway to developing Sembehun that leverages the significant Area 1 infrastructure in place and future Area 1 cash flows to develop Sembehun in a two phased approach. This phased approach contemplates the development of Sembehun being integrated into the remaining operations at Area 1, allowing mining activities to transition to the Sembehun group of deposits over time. The Sembehun PFS outlines a mine life of over 13 years post completion of steady state operations at Area 1 based on the current Ore Reserve for Sembehun.

This approach is also expected to optimise Sembehun pre-production capital expenditure and maximise Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun.

Refer to Section 3.12 for further details on the development of the Sembehun Project.

1.3.3 ILUKA SHAREHOLDERS WILL HAVE GREATER FLEXIBILITY TO CHOOSE THEIR LEVEL OF INVESTMENT IN ILUKA AND SIERRA RUTILE

The characteristics and risk profiles of Iluka and Sierra Rutile differ and may appeal to different types of investors. The Demerger will provide Eligible Shareholders (other than Selling Shareholders) with separate investments in two distinct companies.

Sierra Rutile will be focused on maximising value from its existing Area 1 operations and progressing the development of the globally significant Sembehun Project, which represents one of the largest and highest grade natural rutile deposits in the world.

Iluka (post Demerger) will be an Australian focused mineral sands and rare earths producer providing investors with a market leading position in the global mineral sands market (both in zircon and high grade titanium feedstocks markets) and exposure to Iluka's rare earths business, where it has approved the development of the fully integrated rare earths refinery located at Eneabba in Western Australia.

Once Sierra Rutile is separately listed, existing and future investors will have greater investment choice and the opportunity to manage their exposure to the different investment characteristics of Iluka and Sierra Rutile respectively, according to their individual preferences for differing geographic exposures and risk-return profiles.

1.3.4 GREATER FLEXIBILITY TO ALIGN INCENTIVE PLANS WITH UNDERLYING STRATEGY, PERFORMANCE AND SHAREHOLDER VALUE CREATION

The Demerger will increase flexibility for each business to put in place management compensation and incentive plans that have closer alignment to each business' underlying strategy, performance and shareholder returns. Further, this increased flexibility will enhance Sierra Rutile's ability to attract and retain key personnel.

At present, Iluka executive incentive plans are weighted towards overall shareholder return-based measures. Without a structural separation, it is challenging in this context to decouple the contribution to shareholder return from Iluka's Australian mineral sands and rare earths business and Sierra Rutile, by maximising value from Area 1 and developing the Sembehun Project.

Separating the businesses by way of the Demerger ensures that share based compensation and incentive plans can be fully aligned to the respective business' performance and value creation.

For further information on Sierra Rutile Directors' incentive plans see Section 3.25.6.

1.4 DISADVANTAGES OF THE DEMERGER

1.4.1 REDUCTION IN SIZE AND DIVERSIFICATION

The Demerger will create two separate companies listed on the ASX, each of which will be smaller than Iluka immediately before the Demerger.

While Iluka will continue to be a large, diversified business following the Demerger, Sierra Rutile will be a smaller, stand-alone, business with one operating asset and a development project and will no longer have the support of the broader Iluka group (including access to funding via the Iluka Group). This may result in Sierra Rutile incurring additional costs (such as incremental financing and insurance costs and less beneficial supply terms) and facing additional risks compared to its position as a subsidiary of Iluka. There may also be potential delays, unexpected costs or other issues in establishing Sierra Rutile as a standalone entity.

Sierra Rutile's assets are located in Sierra Leone and will be subject to the various political, economic, social and other risks and uncertainties associated with operating in that jurisdiction. Any event or circumstance which negatively affects Sierra Leone could materially affect the financial performance of Sierra Rutile more significantly than if it had a geographically diversified asset base.

Sierra Rutile will be materially exposed to natural rutile production and fluctuations in titanium feedstock prices. These factors, which determine the cash flow from Sierra Rutile's asset base, can be volatile. While the outlook for the titanium feedstock market is positive, lower economic growth or a deterioration in global economic conditions may impact titanium feedstock markets and therefore affect the revenue and cash flow generation that Sierra Rutile derives from its existing Area 1 operations and that it may derive from operations at Sembehun.

For further information regarding the risk factors affecting Sierra Rutile, see Section 3.27 and Iluka (post Demerger) see Section 4.8.

1.4.2 ADDITIONAL CORPORATE AND OPERATING COSTS

Following the Demerger, Sierra Rutile will be a separately listed entity on the ASX, which is expected to result in net additional ongoing corporate costs of approximately A\$7.0 million per annum. These costs are associated with Sierra Rutile's ongoing ASX fees, share registry, maintaining a separate board of directors and management team, and operating company secretarial, treasury and other corporate functions required as a separate listed entity.

1.4.3 DEMERGER IMPLEMENTATION COSTS

Total one-off transaction and separation costs in relation to the Demerger are estimated to be approximately

A\$7.5 million (on a pre-tax basis). These costs include financial, accounting, legal and tax adviser costs and upfront organisation costs, IT costs and ASX listing execution costs. It is expected that the majority of costs will be met by Iluka save for Sierra Rutile's organisation costs, a portion of financial and legal advisory fees. Approximately A\$4.1 million of these costs will have already been incurred prior to the Extraordinary General Meeting. The remaining costs are expected to be incurred following the Extraordinary General Meeting.

1.4.4 SOME ILUKA SHAREHOLDERS WILL NOT BE ELIGIBLE TO RECEIVE, OR MAY BE UNABLE TO RETAIN, SIERRA RUTILE SHARES

Iluka Shareholders who are Ineligible Overseas Shareholders will not receive Sierra Rutile Shares under the Demerger. Sierra Rutile Shares that would otherwise be transferred to these shareholders under the Demerger will be transferred to the Sales Agent to be sold, with the proceeds of such sale to be paid to Ineligible Overseas Shareholders. Based on the Iluka Shareholders as at the date of this Demerger Booklet, Ineligible Overseas Shareholders are not expected to represent a significant proportion of the Iluka Share Register.

In addition, some Iluka Shareholders may not be permitted to retain their Sierra Rutile Shares under the terms of their investment mandates. This may result in downward pressure on the Sierra Rutile Share price in the initial period following implementation of the Demerger. Based on the Iluka Shareholders as at the date of this Demerger Booklet, such shareholders could represent a significant proportion of the Iluka Share Register.

1.5 RISKS OF THE DEMERGER

The key risks of the Demerger are as follows:

1.5.1 COMBINED MARKET VALUE OF SIERRA RUTILE SHARES AND ILUKA SHARES POST DEMERGER MAY BE LESS THAN THE COMBINED MARKET VALUE PRIOR TO THE DEMERGER

The Iluka Directors consider that the Demerger will enhance long term value for Iluka Shareholders. However, it is not possible to predict the market value of Sierra Rutile Shares and Iluka Shares post Demerger.

There can be no assurance that Sierra Rutile Shares or Iluka Shares post Demerger will trade at any particular price after implementation of the Demerger and the Listing. There is a risk that the combined market value of Sierra Rutile and Iluka (post Demerger) may be less than the market value of Iluka prior to the Demerger.

Iluka Shareholders should also note that if the Demerger does not proceed, there is no assurance that Iluka Shares will continue to trade at prices in line with recent levels.

1.5.2 POTENTIAL CHANGES IN INDEX INCLUSION AND IMPACT OF SIERRA RUTILE NOT BEING INCLUDED IN THE S&P/ASX 200 INDEX OR THE S&P/ASX 100 INDEX

Iluka is currently (prior to the Demerger) a constituent of the benchmark S&P/ASX 200 index as well as the S&P/ASX 100 index. Following the Demerger, Iluka is expected to continue to be a constituent of the S&P/ASX 200 index and S&P/ASX 100 index. However, Sierra Rutile is not expected to be a constituent of the S&P/ASX 200 index or the S&P/ASX 100 index.

Index inclusion for Iluka will depend on a number of factors, including the trading of its shares following the Demerger, and no assurances can be made regarding Iluka's potential index inclusion following the Demerger, or potential index inclusion in the future.

Given the expectation that Sierra Rutile will not be a constituent of the S&P/ASX 200 index or the S&P/ASX 100 index, it is likely that some existing institutional fund manager shareholders will need to sell their shares in the period immediately following the Demerger to comply with their investment mandates or preference. However, this may also create the opportunity for different groups of institutional fund managers focused on constituents outside of these indices to purchase shares under their investment mandates. As such, there is no certainty as to the impact on the share price or trading of Sierra Rutile stemming from not being a constituent of the S&P/ASX 200 index or the S&P/ASX 100 index.

1.5.3 THERE IS POTENTIAL FOR DELAYS, UNEXPECTED COSTS OR OTHER ISSUES IN ESTABLISHING SIERRA RUTILE AS A STANDALONE OPERATING ENTITY

Sierra Rutile is currently supported in part by Iluka's corporate services infrastructure, including assistance with the provision of services relating to group accounting, treasury, taxation, superannuation, technical, marketing, legal, insurance, administration, information management and human resources.

As part of the implementation of the Demerger, Sierra Rutile will replace these support services with its own internal capability, third party contracts and transitional service agreements as appropriate. During a transitional period of up to 12 months, Sierra Rutile will be reliant on Iluka for the provision of certain transitional services and will enter into a transitional services arrangement with Iluka to support the establishment of its own operations (see Section 5.9.4 for further information).

It may take some time for Sierra Rutile to procure the necessary resources and services and ensure that all processes are operating fully and efficiently. There is a risk that the establishment of these capabilities may take longer than expected or may involve greater costs than anticipated.

2. Mineral sands industry overview



The mineral sands industry consists of two core product streams:

- **titanium dioxide (TiO₂) feedstocks** – in which Sierra Rutile participates predominantly in the chloride segment through sales of natural rutile and ilmenite; and
- **zircon** – in which Sierra Rutile participates through much smaller sales volumes of zircon-in-concentrate (**ZIC**).

The two product categories have different properties, prices and distinct end use markets. Mineral sands deposits typically contain both titanium dioxide minerals and zircon, the latter usually being present in a minor proportion, as well as some rare earths bearing minerals such as monazite and xenotime. The relative weighting of each mineral in an ore body (known as assemblage) varies by deposit.

2.1 INTRODUCTION TO TITANIUM FEEDSTOCKS

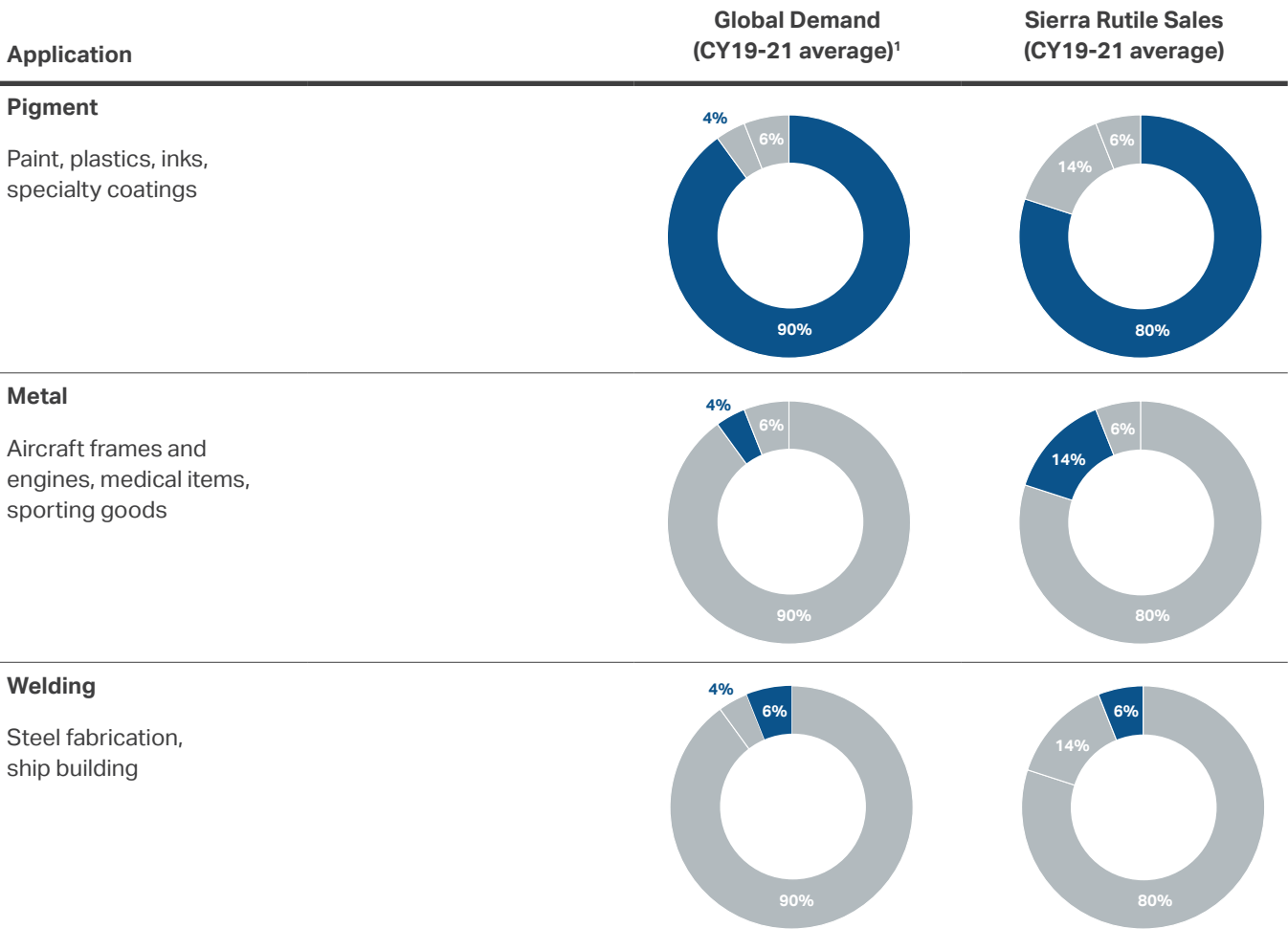
Titanium dioxide is a dark coloured mineral which, with processing, can be converted into a white opaque powder. Around 90% of titanium dioxide minerals globally are used

as a pigment in the manufacture of paint, plastic, paper and fibre where, in addition to being a whitener, they also provide UV and chemical resistance. The wide range of end applications for pigment include house and car paints, laminates, plastic pipes and packaging, inks, clothing, sunscreen, toothpaste and in the cosmetic industry.

Titanium minerals are also used to produce titanium metal, which has the highest strength to weight ratio of all commercial metals. Titanium metal is chemically resistant, has a high melting point and low conductivity. It is used across a diverse range of applications including aeronautics, medical implants, defence, sporting goods and componentry in the offshore mining and petrochemicals industries.

Welding is a further key market of titanium feedstocks, used in the manufacture of welding electrodes, as used in the steel construction and ship building industries.

Titanium dioxide is produced from rutile, synthetic rutile, titanium slag, leucoxene or ilmenite (listed in descending TiO₂ content). Titanium feedstocks are manufactured into pigment through either the sulphate process (where titanium dioxide is digested in sulfuric acid, refined and purified), or the chloride route (where titanium dioxide is chlorinated and then distilled for purification).



¹ Global demand for titanium feedstocks (TZMI February 2022).

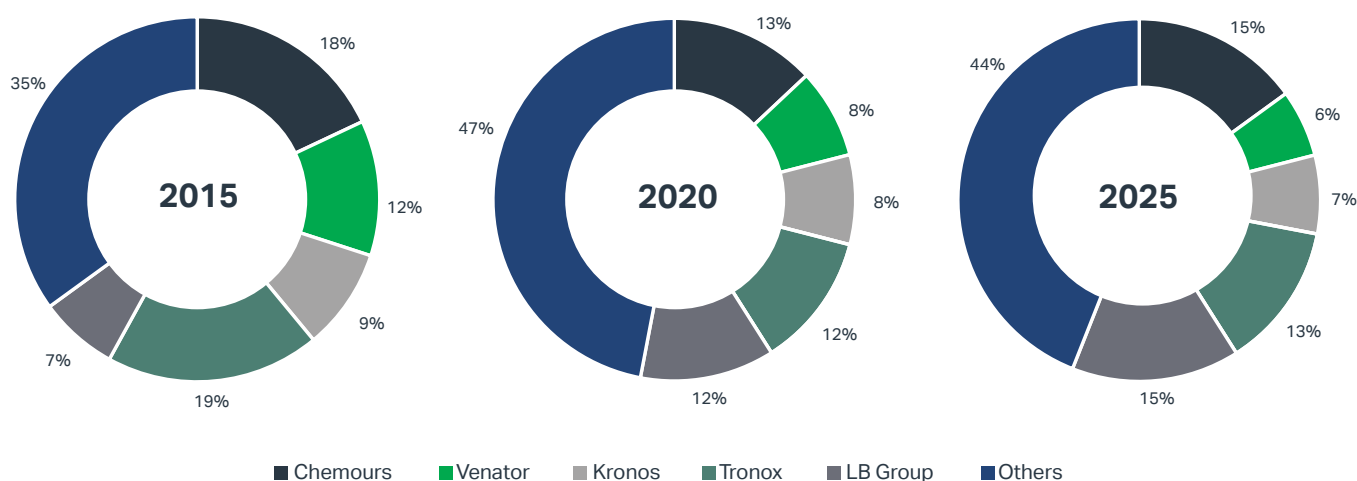
2.2 HIGH GRADE FEEDSTOCKS

High grade titanium feedstocks (**High Grade Feedstocks**) are feedstocks with greater than 85% TiO₂ content, including natural rutile, synthetic rutile and certain slags. Natural rutile is the primary product of Sierra Rutile, comprising approximately 66% of sales volumes and 90% of revenue in 2019-21.

High Grade Feedstocks are used preferentially in the chloride pigment process, as they typically use less chlorine, and produce less waste per tonne of pigment produced. Naturally occurring rutile, as produced by Sierra Rutile, is a very high grade feedstock at 95% TiO₂. A key benefit of natural rutile is that it does not require upgrading and is ready for direct use as a titanium pigment feedstock.

Figure 2.1 below shows the production share of the global titanium dioxide pigment industry by producer.

FIGURE 2.1 TITANIUM PIGMENT PRODUCTION BY PRODUCER

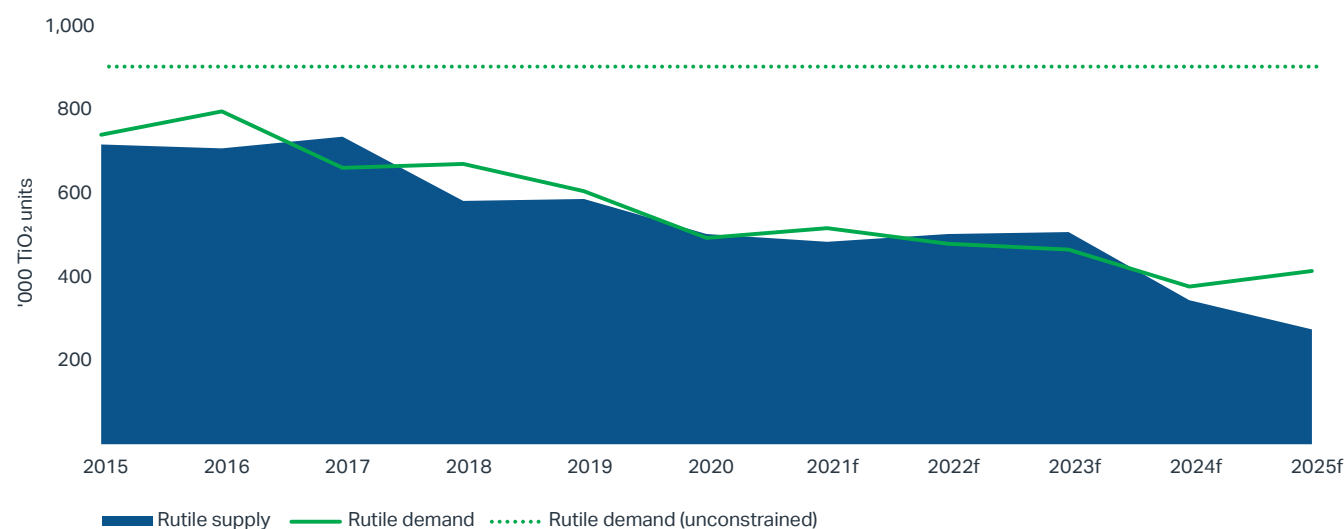


Note: Tronox production in 2015 reflects total production by Tronox and Cristal, prior to Tronox's acquisition of Cristal in 2019.

Source: TZMI (February 2022)

High Grade Feedstocks are also used in specialist applications including welding electrodes and the production of titanium metal used in commercial aerospace, military and industrial applications. Approximately 14% of Sierra Rutile's sales are used to produce titanium metal, despite metal as an end-use application comprising just 4% of total global demand for titanium feedstocks. This is due to the high quality of Sierra Rutile's products. Approximately two-thirds of Sierra Rutile's natural rutile is consumed in the more demanding applications where the highest quality feedstock is favoured for technical or environmental reasons.

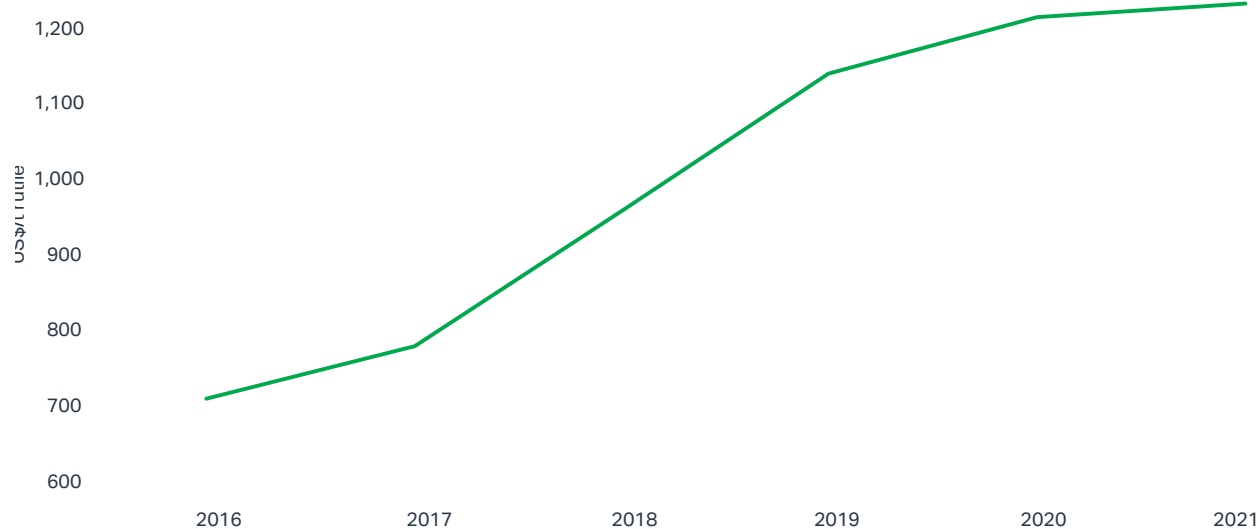
Demand for natural rutile is supported by its high grade, low impurity characteristics and the configurations of chloride pigment manufacturing plants globally. As outlined in Figure 2.2 below, TZMI assumes that rutile consumption is currently supply constrained (that is, there is unmet demand due to insufficient production) and expects demand will match supply in the near term before entering a market deficit in the longer term. If there is no constraint on rutile supply, TZMI expects demand for rutile to be much higher than what is projected in the base case assuming there is no significant pricing arbitrage among the high grade feedstocks. This is shown in Figure 2.2 below.

FIGURE 2.2 GLOBAL SUPPLY AND DEMAND NATURAL RUTILE BALANCES AND OUTLOOK TO 2025

Note: The unconstrained rutile estimate reflects TZMI guidance based on future growth in chloride feedstock demand and assuming historical consumption patterns of rutile, and displacement of other high-grade feedstocks.

Source: TZMI (February 2022)

The price of natural rutile has increased in recent years and is expected to remain robust, based on TZMI forecasts (see Section 3.12.2). This is driven by the limited number of high natural rutile assemblage mines in operation globally as well as the absence of any material, conventional, shovel ready high natural rutile assemblage projects ready to be brought online globally.

FIGURE 2.3 SIERRA RUTILE NET REALISED FOB PRICE OF RUTILE (2016 TO 2021)

Source: Sierra Rutile management information (31 December 2021)

Sierra Rutile also produces high quality chloride ilmenite, a lower grade titanium feedstock, with TiO_2 content between 58-62%. Ilmenite comprised approximately 26% of Sierra Rutile's sales volumes and 5% of revenue in 2019-21.

2.3 TITANIUM FEEDSTOCK MARKET OVERVIEW

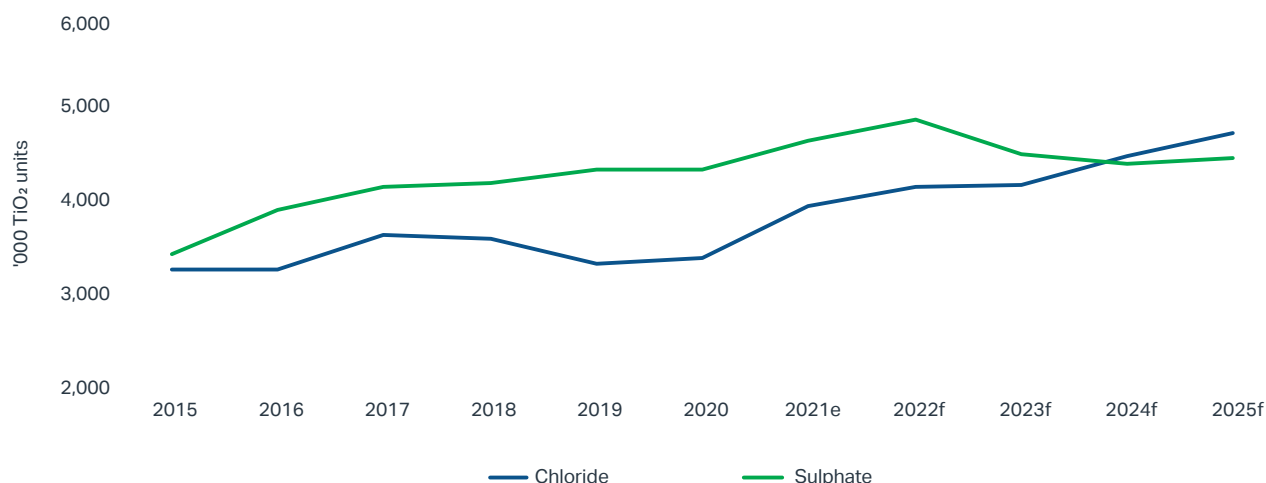
As noted above, titanium dioxide pigment is produced by using either sulphuric acid (sulphate process) or chlorine (chloride route).

The sulphate process employs simpler technology than the chloride route and can use lower grade, cheaper ores. However, it generally has higher production costs. The chloride route produces a product with a tighter range of particle size and makes up the majority of the High Grade Feedstock market demand.

Accordingly, feedstocks for the titanium dioxide market are typically split between those that are suitable for the sulphate process and those that are suitable for the chloride process.

Sierra Rutile's high grade, low impurity rutile is one of the highest quality products available in the High Grade Feedstock market. Moreover, TZMI forecasts growth in demand for chloride feedstocks to grow at a compound annual growth rate (CAGR) of 4.4% in 2022-25, noticeably outstripping growth in demand in sulphate feedstocks (CAGR of -2.8% 2022-2025).

FIGURE 2.4 CHLORIDE VS SULPHATE FEEDSTOCK FORECAST DEMAND



Source: TZMI (February 2022)

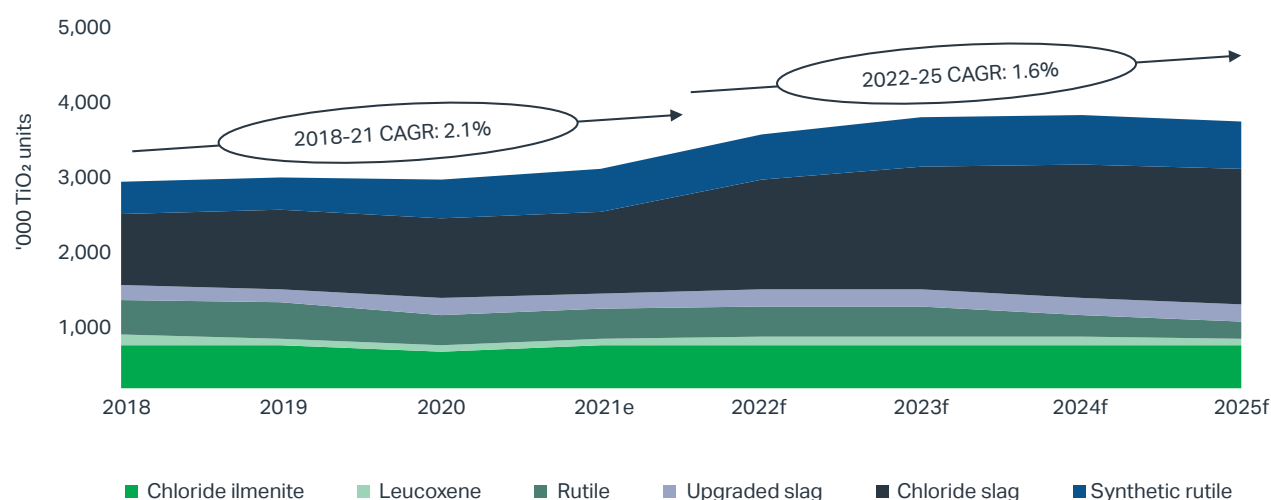
2.4 CHLORIDE FEEDSTOCK SUPPLY DYNAMICS

Chloride feedstock supply in 2022 is estimated by TZMI at 4.16 million TiO_2 units, reflecting production guidance and forecasts from existing and approved operations.

TZMI forecasts global chloride feedstock supply to increase to approximately 4.37 million TiO_2 units by 2025, representing a CAGR of 1.6% between 2022 and 2025. The modest increase in supply outlook is underpinned by the expected output expansion at Chinese smelters, the ramp-up of the Jazan smelter in Saudi Arabia, which was commissioned in late 2021, and the return to normal operations at Richards Bay Minerals following supply disruptions.

TZMI expects the market to enter a supply deficit from 2024 and any further delays or disruptions to development projects are expected to worsen the market imbalance.

The estimates discussed above and set out in Figure 2.5 below were forecast by TZMI in February 2022 and do factor in the conflict between Russia and Ukraine, which is expected to exacerbate supply tightness. The welding (rutile) and aerospace (titanium metal) sectors are expected to be most affected, with Chemours (chloride pigment) also expected to be severely impacted.

FIGURE 2.5 CHLORIDE FEEDSTOCK SUPPLY BY PRODUCT

Source: TZMI (February 2022)

2.5 CHLORIDE FEEDSTOCK DEMAND DYNAMICS

TZMI estimates global chloride feedstock demand for 2022 to roughly match supply at 4.16 million TiO₂ units, as the world slowly returns to 'normal' following the impacts of the COVID-19 pandemic.

Current TZMI projections indicate global demand for chloride feedstocks will reach 4.73 million TiO₂ units by 2025, implying a CAGR of 4.4% between 2022 and 2025 and notably outstripping the forecast supply growth.

There has been a strong recovery in demand levels for pigment, and a moderate recovery in titanium metal and welding end-uses, supporting an upside to current demand and supply forecasts.

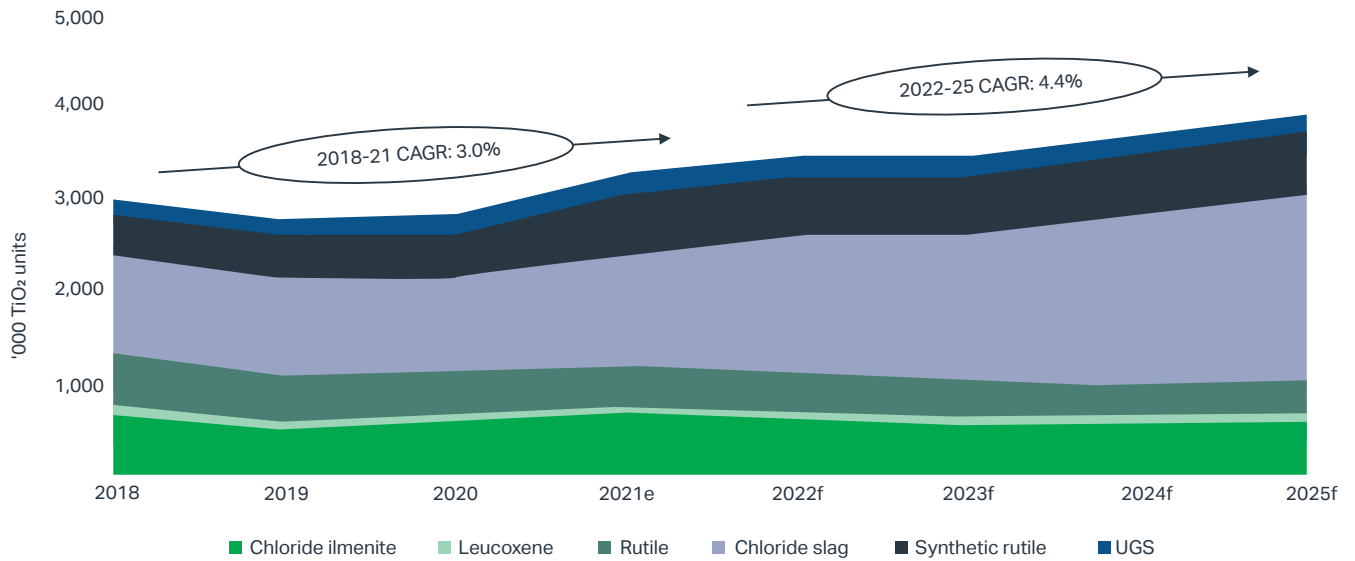
While titanium was already considered a critical mineral in Australia, Japan and the United States of America,² the addition of titanium to the European Union's list of critical minerals in 2020 was a positive development for the titanium feedstock industry. This status highlights the importance of titanium to these leading western markets and may see an increase in their collective efforts to partner with resource rich nations to ensure they have continuity of supply for these critical raw materials.

Further to the above, the European Union established the "European Raw Materials Alliance" in 2020, with the key objective of diversifying the European Union's supply chain for these critical raw minerals, ensuring it is not reliant on any one country for these critical raw materials.

The European Union has historically relied on China for 45% of its titanium supply, meaning the successful execution of the strategy being pursued by this alliance is expected to see policy developed that is favourable to non-Chinese based producers of titanium such as Sierra Rutile.³

² Australia's Critical Minerals Strategy 2019.

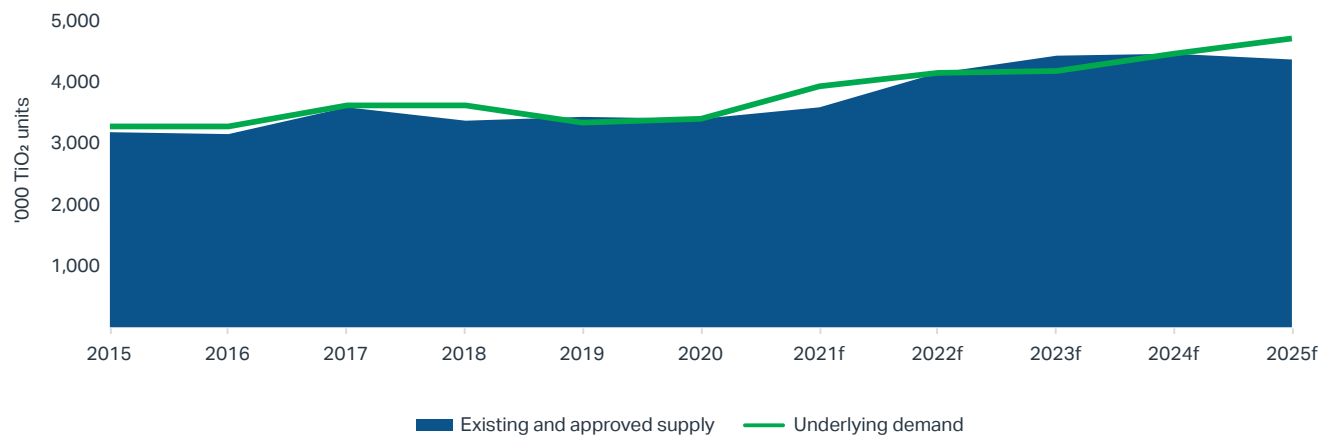
³ https://ec.europa.eu/growth/sectors/raw-materials/specific-interest/critical_en.

FIGURE 2.6 CHLORIDE FEEDSTOCK DEMAND BY FEEDSTOCK TYPE

Source: TZMI (February 2022)

2.6 CHLORIDE FEEDSTOCK SUPPLY AND DEMAND BALANCE

TZMI expects the chloride feedstock market to continue to experience supply tightness throughout the forecast period, despite a temporary surplus in 2023, which will be exhausted rapidly as a deficit emerges in 2024 and 2025.

FIGURE 2.7 GLOBAL CHLORIDE FEEDSTOCK SUPPLY AND DEMAND BALANCES AND OUTLOOK TO 2025

Source: TZMI (February 2022)

From 2022, natural rutile and broader titanium feedstock market dynamics provide strong support for Sierra Rutile's current operations and the development of the Sembehun Project.

2.7 INTRODUCTION TO ZIRCON

Zircon is an opaque, hard wearing mineral with unique chemical resistance and thermal stability properties. Sierra Rutile's zircon product, ZIC, comprised approximately 8% of Sierra Rutile's sales volumes and 5% of revenue in 2019-21.

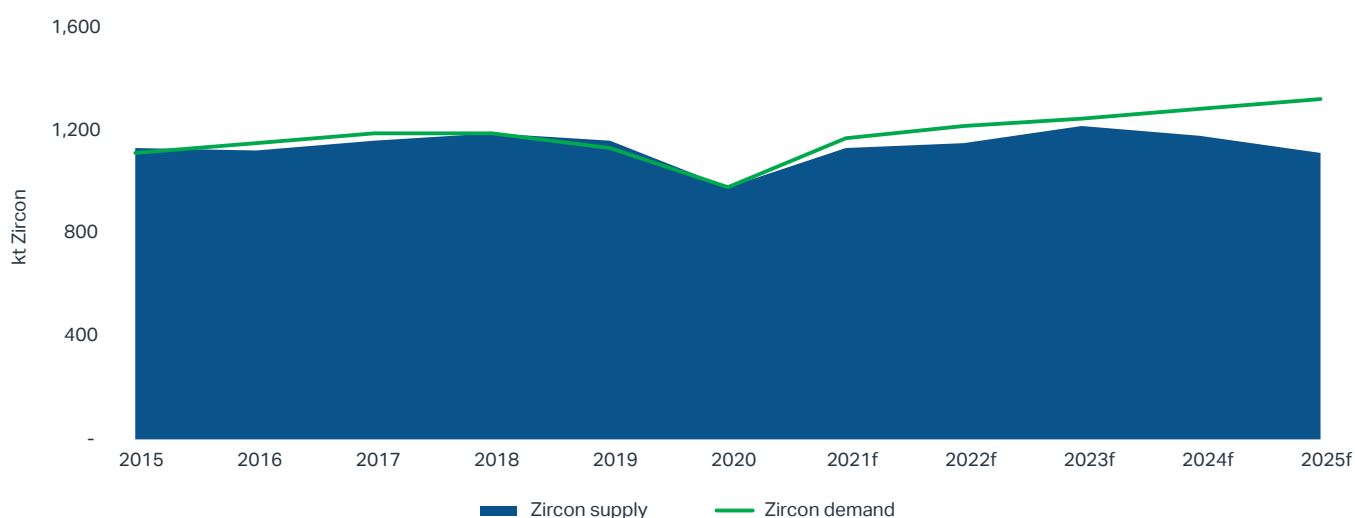
End-use applications for zircon include ceramics, chemicals and specialty uses, refractory and foundry, and zirconium chemicals and other end-uses:

- ceramics comprise 49% of global demand,⁴ and include tiles, sanitary ware and tableware;
- chemicals and specialty uses comprise 18% of global demand,⁴ and include electronics, catalytic converters, fibre optics and nuclear fuel rods;
- refractory and foundry comprise 11% of global demand,⁴ and include the investment casting, glass, steel and cement industries; and
- zirconium chemicals and other comprise 22% of global demand⁴ and include zirconia and other end-uses.

2.8 ZIRCON SUPPLY AND DEMAND BALANCE

TZMI forecasts the current supply deficit for zircon to have notably increased by the end of 2025. This is a result of divergent supply and demand growth forecasts, end of mine life at key existing operations and new supply contributions being insufficient to meet demand.

FIGURE 2.8 GLOBAL SUPPLY AND DEMAND ZIRCON BALANCES AND OUTLOOK TO 2025



Source: TZMI (February 2022)

⁴ Average global demand for zircon between 2019-21 (TZMI February 2022).

3. Overview of Sierra Rutile



3.1 BACKGROUND INFORMATION AND BUSINESS SUMMARY

Sierra Rutile is a multi-mine mineral sands operation straddling the Bonthe and Moyamba districts in southern Sierra Leone with over 2,200 employees, representing one of the largest private employers in Sierra Leone.

Sierra Rutile’s current mining and mineral processing operations at Area 1 include four wet concentrator plants (**WCPS**); a mineral separation plant (**MSP**) and associated infrastructure; residential camps for senior and management staff; and a dedicated port facility (collectively referred to as **Area 1**). Sierra Rutile also holds one of the world’s largest known natural rutile deposits, the Sembehun Project.

Sierra Rutile has an established operating history over more than 50 years and, if the Sembehun Project proceeds, a future mine life of over 13 years post completion of steady state operations at Area 1 based on the recent Sembehun PFS detailed in Section 3.12.

The Sembehun deposit, located approximately 30 kilometres from the current Area 1 operations, is one of the largest and highest quality known rutile deposits in the world, presenting an attractive development opportunity, long mine life and additional exploration potential underpinned by strong medium to long term titanium feedstock fundamentals.

Refer to Section 3.12 for details on the development of the Sembehun Project.

FIGURE 3.1 LOCATION OF SIERRA RUTILE ASSETS



3.2 HISTORY OF SIERRA RUTILE

1920s

Titanium-bearing mineral sands first discovered in south-western Sierra Leone

1960s

BTP and Pittsburgh Plate Glass formed Sherbro Minerals (SML) and began mining operations at Mogbwemo

1983-1995

Mine operated continuously and profitably under Nord's management

1995

The second dredge was under construction when the mine was shut down and placed on care and maintenance

2005

Refurbishment commenced (funded by Government of Sierra Leone loan & equity) and Sierra Rutile listed on AIM

2016

Iluka completed the acquisition of Sierra Rutile by means of a merger, making Sierra Rutile a wholly owned subsidiary of Iluka

2021

Sierra Rutile won the International SOS Foundation Duty of Care Award in the Remote Resilience category

1950s

British Titan Products (BTP) began exploring Gangama and Lanti-Teso-Gbeni deposits, confirming reserve estimates in 1957

1970s

Nord Resources Corporation (Nord) and Armco Steel acquired SML's interests and formed Sierra Rutile

1993

Nord sold 50% of Sierra Rutile to Consolidated Rutile Limited and the decision was made to expand to a two-dredge operation

2004

Sierra Rutile changed ownership and the European Union gave a €25m grant to Government of Sierra Leone to loan to Sierra Rutile

2006

Sierra Rutile resumed mining operations in the Lanti North Deposit

2019

Iluka commissioned the expansions of Lanti and Gangama, doubling the production capacity of these mines

2022

Iluka announced its intention to demerge Sierra Rutile

3.3 SIERRA LEONE BACKGROUND

Sierra Leone is a tropical country on the coast of West Africa, bordered by the Atlantic Ocean in the south west, by Liberia in the south east and it is half surrounded by Guinea in the north and the north east.

The country's landscape offers a flat coastal belt, with the eastern half of the nation covered by hills and high mountains.

Sierra Leone has a population of more than 7 million people. Its largest city, main port and capital is Freetown, situated in the west of the country.

Spoken languages are English, Krio and a range of other West African languages, amongst which Mende and Temne dominate.

Over the last two decades, Sierra Leone has operated as a stable democracy and generally achieved moderate annual economic growth, with agriculture and mining representing key contributors to country exports, Gross Domestic Product (GDP) and employment. Sierra Leone is an established mining jurisdiction with a long history of mining and existing regulatory framework.

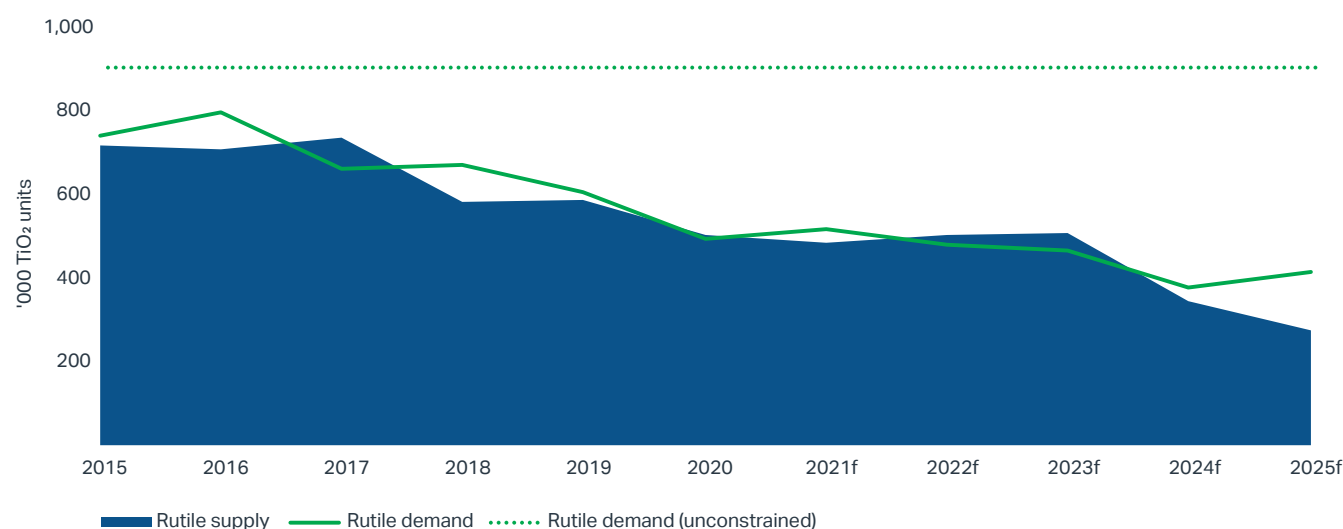
3.4 KEY STRENGTHS OF SIERRA RUTILE

3.4.1 ATTRACTIVE MARKET FUNDAMENTALS

A strong demand backdrop and supply tightness means that TZMI expects feedstock prices to remain robust over the medium term.

Further, TZMI forecasts natural rutile to enter a structural deficit, an inherent result of it being a scarce commodity with global resources depleting and few new projects coming on stream (see Figure 3.2). If there is no constraint on rutile supply, TZMI expects demand for rutile to be much higher than what is projected in the base case assuming there is no significant pricing arbitrage among the high grade feedstocks. This, coupled with the declining grades of existing natural rutile operations, provides an opportune landscape for Sembehun to be developed.

FIGURE 3.2 UNCONSTRAINED RUTILE DEMAND AND SUPPLY BALANCE OUTLOOK TO 2025



Note: The unconstrained rutile estimate reflects TZMI guidance based on future growth in chloride feedstock demand and assuming historical consumption patterns of rutile, and displacement of other high-grade feedstocks.

Source: TZMI (February 2022)

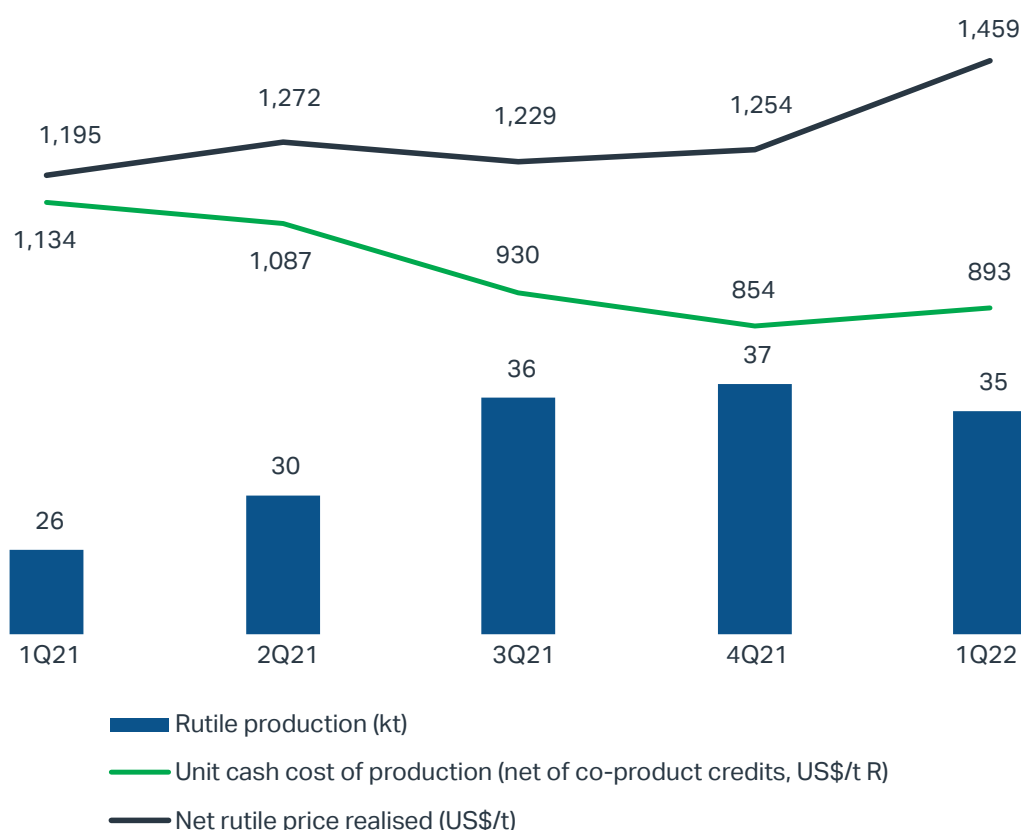
3.4.2 PROVEN AND ESTABLISHED AREA 1 MINING OPERATION

Sierra Rutile's established operating history spans over 50 years, with a positive outlook for the remainder of Area 1's operations and, if the development of Sembahun proceeds, a future mine life of greater than 13 years post completion of steady state operations at Area 1 based on the recent Sembahun PFS detailed in Section 3.12.

Significant improvements in Area 1's operations throughout the second half of 2021 and year to date 2022 underpin the positive outlook for the fiscal 2022 period.

Refer to Section 3.6 for details on the improvements in operating performance at Sierra Rutile.

FIGURE 3.3 AREA 1 QUARTERLY RUTILE PRODUCTION AND COST PROFILE SINCE MARCH 2021



Note: Unit cash costs (net of co-product credits) represent the total cash costs of production less the revenue earned from co-products (ZIC and ilmenite), divided by the total tonnes of rutile produced (inclusive of TIC).

Area 1's Ore Reserve estimate of 38.2Mt at 1.4% for 541kt of contained rutile and the Indicated Mineral Resource estimate of 142.7Mt at 1.0% for 1.4Mt of contained rutile as at 31 December 2021 supports the phased approach to the development of Sembahun. Refer to Section 3.11.5 for details on the work program underway to convert Area 1's Indicated Mineral Resources to Ore Reserves.

With decades of operating experience in Sierra Leone, Sierra Rutile has a well-established workforce and significant infrastructure in place, such as the MSP and port which will be utilised in the intended Sembahun operations (see Figure 3.9). These strong foundations, coupled with the recent ratification by the Government of Sierra Leone of Sierra Rutile's revised fiscal regime for the Area 1 operations, means Sierra Rutile is well-positioned to maximise the value of Area 1's remaining operations.

3.4.3 SEMBEHUN PROJECT IS ONE OF THE LARGEST AND HIGHEST-GRADE NATURAL RUTILE DEPOSITS IN THE WORLD

The Sembehun PFS sets out an attractive project with the following key highlights:

>13 year mine life	Steady state annual production of 176,000 tonnes of natural rutile
Project¹ NPV₈ (ungeared, post tax, real) US\$318 million	Project¹ Internal Rate of Return (post tax real) 24%
Pre-production capital cost (Phase 1, real) US\$284 million	Steady state unit cash costs (FOB per tonne of natural rutile) US\$535/t (net of co-product credits)²

Notes:

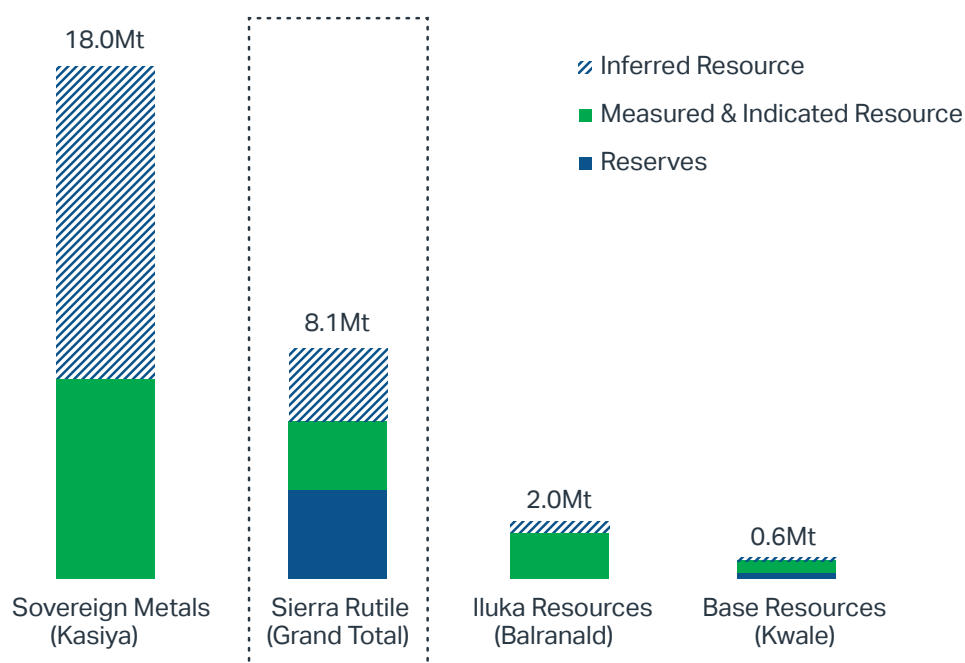
1. Excludes head office corporate costs;
2. Unit cash costs (net of co-products) represent the total cash costs of production less the revenue earned from co-products (ZIC, TIC and ilmenite), divided by the total tonnes of rutile produced (exclusive of TIC).

Refer to Section 3.12 for further details in relation to Sembehun and the Sembehun PFS.

There are a limited number of rutile-rich deposits of significance in the world. Sembehun represents one of the largest and highest-grade natural rutile deposits globally and the only such deposit to be able to leverage existing processing infrastructure and an experienced workforce.

Figure 3.4 reflects the significance of Sierra Rutile's total Mineral Resource estimates in comparison to other published rutile Mineral Resource estimates in the mineral sands industry.

FIGURE 3.4 MINERAL RESOURCE ESTIMATES BY CONTAINED RUTILE (MT)



Notes:

1. "Grand Total" for Sierra Rutile refers to Area 1 and Sembehun plus the Gambia, Jagbahun, Nyandahun and Taninahun Boka deposits.
2. Measured and Indicated Mineral Resources are exclusive of Ore Reserves

Further detail on Sembehun is set out in Section 3.12.

3.4.4 HIGHLY SOUGHT-AFTER TITANIUM FEEDSTOCK PRODUCT

Sierra Rutile's rutile-rich resource attracts strong demand which has laid the foundation for the company to develop long-term customer relationships over a long operating history. Natural rutile is highly sought after by globally significant pigment producers and is the preferred feedstock in welding, where demand is strong as a result of increased spending on infrastructure in both developing and mature economies.



3.4.5 WELL CAPITALISED AND EXISTING REHABILITATION OBLIGATIONS FUNDED

Sierra Rutile will be financially well positioned to maximise the value of its existing Area 1 mining operations and will continue to progress its globally significant development project, Sembehun. Post Demerger, Sierra Rutile will have no debt and a cash balance of US\$20.7 million (at 31 May 2022), post pro forma adjustments. Further, Iluka will establish a US\$45 million cash funded rehabilitation trust to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021.

3.4.6 ROBUST ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CREDENTIALS

Sierra Rutile is committed to upholding high ESG standards across its business. Highlights include:

- Sierra Rutile recognises its corporate social responsibility and is proud to have contributed to the communities in which it operates throughout its long operating history in Sierra Leone. See Section 3.19 for more detail on Sierra Rutile's community initiatives.
- The health and safety of all employees, contractors and visitors is of fundamental importance to Sierra Rutile, and the company has recorded a strong safety performance in recent years. See Section 3.15 and Section 3.19.1 for more detail on Sierra Rutile's commitment to health and safety.
- Sierra Rutile undertakes progressive rehabilitation of active mining areas, aligned with mine closure plans. Since 2016, Sierra Rutile has rehabilitated approximately 665 hectares (to 31 December 2021).
- Natural rutile requires less energy and carbon intensive upgrading than ilmenite prior to pigment production.

3.4.7 STRONG BOARD AND MANAGEMENT TEAM

Sierra Rutile has a highly qualified Board and management team with a global network and extensive expertise in operating, developing and maximising value from resource projects across a range of commodities and jurisdictions.

For further details of Sierra Rutile's Board and management team, see Section 3.23.



**THEUNS DE
BRUYN**
*Chief Executive
Officer*



**MARTIN
ALCIATURI**
Finance Director



EBEN LOMBARD
*Chief Operating
Officer*



MAURICE COLE
*Chief Financial
Officer*



DEREK FOLMER
*General Manager
Marketing*



SUE WILSON
*General Counsel
& Company
Secretary*

3.5 BUSINESS STRATEGY

Sierra Rutile will provide investors with exposure to operating and development assets in Sierra Leone, including one of the world's largest known natural rutile deposits in Sembehun.

Sierra Rutile has been established with the initial objectives of:

- maximising the value from Sierra Rutile's remaining deposits at Area 1 – this will include a focus on maximising cash flows from existing production and advancing potential mine life extension opportunities; and
- bringing the globally significant Sembehun Project into production – this includes progressing the necessary studies to reach a final investment decision for Sembehun in late 2023. Refer to Section 3.12 for further detail on the Sembehun Project.

Over time, the Sierra Rutile Board may consider further growth opportunities where it can demonstrate it holds a competitive advantage and deliver sustainable value for shareholders.

3.6 SIERRA RUTILE RECENT OPERATING PERFORMANCE

In response to the business challenges experienced in 2020 and early 2021, including plant downtime relating to maintenance practices and infrastructure moves and the COVID-19 pandemic, Sierra Rutile lodged a notice of its intention to temporarily suspend operations at Area 1 in May 2021. Subsequent negotiations with the Government of Sierra Leone resulted in the December 2021 parliamentary ratification of favourable fiscal regime adjustments for Area 1, which improved the economics of Sierra Rutile's operations. In addition, Sierra Rutile identified and subsequently implemented a number of initiatives targeting cost reductions and productivity improvements across its business during the second half of calendar 2021.

These initiatives included:

- mine plan optimisation;
- improved mining, stockpile management, processing and tailings management practices;
- improved maintenance practices targeting increased run time and plant availability; and
- reduced operating costs driven by optimised staff rosters, security requirements and staffing, third party contract terms, Nitti port operational efficiencies and laboratory sampling practices.

The implementation of these initiatives, coupled with the changes to the fiscal regime for Area 1, has resulted in significantly improved operational and financial performance at Sierra Rutile since 30 June 2021. This improved operational and financial performance underpinned Sierra Rutile's decision to withdraw its notice to suspend operations in January 2022 and its positive outlook for FY22.

FIGURE 3.5: AREA 1 QUARTERLY ORE PROCESSED AND RUTILE GRADE

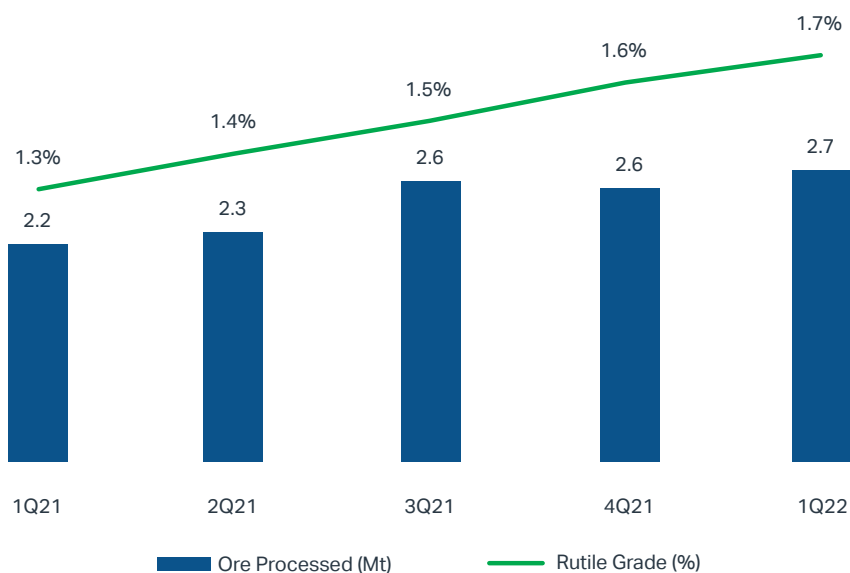
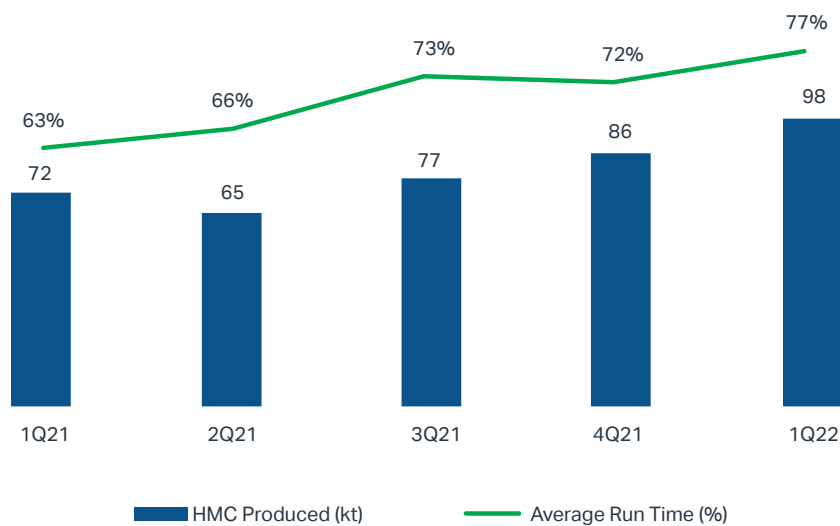
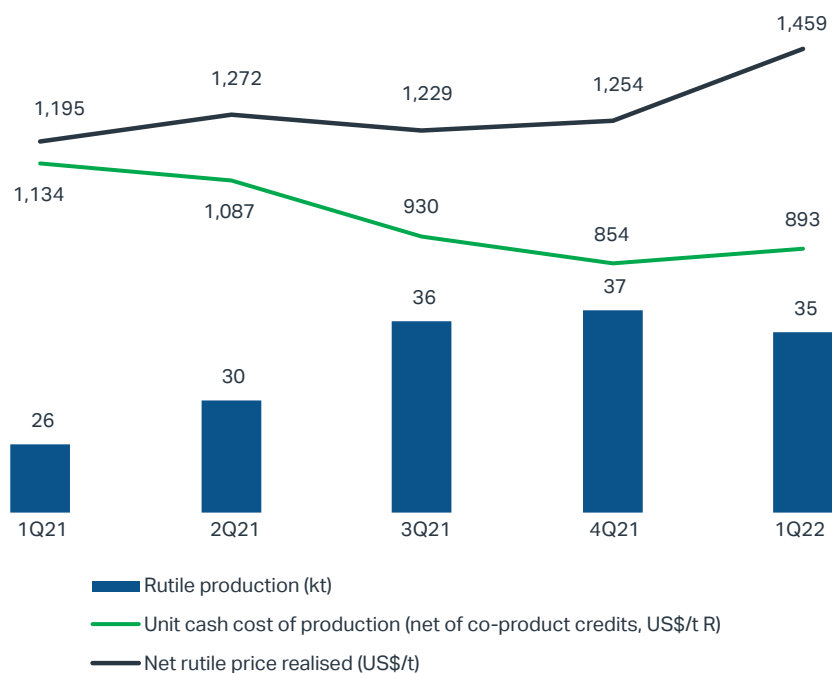


FIGURE 3.6 AREA 1 QUARTERLY HMC PRODUCED AND WCP RUN TIME



Note: The above represents the average run time of four WCPs (DM1, DM4, DM2-1 and DM2-2).

FIGURE 3.7: AREA 1 QUARTERLY RUTILE PRODUCTION AND COST PROFILE SINCE MARCH 2021



Note: Unit cash costs (net of co-product credits) represent the total cash costs of production less the revenue earned from co-products (ZIC and ilmenite), divided by the total tonnes of rutile produced (inclusive of TIC).

3.7 SIERRA RUTILE HISTORICAL PRODUCTION AND FINANCIAL METRICS AND FY22 FORECAST PRODUCTION AND COSTS

Sierra Rutile's key historical and FY22 forecast financial metrics are outlined below. Refer to Section 3.24 for management commentary on Sierra Rutile historical performance.

	Units	FY19A	FY20A	FY21A	FY22F ⁴
Production					
Rutile ¹	kt	137	120	129	144
Zircon	kt	9	7	4	5
Total R/Z production	kt	146	127	133	149
Ilmenite	kt	59	46	52	55
Cash costs of production	US\$m	121	127	140	145
Unit cash production cost ²	US\$/t Z/R	823	1,002	1,047	970
Unit cash production cost (net of co-product credits) ³	US\$/t R	744	929	985	892
Revenue	US\$m	183	158	184	-
Pro forma underlying EBITDA	US\$m	43	12	21	-
Capital expenditure	US\$m	50	15	0	41

Notes:

1. Rutile production is inclusive of TIC.
2. Unit cash costs represent the total cash costs of production divided by the total tonnes of rutile (inclusive of TIC) and zircon produced.
3. Unit cash costs (net of co-product credits) represent the total cash costs of production less the revenue earned from co-products (ZIC and ilmenite), divided by the total tonnes of rutile produced (inclusive of TIC).
4. All FY22F operating and financial forecasts are based on the guidance provided in Iluka's 2021 Full Year Results Presentation dated 24 February 2022, except for the FY22F capital expenditure which has been updated for Sierra Rutile management's latest estimate as at the date of this Demerger Booklet.

3.8 SIERRA RUTILE CAPITAL STRUCTURE AND DIVIDEND POLICY

Sierra Rutile has been set up with no debt and a cash balance of US\$20.7 million at 31 May 2022, post pro forma adjustments, and will also be set up with a US\$45 million rehabilitation trust cash funded by Iluka on a one-off basis to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021.

Given Sierra Rutile's focus on developing the Sembehun Project and the pre-production capital required to bring Sembehun into production, as at the date of this Demerger Booklet, Sierra Rutile does not have a dividend policy and Sierra Rutile will not have an active dividend policy immediately post-Demerger.

Any future determination as to the payment of dividends by Sierra Rutile will be at the discretion of the Sierra Rutile Board and will depend on matters such as the availability of distributable earnings, the operating results and financial condition of the company, future capital requirements and general business and other factors considered relevant by the Sierra Rutile Board.

3.9 ORE RESERVES AND MINERAL RESOURCES

Set out below is a summary of the Sierra Rutile Group's Ore Reserve and Mineral Resource estimates as at 31 December 2021.

3.9.1 ORE RESERVE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Ore Reserve category ¹	Ore Tonnes ²	In Situ Rutile ⁴	In Situ Ilmenite ^{4,5}	In Situ Zircon ^{4,5}	In Situ Rutile	In Situ Ilmenite ⁵	In Situ Zircon ⁵
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
Area 1							
Proven	24	1.4	0.7	0.1	0.3	0.2	0.0
Probable	14	1.4	0.5	0.1	0.2	0.1	0.0
Area 1 Subtotal	38	1.4	0.6	0.1	0.5	0.2	0.0
Sembehun							
Proven	111	1.5	0.9	0.1	1.6	1.0	0.1
Probable	63	1.4	0.9	0.1	0.9	0.6	0.1
Sembehun Subtotal	174	1.5	0.9	0.1	2.5	1.6	0.2
Grand Total							
Proven	134	1.5	0.9	0.1	2.0	1.2	0.2
Probable	78	1.4	0.8	0.1	1.1	0.7	0.1
Grand Total	212	1.5	0.9	0.1	3.1	1.8	0.2

Notes:

1. Competent Person – Ore Reserves: Andrew Walkenhorst (MAusIMM).
2. Ore Reserves are a sub-set of Mineral Resources.
3. Rounding may generate differences in last decimal place.
4. Mineral assemblage is reported as a percentage in Ore.
5. The ilmenite and zircon grades are included for tabulation purposes under the Proved and Probable Reserve category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Probable where rutile is Proved. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
6. The quoted figures for Area 1 and Sembehun are stated as at 31 December 2021 and have been depleted for all production conducted to this date.

3.9.2 MINERAL RESOURCE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Mineral Resource category ¹	Material Tonnes ^{2,4}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
Area 1							
Measured	44	1.2	0.5	0.1	0.5	0.2	0.0
Indicated	143	1.0	0.5	0.1	1.4	0.7	0.2
Inferred	19	1.0	0.5	0.1	0.2	0.1	0.0
Area 1 Subtotal	205	1.0	0.5	0.1	2.1	1.1	0.2
Sembehun							
Measured	134	1.4	0.9	0.1	1.9	1.2	0.1
Indicated	167	1.0	0.7	0.1	1.7	1.2	0.1
Inferred	207	0.9	0.6	0.1	1.9	1.3	0.1
Sembehun Subtotal	508	1.1	0.7	0.1	5.5	3.7	0.4
Other⁷							
Measured	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-
Inferred	39	1.2	-	-	0.5	-	-
Other Total	39	1.2	-	-	0.5	-	-
Grand Total							
Measured	178	1.4	0.8	0.1	2.4	1.4	0.2
Indicated	309	1.0	0.6	0.1	3.1	2.0	0.3
Inferred	265	1.0	0.5	0.1	2.6	1.4	0.2
Grand Total	752	1.1	0.6	0.1	8.1	4.8	0.6

Notes:

1. Competent Person – Mineral Resources: Brett Gibson (MAIG).
2. In situ (dry) metric tonnage is reported.
3. Mineral Resources are inclusive of Ore Reserves.
4. Rounding may generate differences in last decimal place.
5. Rutile, ilmenite and zircon are reported as a percentage of in situ material.
6. The ilmenite and zircon grades are included for tabulation purposes under the Measured, Indicated and Inferred Resource category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Indicated where rutile is Measured. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
7. "Other" refers to the Gambia, Jagbahun, Nyandahun and Taninahun Boka deposits outside the Area 1 and Sembehun operational areas.

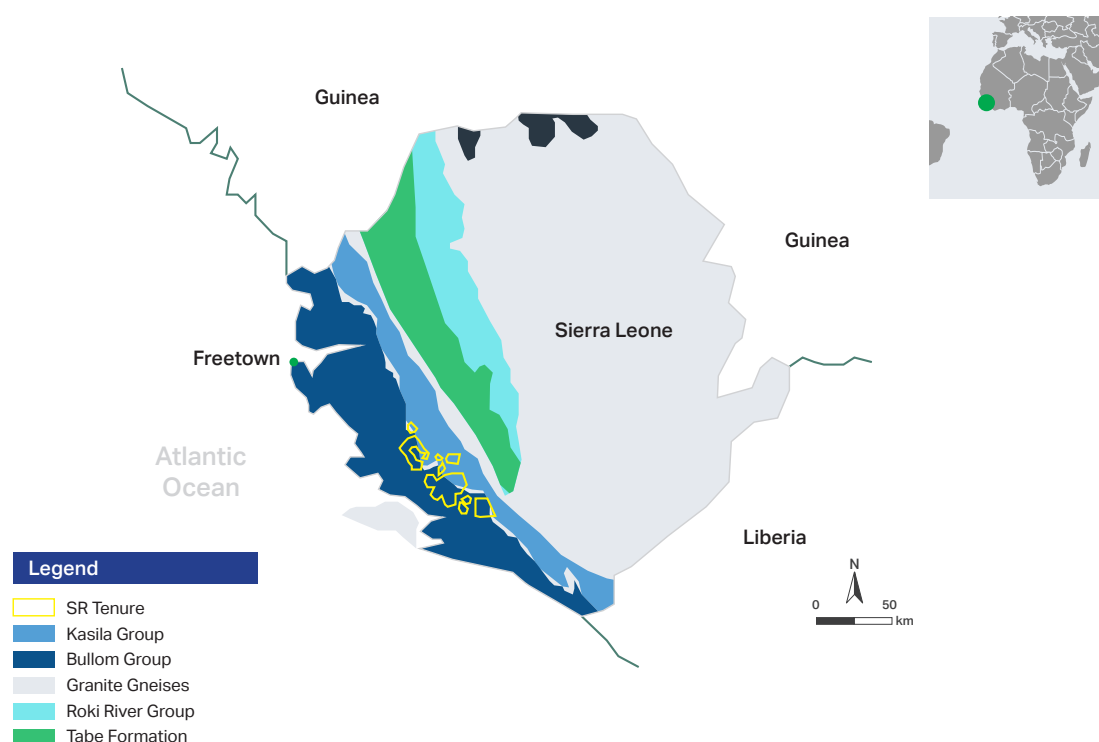
3.10 GEOLOGY

3.10.1 REGIONAL GEOLOGY

Sierra Leone is split between two tectono-stratigraphic units; the majority of which covers the eastern side of the country, and forms part of the stable Precambrian West African Craton (Figure 3.8). The western unit contains elements of an orogenic belt that was deformed during the Pan-African tectono-thermal event about 550 million years ago resulting in the development of the Kasila Group Gneiss.

Rutile and other heavy minerals were liberated in response to the erosion of topographically elevated areas of the Kasila Group and subsequently deposited in structurally controlled channels, erosional valleys or as alluvial fans on a topographically benign coastal plain.

FIGURE 3.8 REGIONAL GEOLOGY OF SIERRA LEONE



The heavy minerals within the Sierra Leonean rutile deposits are typically angular, indicating minimal transport and re-working. The spatial distribution of heavy minerals along the length of the paleo-channels also reflects this, with mineral grades typically decreasing with distance from the source and increasing in sand content replacing argillaceous material within the matrix.

3.10.2 DEPOSIT GEOLOGY

Sierra Rutile holds a Mining Lease covering a land area of 559km², with a number of mineral deposits identified.

The mineral deposits consist of large alluvial ore bodies formed by the deposition of rutile bearing unconsolidated sediments in valleys. The bulk of the deposits occur in two clusters; the Area 1 deposits and the Sembahun deposits.

The alluvial deposits consist of zones of topsoil, laterite, sand and clay with silty clay sand being the dominant lithology. The saprolite presents as a mottled red-orange sandy clay to grey-white sticky clay. Traditionally the rutile bearing alluvium and saprolite overlie material logged as "bed", representing variably weathered Kasila Gneiss, but where primary textures are still recognizable. The "bed" unit is still predominantly represented by saprolite.

3.11 AREA 1

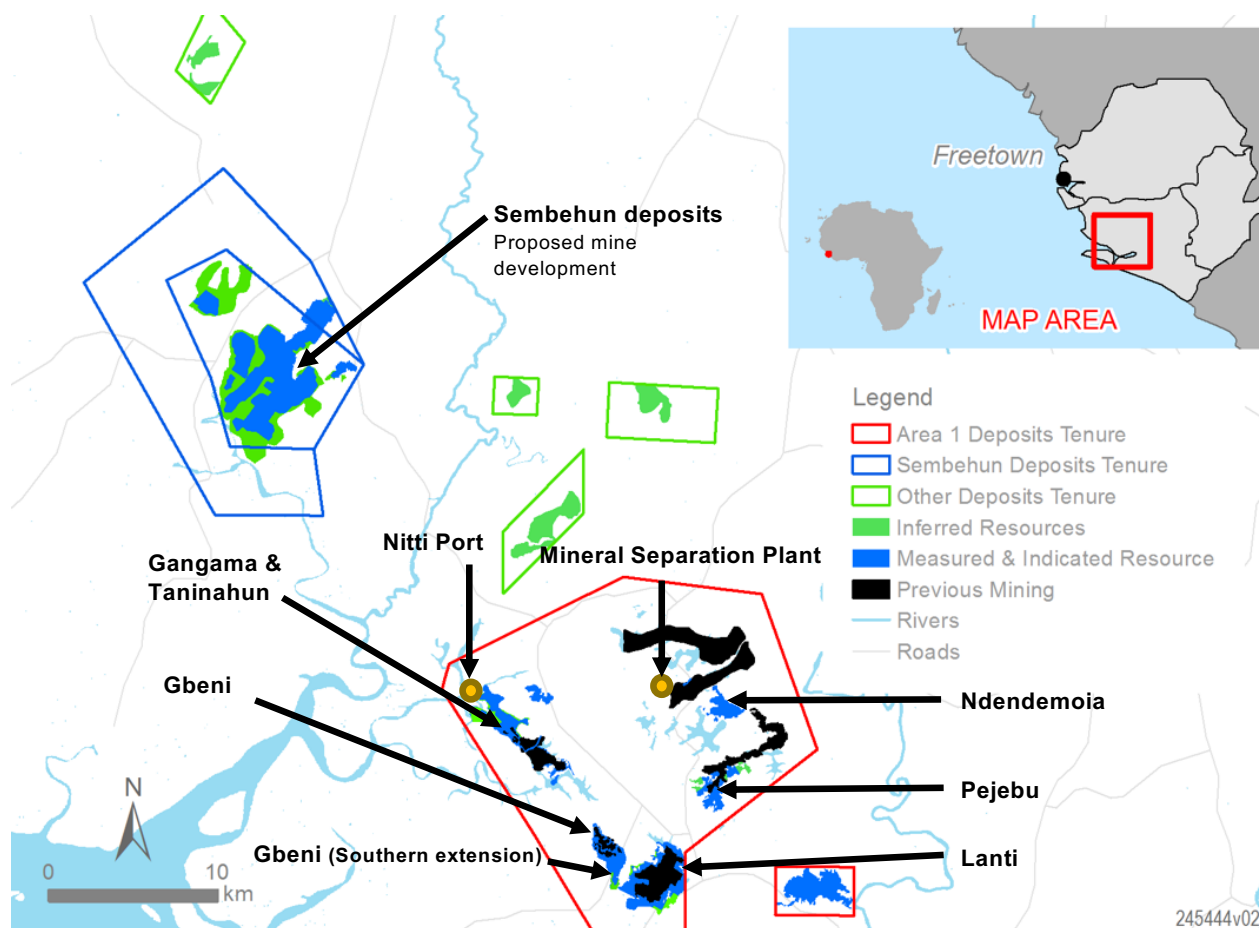
3.11.1 OVERVIEW

Location	Moyamba and Bonthe districts, Sierra Leone
Ownership	100%
Products	<p>Standard Grade Rutile (SGR)</p> <p>Industrial Grade Rutile (IGR)</p> <p>High-grade ilmenite</p> <p>Zircon-in-concentrate (ZIC)</p>
Status	Operating
Commercial production	Large scale mining commenced in 1967
Ore Reserves	38Mt @ 1.42% for 541kt of contained rutile
Mineral Resources	205Mt @ 1.04% for 2.1Mt of contained rutile
FY22 forecast rutile production	144kt of rutile (inclusive of TIC)
Mining method	<p>Dry mining: truck and excavator with dozer support. Providing ore to WCPs either:</p> <ul style="list-style-type: none"> via in pit mining units (MMU1 and MMU 2) pumping slurry to DM1 and DM4 respectively; or via a ROM stockpile / feed hopper supplying feed to DM2:1 and DM2:2 <p>Sierra Rutile employs a combination of owner operator and contract mining services at Area 1.</p>
Processing	<p>Four WCPs producing mineral concentrate with feed capacity of 500-600tph.</p> <p>Mineral concentrate from Area 1 is processed in the MSP, which includes a feed preparation plant and dry plant. The MSP has capacity to produce 175ktpa of rutile.</p>
Other assets	<p>Products are exported through the Nitti Port facilities situated in the Area 1 mining lease. The mine also maintains an extensive network of water supply ponds, power generation facilities, accommodation for senior and management staff, offices, extensive workshops, laboratory, a clinic and roads.</p>

3.11.2 AREA 1 SITE LAYOUT

A map of Sierra Rutile's Area 1 operations is set out in Figure 3.9 below.

FIGURE 3.9 : MAP OF SIERRA RUTILE'S ASSETS



3.11.3 AREA 1 ORE RESERVE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Set out below is a summary of the Area 1 Ore Reserve estimates by deposit, as at 31 December 2021.

Ore Reserve category ¹	Ore Tonnes ²	In Situ Rutile ⁴	In Situ Ilmenite ^{4,5}	In Situ Zircon ^{4,5}	In Situ Rutile	In Situ Ilmenite ⁵	In Situ Zircon ⁵
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
Gangama							
Proved	7.8	1.7	1.0	0.2	0.13	0.07	0.01
Probable	4.0	0.9	0.5	0.1	0.04	0.02	0.00
Gangama ROM							
Proved	0.1	1.5	-	-	0.00	-	-
Gbeni North							
Proved	13.9	1.3	0.4	0.1	0.18	0.06	0.01
Probable	5.1	1.4	0.5	0.1	0.07	0.02	0.00
Lanti							
Probable	4.9	1.8	0.3	0.1	0.09	0.02	0.00
Taninahun							
Proved	2.0	1.5	1.3	0.1	0.03	0.03	0.00
Probable	0.5	0.9	1.0	0.1	0.00	0.01	-
Grand Total							
Proved	23.8	1.4	0.7	0.1	0.34	0.16	0.03
Probable	14.4	1.4	0.5	0.1	0.20	0.07	0.01
Grand Total	38.2	1.4	0.6	0.1	0.54	0.23	0.04

Notes:

1. Competent Person – Ore Reserves: Andrew Walkenhorst (MAusIMM).
2. Ore Reserves are a sub-set of Mineral Resources.
3. Rounding may generate differences in last decimal place.
4. Mineral assemblage is reported as a percentage in Ore.
5. The ilmenite and zircon grades are included for tabulation purposes under the Proved and Probable Reserve category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Probable where rutile is Proved. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
6. The quoted figures for Area 1 are stated as at 31 December 2021 and have been depleted for all production conducted to this date.

3.11.4 AREA 1 MINERAL RESOURCE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Set out below is a summary of the Area 1 Mineral Resource estimates by deposit, as at 31 December 2021.

Mineral Resource category ¹	Material Tonnes ^{2,4}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}
	Mt	%	%	%	Mt	Mt	Mt
Gangama							
Measured	10.3	1.6	0.9	0.2	0.17	0.09	0.02
Indicated	18.5	1.3	0.7	0.1	0.23	0.13	0.02
Inferred	5.7	1.3	0.7	0.1	0.07	0.04	0.01
Gangama ROM							
Indicated	0.1	1.5	0.8	0.1	0.00	0.00	0.00
Gbeni North							
Measured	15.9	1.2	0.4	0.1	0.19	0.06	0.01
Indicated	8.7	1.1	0.4	0.1	0.09	0.03	0.01
Inferred	3.2	0.9	0.3	0.1	0.03	0.01	0.00
Lanti							
Measured	15.7	1.0	0.2	0.1	0.15	0.04	0.01
Indicated	26.1	1.3	0.3	0.1	0.34	0.09	0.02
Inferred	4.7	0.9	0.2	0.1	0.04	0.01	0.00
Mogbwemo Virgin							
Indicated	0.7	1.0	0.0	0.0	0.01	0.00	0.00
Mosavi							
Indicated	47.4	0.7	0.4	0.2	0.34	0.19	0.07
Ndendemoia East							
Indicated	14.3	1.1	0.5	0.2	0.16	0.08	0.03
Ndendemoia West							
Indicated	4.0	0.6	0.0	0.1	0.03	0.00	0.00
Pejebu							
Indicated	18.6	1.0	1.0	0.1	0.18	0.19	0.02
Inferred	4.8	1.0	0.7	0.1	0.05	0.04	0.01
Taninahun							
Measured	2.5	1.4	1.2	0.1	0.03	0.03	0.00
Indicated	4.3	0.7	1.0	0.1	0.03	0.04	0.00
Inferred	0.1	0.7	0.9	0.1	0.00	0.00	0.00

Mineral Resource category ¹	Material Tonnes ^{2,4}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}
Grand Total							
Measured	44.3	1.2	0.5	0.1	0.54	0.22	0.04
Indicated	142.7	1.0	0.5	0.1	1.40	0.75	0.17
Inferred	18.5	1.0	0.5	0.1	0.19	0.10	0.02
Grand Total	205.5	1.0	0.5	0.1	2.13	1.07	0.23

Notes:

1. Competent Person – Mineral Resources: Brett Gibson (MAIG).
2. In situ (dry) metric tonnage is reported.
3. Mineral Resources are inclusive of Ore Reserves.
4. Rounding may generate differences in last decimal place.
5. Rutile, ilmenite and zircon are reported as a percentage of in situ material.
6. The ilmenite and zircon grades are included for tabulation purposes under the Measured, Indicated and Inferred Resource category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Indicated where rutile is Measured. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.

3.11.5 MINING AND WET PROCESSING

Whilst both dredge and dry mining methods were employed prior to Iluka's ownership of Sierra Rutile, only dry mining is now employed across Area 1 mining operations.

EXISTING OPERATIONS

GANGAMA

Mining at Gangama involves the excavation of ore using a conventional load and haul method to deliver ore from the Gangama deposits to two adjacent WCPs (known as DM2:1 and DM2:2).

Ore is excavated in the pit and delivered to the Run of Mine (ROM) stockpile or direct to the feed hopper.

The material is then passed onto a grizzly feeder, which separates the undersize material from the oversize material. Undersize material is discharged into a primary scrubber, onto a double-deck screen with undersize material pumped to de-sliming cyclones. De-slimed sand is discharged to a constant density tank between the two processing plants, and from there fed to the individual plants via de-sliming sections. The oversize material from both decks is combined and conveyed to tailings disposal.

Sand tailings and slimes tailings are disposed and water returned to process, while heavy mineral concentrate (HMC) is passively dewatered and stockpiled for transportation to the MSP for further processing.

TANINAHUN

Taninahun deposit is located within Area 1, approximately 6km northeast from the current Gangama operation. Mining is planned to commence in the second half of 2022 with a contractor truck and excavator operation. Ore from the Taninahun deposit will be hauled to the existing Gangama DM2:1 and DM2:2 plants. The ROM ore will undergo primary mineral processing to produce HMC as is the current process outlined above.

GBENI & LANTI

At Gbeni and Lanti, two separate WCPs are operated (DM1 and DM4). In both cases, ore is delivered to in-pit mining units (mobile mining units or MMUs). Depending on operational constraints the MMUs are fed by an excavator either via stockpile or directly from dozer push.

Ore is fed into a mineral sizer and pumped to an ex-pit scrubber where oversize material is screened out. The ore slurry is delivered by pipeline to the respective processing plants. Ore is further screened at the two WCPs and, after de-sliming, delivered to the spiral distributors. At DM1, sand and slimes are combined and pumped to tailings disposal. At DM4, sand and slimes are disposed separately.

By the end of 2022, both DM1 and DM4 will have transitioned to truck and excavator operations, feeding ore to mineral sizers and scrubbers in fixed positions. Slurry will be pumped to DM1 and DM4 as per the current process.

MINE LIFE EXTENSION AREAS

PEJEBU AND NDEDEMOIA

The Pejebu and Ndendemoia deposits, comprising Indicated Mineral Resources of 18.6Mt at 1.0% rutile grade for 0.18Mt of contained rutile and 18.3Mt at 1.0% rutile grade for 0.18Mt of contained rutile respectively, are located less than 5km south of the MSP within the Mining Lease. Subject to completing the technical and operational planning activities required to convert Pejebu and Ndendemoia Indicated Mineral Resources to Ore Reserves, mining at Pejebu and Ndendemoia will be considered following completion of mining activities at Gbeni and Lanti.

A mine life extension work program has commenced to support the conversion of Indicated Mineral Resources to Ore Reserves at Pejebu and Ndendemoia, including:

- additional geological drilling program and resource model update;
- pit and civil infrastructure design;
- operational planning including mine sequencing; and
- financial modelling.

The 2022 drill program focusses on collecting metallurgical and geo-metallurgical data and improving Mineral Resource confidence as part of the ongoing LOM program. The LOM extension drilling is outlined in the table below.

TABLE 3.1 AREA 1 EXTENSION DRILLING

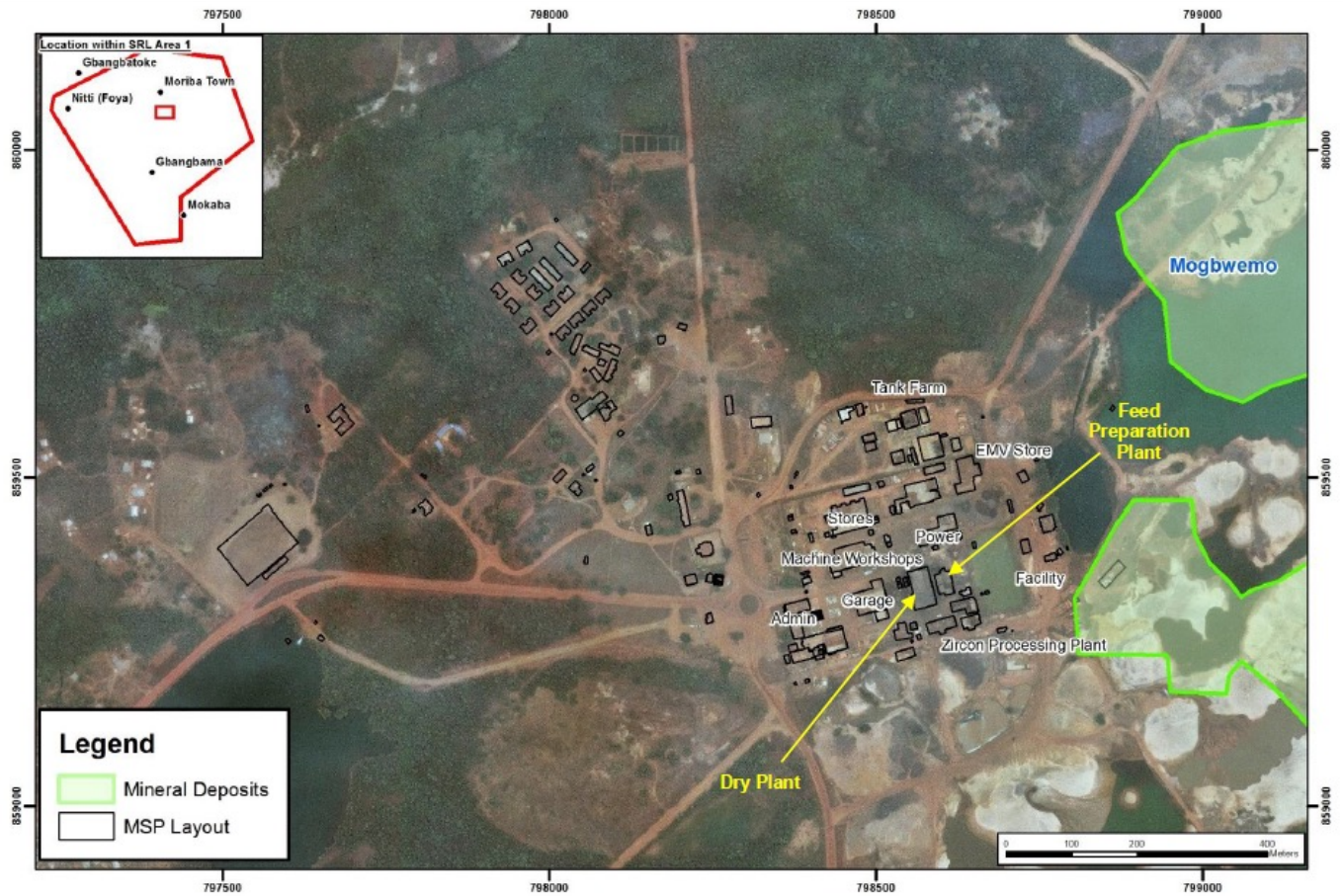
Deposit	Current JORC status	Drill metres planned	Expected JORC status after drilling
Pejebu	Indicated	1,239m	Measured
	Inferred		Indicated
Ndendemoia	Indicated	871m	Measured
			Indicated

The work program is scheduled to be complete by mid 2023. Until the work has been completed, the conversion rate of Mineral Resources to Ore Reserves will remain uncertain. Refer to Section 3.27.2.17 for further discussion of Mineral Resource conversion risk.

3.11.6 DRY PROCESSING

Mineral concentrate from Area 1 is processed in the MSP situated south of Moriba Town (Figure 3.10). The MSP includes the Feed Preparation Plant and the Dry Plant, as well as mining offices, laboratory, power plant, warehouse, vehicle maintenance buildings and workshops and machine shops.

FIGURE 3.10 AERIAL MAP OF MINERAL SEPARATION PLANT



FEED PREPARATION PLANT

- HMC is hauled via trucks from the WCPs to the feed preparation plant at the MSP. Here, the feed is screened, attritioned, de-slimed and valuable heavy minerals are concentrated using gravity methods.
- The resultant rutile-rich concentrate, containing approximately 95% heavy minerals, is fed into the dry plant.

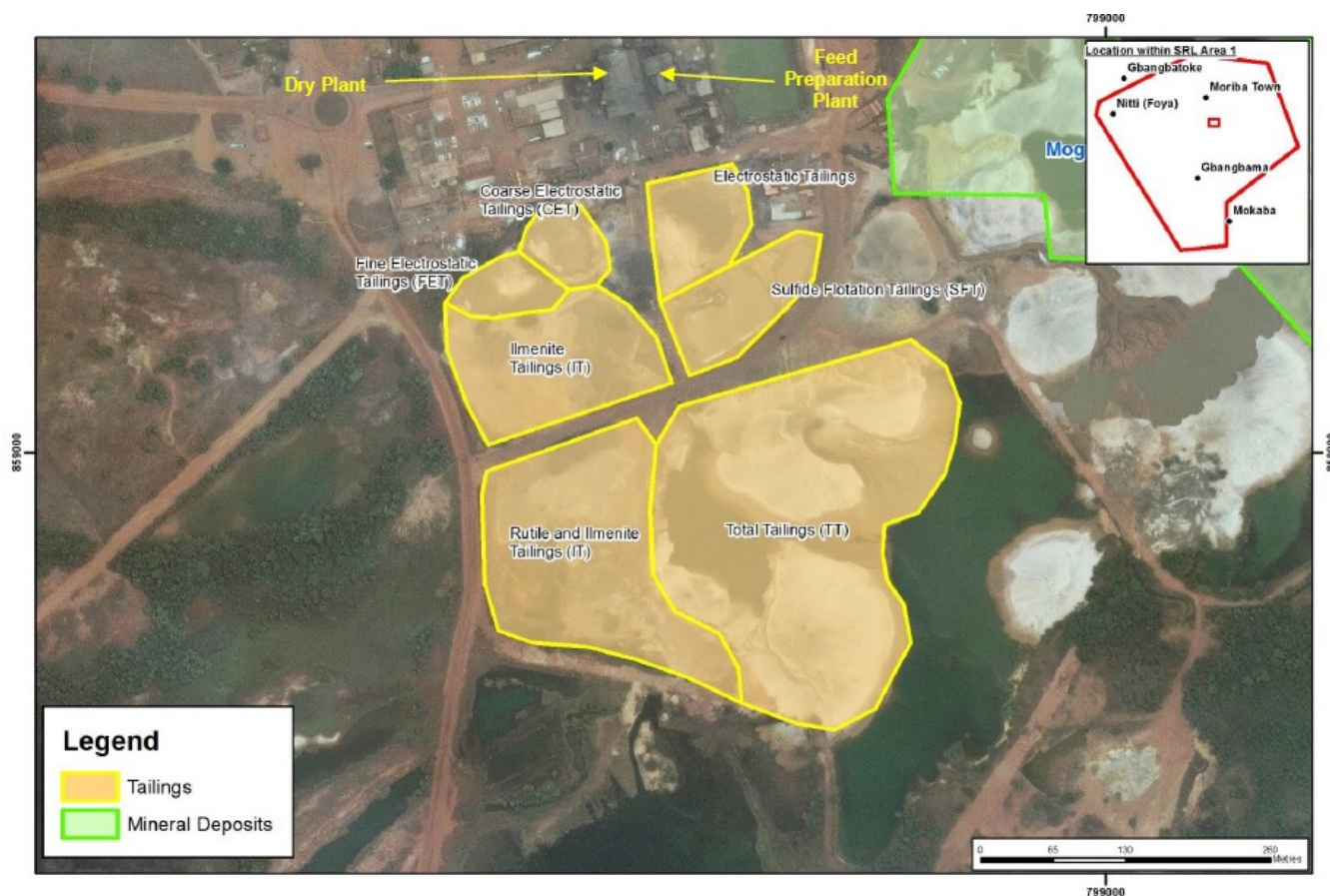
DRY PLANT

- The main processes at the dry plant are drying, sizing, magnetic and electrostatic separation.
- The final rutile product contains at least 95% titanium dioxide. The rutile along with other valuable products are stored separately before transport to the Nitti Port storage facilities.

3.11.7 TAILINGS MANAGEMENT

Tailings are generated from both the wet and dry primary processes and from the MSP.

FIGURE 3.11 LOCATION OF THE VARIOUS TAILINGS RESIDUES ASSOCIATED WITH THE MSP



The tails generated currently at DM1/DM4, DM2:1, DM2:2 and the MSP are deposited at Lanti, Gangama and the plant site respectively. There are no upstream constructed tailings dams within Area 1, with all tailings disposal takings placed into the shallow mined pits or into purpose built tailings storage facilities constructed using the downstream method.

Sierra Rutile focuses on ensuring the tailings and water management facilities are up to globally accepted standards. A suitably experienced consultancy has conducted regular geotechnical audits to support management from a dam safety perspective. Sierra Rutile is well advanced in the process of appointing a global consultant as the Engineer of Record, with the appointment expected to be finalised by 30 September 2022.

3.11.8 SITE INFRASTRUCTURE

Sierra Rutile has plant and infrastructure at its Area 1 operations with significant replacement value. A summary of the key infrastructure for Area 1 operations is provided below.

TABLE 3.2 SITE INFRASTRUCTURE FOR THE AREA 1 DEPOSITS

Port	<ul style="list-style-type: none"> The port facilities are located at Nitti, approximately 4km south of Gbangbatoke and 15 km from the MSP. The facilities include an office building, other support (including a generator building) and storage buildings, two product storage domes, loading facilities, marine fuel oil and diesel storage tanks, barges and two push boats.
Power	<ul style="list-style-type: none"> Sierra Rutile has an existing power supply system that is an entirely stand-alone or “island” system without any interconnection to non-Sierra Rutile systems. The main electrical power source for Sierra Rutile consists of a 27.2MW marine fuel oil fuelled powerhouse and various distribution and transmission equipment. There are subsidiary stand-alone generators in use across the operation (e.g. Nitti Port). No additional power requirements are anticipated for Area 1 mining areas included in the mine plan.
Roads	<ul style="list-style-type: none"> Sierra Rutile maintains an extensive network of gravel roads within Area 1, which are utilised by Sierra Rutile to haul product and materials between various operations and for mine personnel to access areas within Area 1. The main haul roads connect the Lanti and Gangama areas to the MSP complex and product from the MSP is hauled to Nitti Port via road. There are also access roads that connect the main residential camp areas to operational areas as well as access roads between operational areas and roads that connect historical mining areas to current operational areas. A number of roads within Area 1 are used by the public but most are maintained by Sierra Rutile as a significant portion of roads are public roads that have been upgraded by Sierra Rutile to haul roads.
Water	<ul style="list-style-type: none"> Sierra Rutile has an existing water treatment plant with an output capacity of about 950 litres per minute, treating water supplied from the Mogbwemo Domestic Reservoir to produce potable water up to World Health Organisation drinking water quality standard. The potable water is then pumped to the mine offices and residential camp areas and stored at the water treatment plant in two storage facilities with a combined capacity of 84,300 litres to provide piped water for the mine camp houses, dormitories, the MSP and offices. Annual tails strategy and water balance updates are conducted as part of the life of mine (LOM) process.
Mine camps, buildings & other facilities	<ul style="list-style-type: none"> Mobimbi mine camp was developed by Sierra Rutile for management level employees and is located approximately 4km southwest of the MSP. The camp consists of housing, mess facilities, gym, laundry and a swimming pool. South Spur, forming a part of the Mobimbi housing complex, is located to the south of Mobimbi and is mainly used for contractors. The combined area of Mobimbi and South Spur is approximately 205 hectares. Area 1 has an additional residential camp located adjacent to the MSP area (Kpanguma) used to house senior Sierra Rutile staff. The three on-site camps can accommodate approximately 470 people. No additional facilities will be required for the Area 1 mining areas included in the current mine plan.
Fleet	<ul style="list-style-type: none"> Sierra Rutile owns and operates various heavy-duty vehicles and mining equipment across its mining operations. These vehicles are primarily used to excavate and move ROM ore/feed to the concentrator plants, as well as to assist with maintenance and rehabilitation. Sierra Rutile’s fleet is complemented by the use of mining contractors and their associated fleet.
Waste management	<ul style="list-style-type: none"> Solid waste is disposed under the Waste Management Plan approved by the Environmental Protection Agency of Sierra Leone (EPA-SL). Domestic waste comprises waste streams such as packaging, plastic, paper products and glass, which is disposed of at the EPA-SL approved Mokula Landfill Site located near the MSP. All waste streams generated from work areas are collected and segregated.

3.12 SEMBEHUN

This Section 3.12 summarises the outcomes of the recently completed Sembehun PFS and the material assumptions underpinning the PFS. The PFS was completed with the assistance of specialist consultant, Hatch. As discussed further below, Sierra Rutile plans to undertake further work before commencing a DFS (see Section 3.12.4) and to complete a DFS before a decision to develop Sembehun is made. As a result of the additional work that will be undertaken in order to increase the level of certainty and target accuracy associated with the PFS to a DFS level, it may be necessary to revise the assumptions underpinning the PFS. In addition, Sierra Rutile will also need to obtain funding in order to develop Sembehun. Accordingly, there can be no guarantee that the development of Sembehun will proceed as contemplated in the PFS or at all. The key risks associated with the development of Sembehun are set out in Sections 3.27.2.1, 3.27.2.2 and 3.12.21.

3.12.1 OVERVIEW

Overview	
Location	Moyamba district, Sierra Leone
Ownership	100%
Products	SGR, IGR, High-grade ilmenite and ilmenite concentrate, ZIC
Status	PFS completed. The PFS has been completed to an Association for the Advancement of Cost Engineering (AACE) Class 4 level, with target accuracy within the range of +20% to +50% on the high side of the range and -15% to -30% on the low side of the range, before the contingency is considered.
Key PFS Highlights	
Ore Reserves	174Mt @ 1.46% rutile for 2.54Mt contained rutile
Mineral Resources	508Mt @ 1.10% rutile for 5.53Mt contained rutile
Mine life	>13 years (based on current Sembehun Ore Reserves)
Mining method	Dry mining (truck and excavator) via contract mining services
Processing	Run of mine ore will be processed in a new wet processing plant to produce HMC. The HMC will be transported to the existing MSP complex where it will be processed into the various products. A magnetic separation circuit will be constructed at the MSP to improve separation of ilmenite from rutile and debottleneck the existing MSP.
Steady state average annual production	176ktpa rutile (exclusive of TIC), 98ktpa ilmenite (including ilmenite in concentrate) and 13ktpa ZIC (contained zircon)
Project ¹ Net Present Value (8%, ungeared, post tax, real)	US\$318m
Project ¹ Internal Rate of Return (post tax, real)	24%
Pre-production capital cost – Phase 1 (real)	US\$284m
Pre-production capital cost – Phase 2 (real)	US\$52m
Pre-production capital cost – Total (real)	US\$337m
Construction time	Phase 1: 18-24 months Phase 2: 18-24 months
Steady state average unit cash costs of production (real)	US\$726/t of rutile and zircon produced (excluding royalties and rehabilitation)
Steady state average unit cash costs of production, net of co-product credits ² (real)	US\$535/t of rutile produced (excluding royalties and rehabilitation)

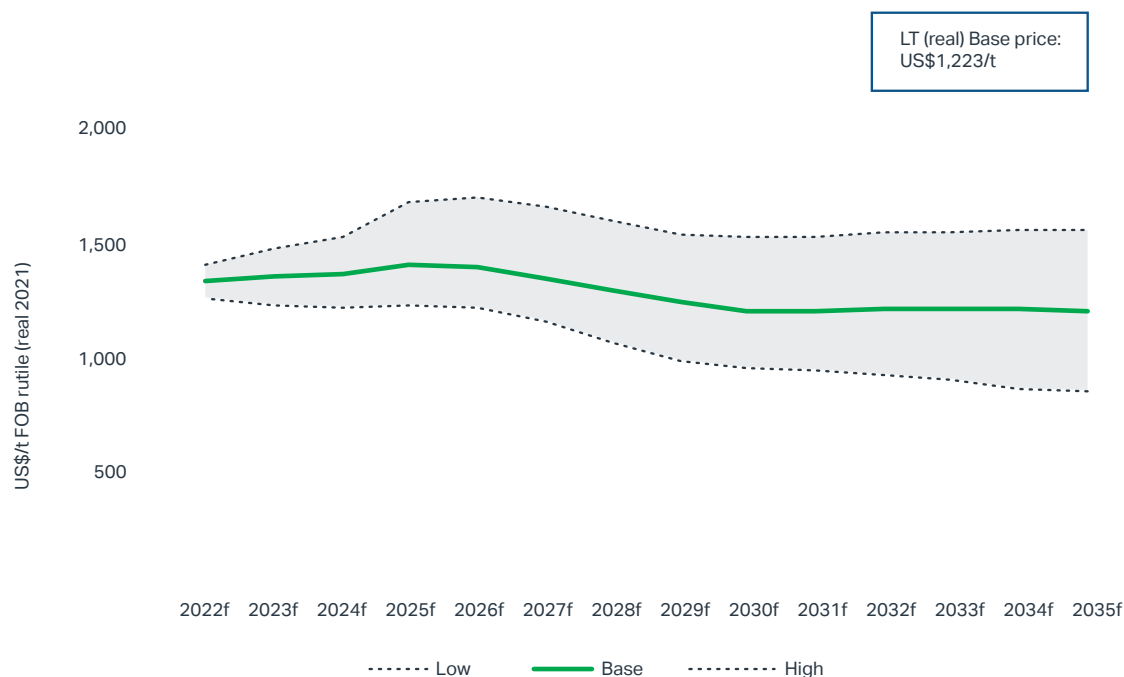
Notes:

1. Excludes head office corporate costs;
2. Unit cash costs (net of co-product credits) represent the total cash costs of production less the revenue earned from co-products (ZIC, TIC and ilmenite), divided by the total tonnes of rutile produced (exclusive of TIC).

3.12.2 SEMBEHUN PFS PRICING AND MARKET ASSUMPTIONS

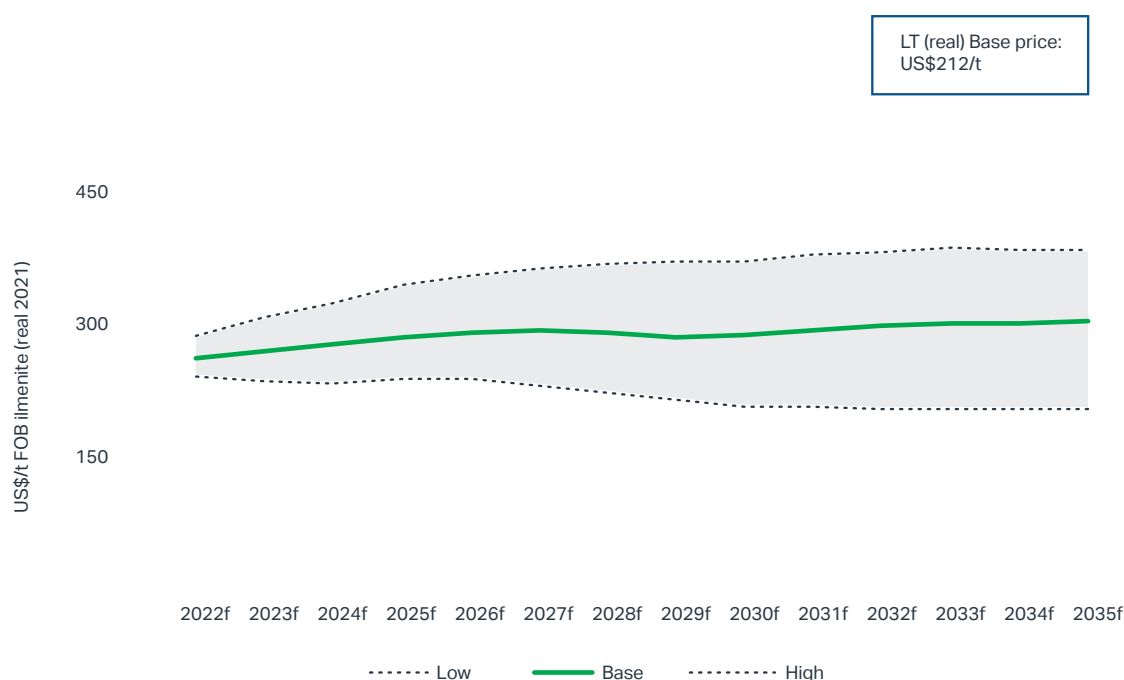
The Sembehun PFS is based on TZMI Base price forecasts as set out below. Beyond 2035, TZMI's long term Base price of US\$1,223/t of rutile (2021 real) is assumed.

FIGURE 3.12 TZMI FORECAST RUTILE PRICE (2022 TO 2035)



Source: TZMI (April 2022)

FIGURE 3.13 TZMI FORECAST ILMENITE PRICE (2022 TO 2035)



Source: TZMI (April 2022)

3.12.3 PROJECT BACKGROUND

The Sembehun mineral sands deposit was first discovered in the 1960s and is one of the largest and highest-grade natural rutile deposits in the world. Since its discovery, there has been extensive exploration and feasibility work completed to assess the optimal approach to developing Sembehun.

Various studies have been undertaken on Sembehun over time. In April 2020, Iluka undertook a concept study which included truck and excavator mining as a potential mining method for Sembehun. This was selected as the basis of the PFS.

Mineral separation of the Sembehun HMC will utilise existing infrastructure and final product will be transported via the existing Nitti Port.

3.12.4 PHASED DEVELOPMENT APPROACH

The June 2022 Sembehun PFS sets out a phased development of Sembehun that is based on the following key principles:

- leverage the significant Area 1 existing infrastructure in place; and
- integrate the development of Sembehun with the remainder of operations at Area 1.

This approach contemplates Sembehun to be developed in two phases, minimising Sembehun pre-production capital expenditure and optimising Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun.

Refer to Section 3.27.2.1 for discussion of the risks related to the development of Sembehun not proceeding as contemplated in the PFS.

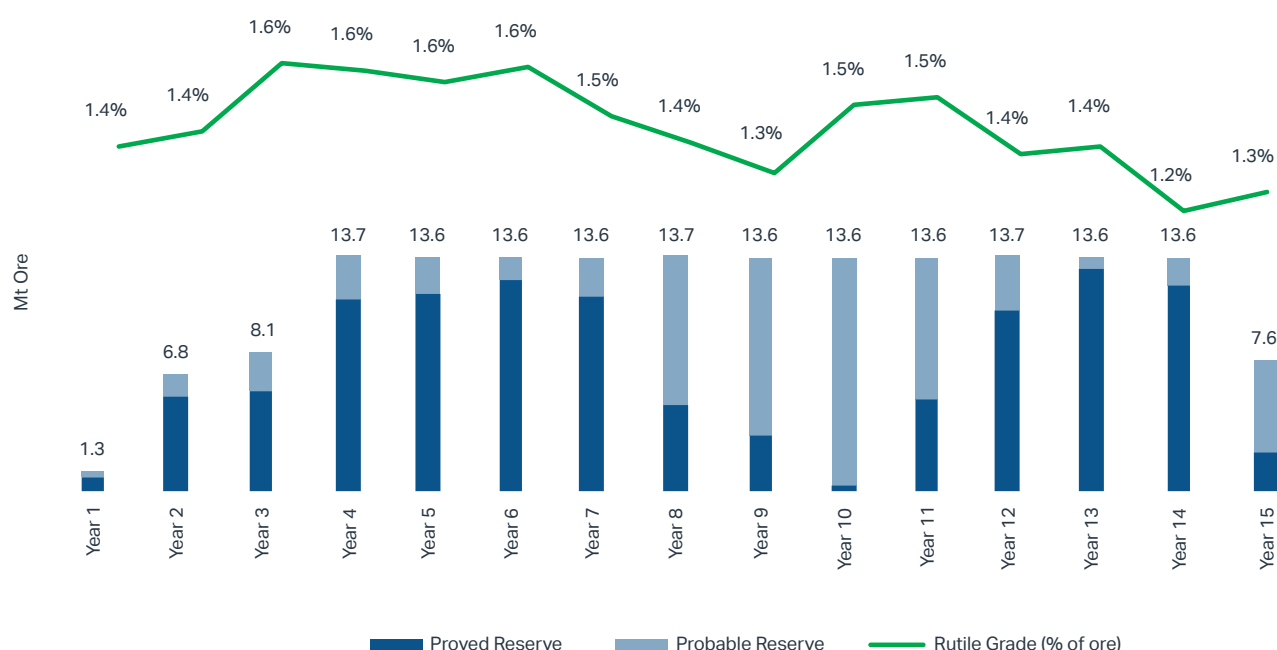
The Sembehun June 2022 PFS recommends that a DFS commence by Q3 of 2022. The PFS also recommends that several critical activities that are either required as inputs to the DFS or are important milestones for the overall execution of the DFS be commenced in June 2022 (the **Pre-DFS Work Plan**). These critical activities have now commenced and include:

- geotechnical investigations;
- hydrogeology, ground and surface water and ecological reserve determination studies;
- metallurgical testing;
- tailings storage facility and process water dam studies;
- civil surveying activities; and
- geochemical analysis and modelling.

The DFS is expected to take approximately 12 months to complete, which would allow Sierra Rutile to reach a final investment decision for Sembehun in late 2023. Under the PFS, an allowance of 24 months has been assumed between final investment decision and production commencement at Sembehun.

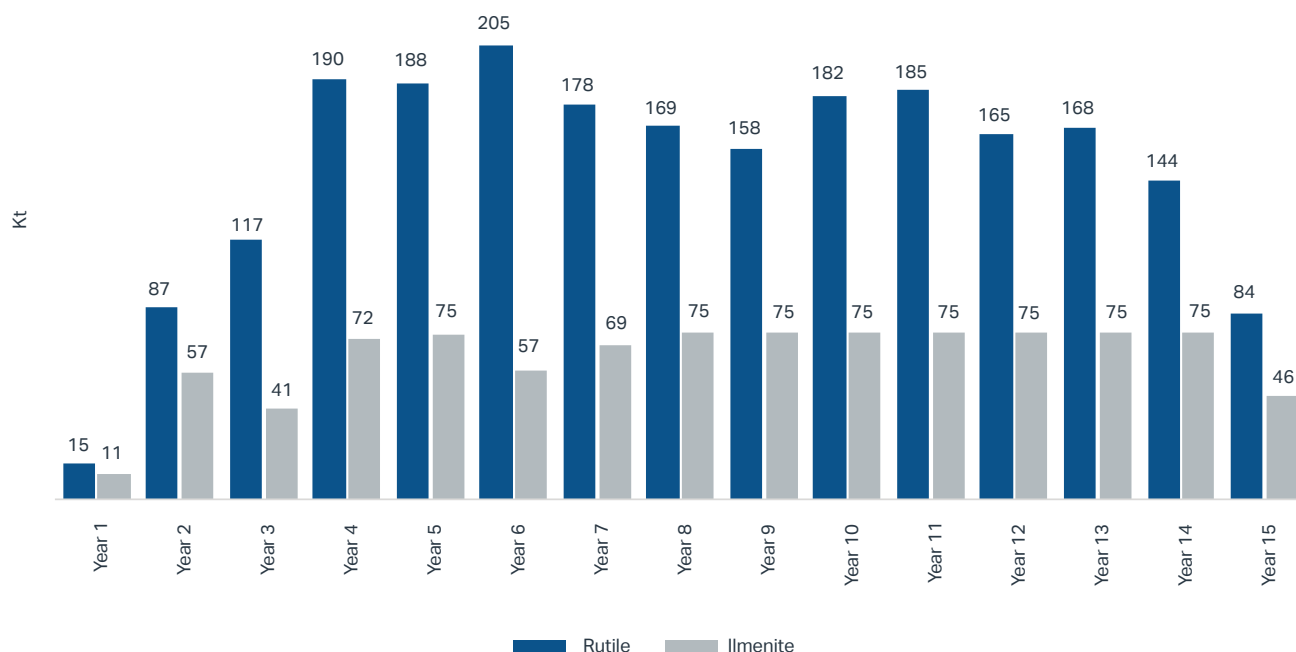
Sembehun's production profile (based on current Ore Reserves) as set out in the PFS (and based on the assumptions therein as summarised in this Section 3.12) is below.

FIGURE 3.14 SEMBEHUN LOM ORE RUN OF MINE PRODUCTION AND GRADE PROFILE



Note: Refer to the statement regarding Production Targets in the Important Information section at the beginning of this Demerger Booklet.

FIGURE 3.15 SEMBEHUN LOM RUTILE AND ILMENITE PRODUCTION PROFILE

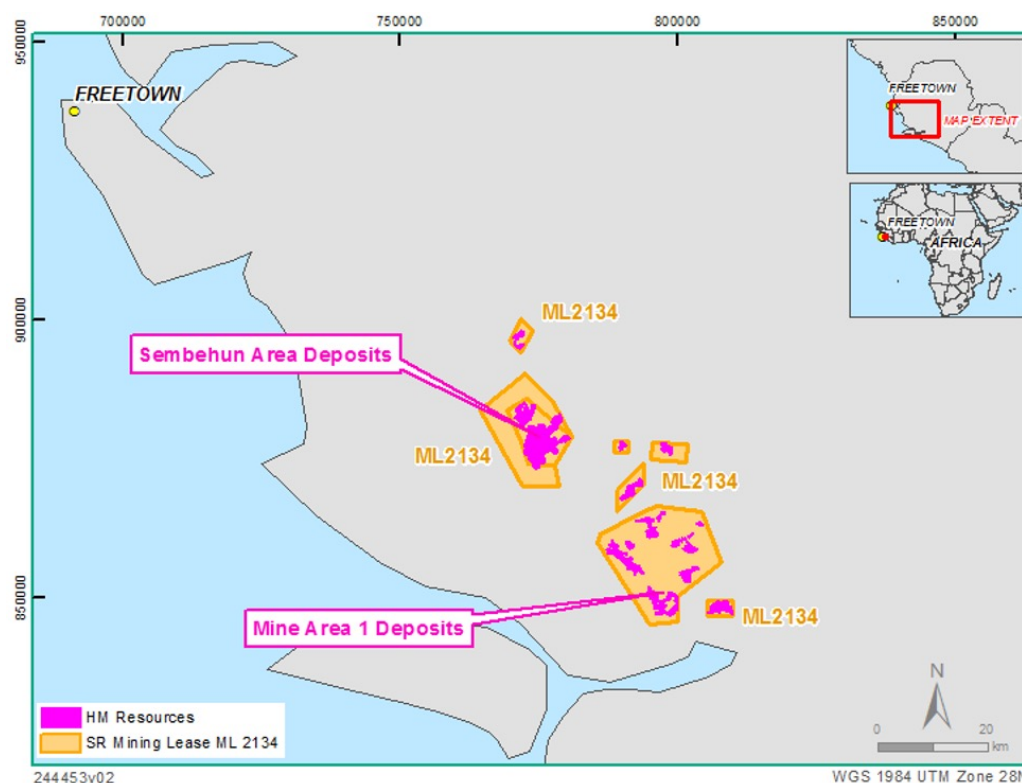


3.12.5 LOCATION AND MINING TENURE

The Sembehun group of deposits are situated approximately 30 kilometres north-west of the existing Sierra Rutile operations at Area 1.

The Sembehun group of deposits is subdivided into five areas (Kamatipa, Komende, Benduma, Dodo and Kibi). In addition to these five deposits there is a sixth deposit (Gbagp), which is just to the north of the main group of deposits. The Sembehun deposits are covered by Sierra Rutile's existing Mining Lease that extends to 2039. Refer to Section 3.21.1 for further detail on Sierra Rutile's mining tenure.

FIGURE 3.16 LOCATION OF SEMBEHUN DEPOSITS



3.12.6 SEMBEHUN ORE RESERVE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Set out below is a summary of the Sembehun Ore Reserve estimates by deposit, as at 31 December 2021.

Ore Reserve category ¹	Ore Tonnes ²	In Situ Rutile ⁴	In Situ Ilmenite ^{4,5}	In Situ Zircon ^{4,5}	In Situ Rutile	In Situ Ilmenite ⁵	In Situ Zircon ⁵
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
Benduma							
Proved	12.9	1.3	0.9	0.1	0.17	0.11	0.01
Probable	39.7	1.5	1.0	0.1	0.59	0.40	0.03
Dodo							
Proved	47.7	1.4	0.9	0.1	0.69	0.41	0.05
Probable	6.4	1.3	0.8	0.1	0.08	0.05	0.01
Kamatipa							
Proved	33.8	1.7	1.1	0.2	0.56	0.36	0.05
Probable	8.6	1.3	0.9	0.1	0.11	0.08	0.01
Kibi							
Proved	14.9	1.4	0.6	0.1	0.21	0.09	0.01
Probable	8.1	1.3	0.7	0.1	0.10	0.06	0.01
Komende							
Proved	1.3	1.3	1.7	0.2	0.02	0.02	0.00
Probable	0.3	1.2	1.8	0.2	0.00	0.01	-
Grand Total							
Proved	110.5	1.5	0.9	0.1	1.64	1.00	0.13
Probable	63.1	1.4	0.9	0.1	0.90	0.59	0.06
Grand Total	173.7	1.5	0.9	0.1	2.54	1.59	0.18

Notes:

1. Competent Person – Ore Reserves: Andrew Walkenhorst (MAusIMM).
2. Ore Reserves are a sub-set of Mineral Resources.
3. Rounding may generate differences in last decimal place.
4. Mineral assemblage is reported as a percentage in Ore.
5. The ilmenite and zircon grades are included for tabulation purposes under the Proved and Probable Reserve category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Probable where rutile is Proved. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
6. The quoted figures for Sembehun are stated as at 31 December 2021 and have been depleted for all production conducted to this date.

3.12.7 SEMBEHUN MINERAL RESOURCE STATEMENT AS AT 31 DECEMBER 2021 (JORC 2012)

Set out below is a summary of the Sembehun Mineral Resource estimates by deposit, as at 31 December 2021.

Mineral Resource category ¹	Material Tonnes ^{2,4}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}	In Situ Rutile ⁵	In Situ Ilmenite ^{5,6}	In Situ Zircon ^{5,6}
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
Benduma							
Measured	21.0	1.1	0.9	0.1	0.24	0.18	0.01
Indicated	84.7	1.1	0.8	0.1	0.90	0.68	0.05
Inferred	112.8	0.8	0.7	0.1	0.93	0.76	0.06
Dodo							
Measured	53.8	1.4	0.8	0.1	0.75	0.45	0.06
Indicated	19.6	1.1	0.7	0.1	0.21	0.15	0.02
Inferred	21.2	1.2	0.9	0.1	0.26	0.18	0.02
Gbap							
Indicated	16.8	1.2	0.4	0.1	0.20	0.07	0.02
Inferred	45.0	1.0	0.4	0.1	0.46	0.18	0.04
Kamatipa							
Measured	36.4	1.6	1.1	0.2	0.59	0.39	0.06
Indicated	23.5	0.9	0.8	0.1	0.21	0.19	0.02
Inferred	1.4	1.3	0.9	0.1	0.02	0.01	0.00
Kibi							
Measured	18.6	1.3	0.6	0.1	0.25	0.11	0.01
Indicated	16.5	1.0	0.6	0.1	0.16	0.10	0.01
Inferred	25.0	1.1	0.6	0.1	0.27	0.15	0.02
Komende							
Measured	4.0	1.0	1.4	0.1	0.04	0.06	0.01
Indicated	5.7	0.5	1.0	0.1	0.03	0.06	0.00
Inferred	1.9	0.5	1.1	0.1	0.01	0.02	0.00
Grand Total							
Measured	133.8	1.4	0.9	0.1	1.87	1.19	0.15
Indicated	166.8	1.0	0.7	0.1	1.71	1.23	0.12
Inferred	207.2	0.9	0.6	0.1	1.94	1.31	0.15
Grand Total	507.8	1.1	0.7	0.1	5.53	3.73	0.41

Notes:

1. Competent Person – Mineral Resources: Brett Gibson (MAIG).
2. In situ (dry) metric tonnage is reported.
3. Mineral Resources are inclusive of Ore Reserves.
4. Rounding may generate differences in last decimal place.
5. Rutile, ilmenite and zircon are reported as a percentage of in situ material.
6. The ilmenite and zircon grades are included for tabulation purposes under the Measured, Indicated and Inferred Resource category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Indicated where rutile is Measured. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.

3.12.8 MINING METHODOLOGY

The Sembahun PFS considers the mining of five deposits; Benduma, Kamatipa, Dodo, Kibi and Komende. The mining process contemplated in the PFS commences with the clearing of the land ahead of topsoil and overburden removal, allowing for the extraction of ore for processing. Following mining of the ore, the resultant pit voids are backfilled with a combination of processing tails and returned overburden. The final landform is reshaped prior to the return of topsoil and revegetation as part of the rehabilitation process.

TABLE 3.3 SUMMARY OF TOTAL MATERIAL MOVED

Material		
Topsoil	m bcm	1.8
Overburden	m bcm	13.5
Ore	m bcm	106.1
Total material moved	m bcm	121.4

The proposed Sembahun dry mining method is in line with the existing Area 1 operations at Gangama. The dry mining method follows a conventional load and haul mining method based on a truck and excavator operation. This method is flexible and has been effectively implemented at Area 1.

Topsoil will be excavated and stockpiled adjacent to mining pits or direct returned to reshaped backfill areas for rehabilitation.

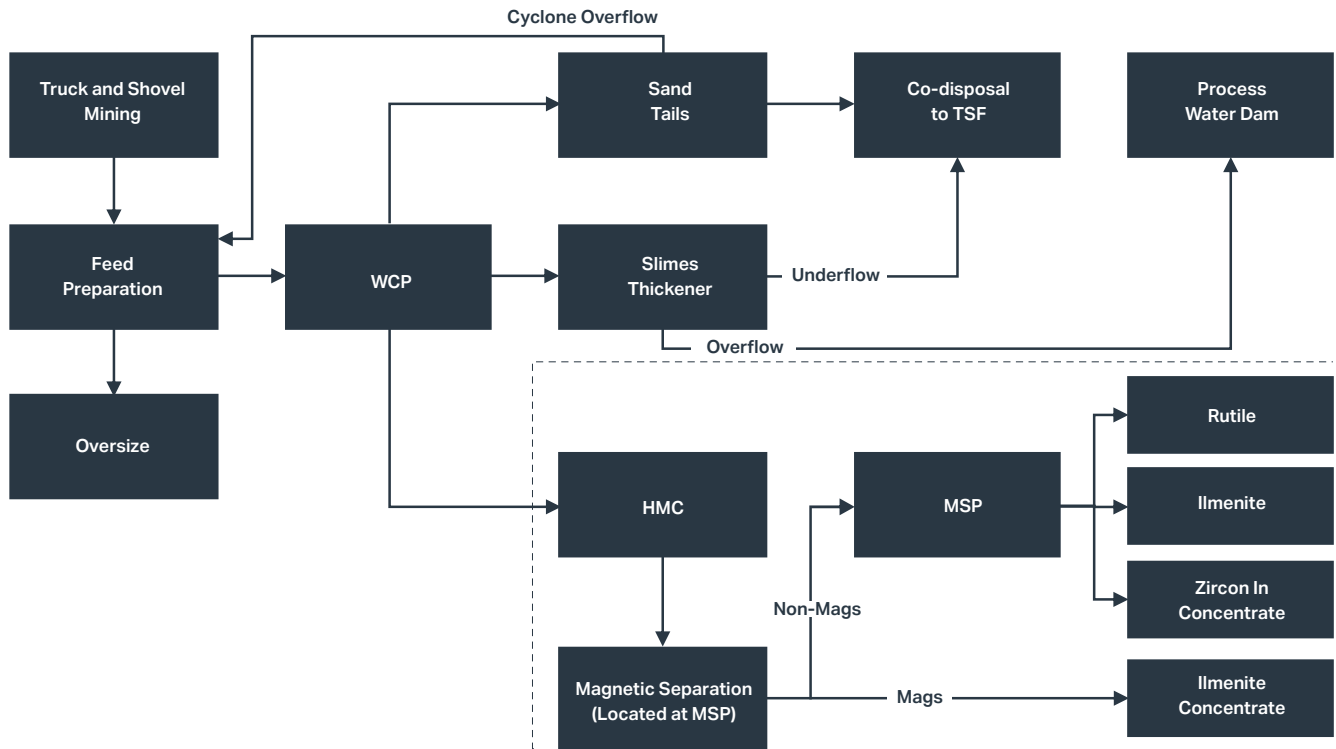
Overburden will be excavated and either stockpiled adjacent to mining pits, utilised for the construction of tailings storage embankments or direct returned into mining voids. Prior to rehabilitation, overburden profiles will be re-shaped in accordance with the rehabilitation and closure standards. Where possible, direct replacement of overburden will be prioritised to reduce operating cost and support the progressive rehabilitation of the mining areas.

The ore from the mining area will be transported to a new WCP to be constructed at Sembahun. The ROM ore will be fed into a feed bin and onto apron feeders into vibrating grizzly feeders to separate the undersize from the oversize material. The oversize material will report to the oversize stockpile and the undersize will pass through to a scrubber and screening stage (trommel, vibrating screen feed tank and primary screen) before being slurried to the WCP. Desliming will be done in two stages before the underflow (sand) is fed to a spiral separation plant to recover valuable heavy minerals. Sand tailings and slimes (fine materials from spiral overflow) will be disposed in dedicated TSFs.

3.12.9 PROCESSING

The PFS contemplates that HMC will be transported via truck to the existing MSP and a magnetic separation circuit will be added to the MSP infrastructure to ensure throughput levels of 175ktpa of rutile can be achieved. A high-level indicative block flow of the Sembehun processing facilities is illustrated in Figure 3.17 below.

FIGURE 3.17 BLOCK FLOW OF PROCESS FACILITIES FOR SEMBEHUN PROJECT



3.12.10 TAILINGS STORAGE FACILITY

In order to deposit tailings back into a mined-out pit void, adequate space is required to ensure both operations can occur concurrently within the same pit. A tailings and back fill model was developed to estimate the overall backfill volume required versus the capacity in the mined-out pits on the progressive mining schedule. Given site and physical constraints, such as topography, bulking factors and water addition to the tailings stream, a calculated volume equivalent to two years' worth of mining production will need to be accommodated outside the mining pit voids.

Key PFS assumptions relating to the TSF design are outlined in Table 3.4 below. The PFS recommends that further work be undertaken on the TSF design prior to commencing the DFS in order to increase the confidence level associated with the TSF design. This work will be the subject of the Pre-DFS Work Plan as discussed in Section 3.12.4.

TABLE 3.4 TSF ASSUMPTIONS

	Units	Value
TSF		
TSF Capacity	Mm ³	15.5
% Return Water as function of water in tails	%	60
Un-Thickened Slimes		
% Tails in ROM Feed (from Nominal Mass Balance)	%	80.0
% Solids in TSF Feed (from Nominal Mass Balance)	%	8.7
Dry density of settled sand and slimes tailings (high)	%	1.0
Dry density of settled sand and slimes tailings (low)	%	0.8
Dry density of settled sand and slimes tailings (minimum)	%	0.6
Thickened Slimes		
% Sand Tails in ROM Feed (from Nominal Mass Balance)	%	45.8
% Slimes in ROM Feed (from Nominal Mass Balance)	%	34.2
% Solids in combined TSF Feed (from Nominal Mass Balance)	%	43.4
Thickener Type		High Rate
Settling Rate	m/h	27
Slimes only flux rate	t/m ² .h	12.6
Thickener Underflow % Solids (Slimes only)	% w/w	30
Dewatered Sand % Solids	% w/w	65
Dry density of settled sand and slimes tailings (high)	%	1.3
Dry density of settled sand and slimes tailings (low)	%	1.0
Dry density of settled sand and slimes tailings (minimum)	%	0.8

An initial external TSF equivalent to two years production has been included in the project design. Initially, space for tailings deposition will be in this off-path TSF, until suitable space is available to facilitate continuous deposition in the mined-out pit voids.

3.12.11 METALLURGY AND RECOVERIES

Key PFS assumptions relating to metallurgy and recoveries are outlined in Table 3.5 below.

TABLE 3.5 METALLURGY AND RECOVERIES ASSUMPTIONS

	Units	Value
Plant Feed		
Truck and Shovel Mine rate (Total) (dry solids)	tpa	13,614,500
WCP ROM Feed Required (Total) (dry solids)	t/h	2,032
Truck Size	t	60
ROM Moisture Content		
Bulk Solids Flow Design	% w/w	20
Process Plant Design – Nominal	% w/w	6.3
Process Plant Design – Design	% w/w	9
Overall Utilisation		
WCP Uptime/Runtime	%	76.5
MSP Uptime/Runtime	%	78.4
HMC		
WCP Rutile Recovery	% w/w	93
HMC Rutile Grade	% w/w	40
HMC HM Grade	% w/w	90
MSP Rutile Recovery	% w/w	92

3.12.12 SITE INFRASTRUCTURE

There is significant existing infrastructure that is currently utilised for the mining and processing of the Area 1 deposits which it is proposed would also be utilised in the operation of Sembehun. Sierra Rutile has also identified additional infrastructure that it will be necessary to construct or acquire for the development, mining and processing of the Sembehun deposits only.

Table 3.6 summarises the existing and additional infrastructure that it is intended will be utilised for the mining and processing at the Sembehun deposits if the Sembehun development proceeds.

TABLE 3.6 SITE INFRASTRUCTURE FOR THE SEMBEHUN DEPOSITS

Port	<ul style="list-style-type: none"> The existing port facilities located at Nitti will be utilised to export Sembehun's final products. No additional storage facilities are required.
Power	<ul style="list-style-type: none"> Sembehun's mining operation has a maximum power requirement of approximately 13.5MW. The normal operating demand of the power plant is expected to be approximately 11.5 MW. The 13.5 MW (absorbed) includes an additional 15% design margin on the normal operating load to cater for voltage/ frequency control and to operate the machines at a more efficient load point. An independent power producer (IPP) solution has been selected as the preferred power solution for the Sembehun DFS. The IPP proposed power plant includes a hybrid solution where a portion of the power is delivered through solar photovoltaic and battery energy storage systems. The amount of renewable contribution for the power plant will depend on the final load profile of the mining operation. It is expected that the renewable portion will contribute up to 30% of the power supply.
Roads	<ul style="list-style-type: none"> In addition to utilising existing road infrastructure for Sembehun, new access, haul and site roads and bridges will be constructed where needed.
Water	<ul style="list-style-type: none"> All Sembehun WCP run-off stormwater will be captured and drained to a silt trap and ultimately discharged to the process water dam (PWD). This will be the source of raw water and allow for recirculation back into the Sembehun WCP. An estimated PWD available capacity of ~2.0 Mm³ is required. The raw water abstracted from the PWD will be pumped to the package water treatment plant (PWTP) to provide potable water for the plant facilities and the accommodation camp. The PWTP will treat raw water to potable water quality at a rate of 3.6 m³/h. The potable water will be pumped from the PWTP to an elevated storage tank at the accommodation camp. The sewerage reticulation network covers both the plant and the accommodation camp which is integrated into a single network and will flow under gravity conditions.
Mine camps, buildings & other facilities	<ul style="list-style-type: none"> A new 113 person camp at Sembehun will be required to be built onsite to accommodate senior and management staff directly involved in the Sembehun operations. All facilities in the camp will be modular type buildings and include: <ul style="list-style-type: none"> laundry; kitchen and dining area; recreational room; ablutions; and office. The following buildings that are currently used in the mining and processing of the Area 1 deposits will also be utilised for Sembehun: <ul style="list-style-type: none"> administration buildings; laboratory; senior and management staff accommodation; and some workshops and stores, although satellite facilities will be constructed as part of the Sembehun Project.
Fleet	<ul style="list-style-type: none"> The Sembehun PFS assumes a contract mining operation whereby key mining fleet is owned and operated by the contract miner.
Waste management	<ul style="list-style-type: none"> Only small amounts of waste will be generated due to the size of the plant and accommodation camp. The waste (general and organic) will be taken off site to the current Area 1 domestic waste facility where it will be sorted in the appropriate manner in line with the current Environmental, Social and Health Impact Assessment (ESHIA). Wastes generated in Area 1 will follow the existing Area 1 Waste Management Plan. This is detailed in Table 3.2.

3.12.13 SEMBEHUN WORKFORCE STRATEGY

Total operation staff including contractors for Sembehun itself is expected to average 600 people over the LOM, with a peak of up to 700 people (comprised of both national and expatriate staff). A limited number of senior and management staff will be housed in an on-site camp. Other support and administrative senior staff and management will be accommodated at the existing Mobimbi and Kpanguma camps in Area 1.

It is anticipated that Sierra Rutile will utilise the services of a number of contractors and third party companies for goods and services. Sierra Rutile will need to explore local business development opportunities by identifying suitable local contractors to provide supplies, goods and services at the Sembehun Project.

3.12.14 SEMBEHUN OPERATING EXPENDITURE ESTIMATE

Phase 1 operating costs encompass the first 24 months of operations, during which it is assumed the plant will operate on 50% capacity (1,016 tph, nominal throughput at 76.5% utilisation).

Phase 2 represents 100% capacity operations at Sembehun phase 2 (2,032 tph, nominal throughput at 76.5% utilisation).

TABLE 3.7 SEMBEHUN OPERATING EXPENDITURE ESTIMATE

Sembehun Operating Cost Estimate (real, US\$/t of rutile)	Phase 1	Phase 2
Mining	191	250
WCP	218	176
Logistics to MSP	35	35
MSP	108	100
Logistics to Port	10	10
Port	22	12
Overheads	456	228
Selling Costs	6	6
Total operating costs	1,048	818

Note: The amounts above are estimates only and actual operating costs may be higher or lower than the PFS estimates shown.

3.12.15 SEMBEHUN CAPITAL EXPENDITURE ESTIMATE

TABLE 3.8 SEMBEHUN CAPITAL EXPENDITURE ESTIMATE

Sembehun Capital Cost Breakdown (real, US\$m)	Phase 1	Phase 2	Total
Direct			
Mine development	4	-	4
Wet concentrator plant	83	21	104
Mineral separation plant	-	4	4
Non-process infrastructure	46	1	46
Indirect			
Indirects ²	90	16	106
Contingency ³	63	11	73
Project total costs	284	52	337

Note:

1. The target accuracy for the PFS capital estimate is within the following ranges: +20% to +50% on the high range and -15% to -30% on the low side before the contingency is considered, which represents AACE Class 4 Preliminary Feasibility estimate;
2. Indirect costs include project management, technical services, EPCM, sub consultants, temporary construction facilities, site wide capitalised costs, commissioning, start-up inventories, spares, insurance, land acquisition and freight costs;
3. Contingency costs represent 28% of the base capital expenditure estimate.

3.12.16 EXECUTION STRATEGY

The project is planned to be executed in two phases. Completion of Phase 1 will provide a complete operating facility with commissioning aimed to be completed within 24 months from final investment decision. Phase 2 which will include the second ROM tip with scrubber, a second concentrator and the second stacker/storage area with commissioning aimed to be complete within 24 months from Phase 1 commissioning.

It is intended that all civil works, concrete foundations and underground utilities related to the overall project will be completed during Phase 1 execution to take advantage of construction efficiencies.

Award and execution of the access road and bridge construction must be set as a priority to support construction activity on site and to provide best possible accessibility and delivery opportunities. Award of the civil contract is planned to be immediately after the start of the execution phase. Also planned for an early start will be the establishment of the permanent accommodation camp at site in support of the owner's management team and the contractor's management team.

The general project strategy that has been developed is based upon setting the stage for early works field activities to commence as soon as practical after the commencement of the execution phase. The plan is based upon adopting a philosophy of design build strategies for the early works in support of the access road and bridge construction packages and the accommodation camp package. The civil works package may require a mixed contracting method to support early start of site clearing and general earthworks.

3.12.17 FUNDING

Following the Demerger, Sierra Rutile (as a standalone company) will not have the financial capacity to internally fund the Sembehun Project development in its entirety. It is intended that (post-Demerger), Sierra Rutile will consider a number of external funding options for the development of Sembehun, including in the form of debt, offtake, joint venture and/or equity. Whilst the phased project approach is intended to maximise Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun, this funding is not expected to be sufficient to fund the development of the Sembehun Project in its entirety.

The ultimate funding arrangement will be determined prior to FID based on a number of factors including the cash reserves of Sierra Rutile at the time of FID, general market conditions, debt and equity market dynamics, and any arrangements with strategic offtake and delivery partners. Any equity funding (either at the Sierra Rutile level or at Sembehun Project level) has the potential to dilute the indirect economic interest existing Sierra Rutile shareholders (post Demerger) have in the Sembehun Project.

3.12.18 MARKETING AND PRODUCT QUALITY

Sierra Rutile has a long and established market presence, including relationships with all of the primary chloride-based titanium pigment manufacturers as well as the world's largest producers of high-specification aircraft-quality titanium metal. This is expected to continue with the development of Sembehun.

Current shipping arrangements to customers are expected to apply to Sembehun:

- pigment / sponge / processors sold on FOB or CIF basis. Regional warehouses considered on case-by-case basis and depending on economics involved; and
- truck / container size parcels delivered to welding customers, who are serviced through regional warehouses.

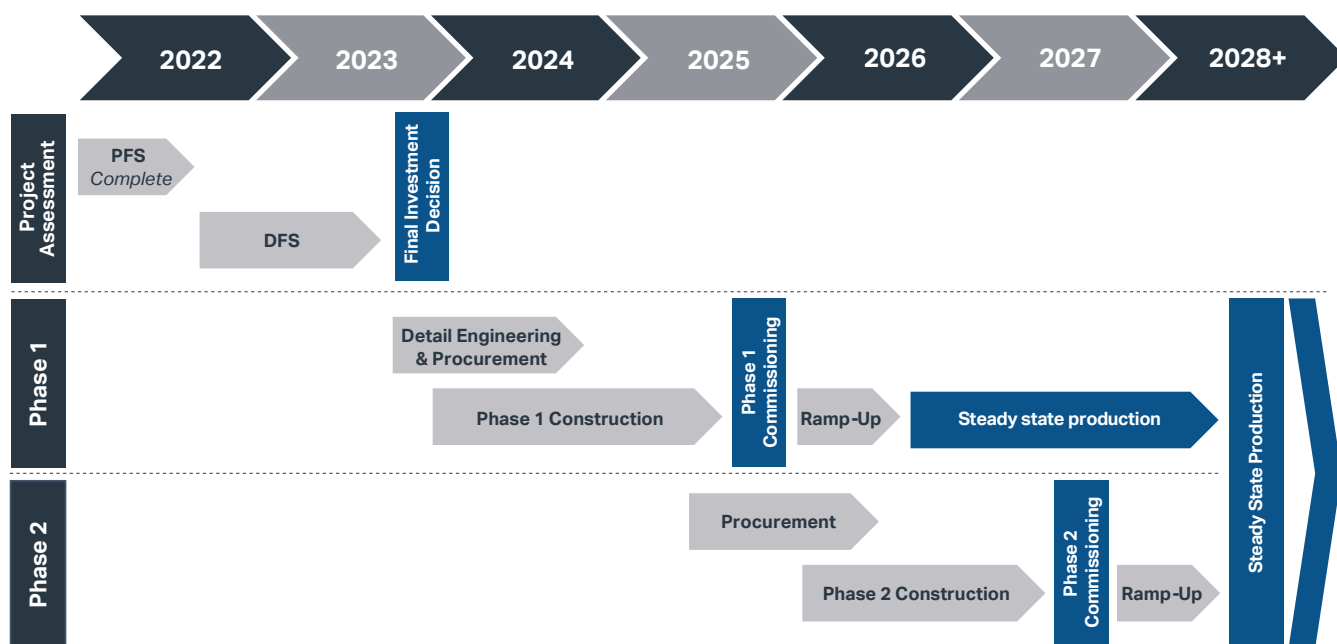
Refer to Section 3.14 for further detail on Sierra Rutile's mineral concentrate sales and marketing arrangements.

3.12.19 DFS WORKPLAN AND INDICATIVE DEVELOPMENT TIMELINE

The objective of the DFS will be to advance the overall design and project definition to a level sufficient to prepare an AACE Class 3 capital cost estimate (increased from the AACE Class 4 capital cost estimate to which the PFS has been prepared). This will enable a decision by the Sierra Rutile Board to sanction the project for execution.

Sierra Rutile is working towards being in a position to make a final investment decision in late 2023 which would allow Sierra Rutile to target the commencement of Phase 1 Sembehun production within 24 months.

FIGURE 3.18 INDICATIVE SEMBEHUN DEVELOPMENT TIMELINE



Note: This timeline is indicative and may be subject to change including due to matters outside Sierra Rutile's control. Refer to the risks in Section 3.12.21 and 3.27.2.1.

3.12.20 SEMBEHUN PERMITTING AND APPROVALS

The EPA-SL approved the Scoping Study for an ESHIA for the Sembehun Project in April 2022.

The ESHIA itself commenced during May 2022 and is expected to be submitted and approved ahead of the final investment decision. Baseline surveys will build on previous work conducted by Sierra Rutile in the project area. The baseline surveys to be undertaken for the ESHIA for the Sembehun Project are detailed in Table 3.9 below.

TABLE 3.9 SEMBEHUN ESHIA BASELINE SURVEYS SUMMARY

Baseline surveys		
• Air quality baseline	• Avifauna	• Visual
• Flora	• Noise and vibrations	• Radiation
• Surface water	• Herpetofauna	• Traffic and transport
• Groundwater	• Freshwater Biota	• Socio-economic
• Geochemistry baseline	• Estuarine / Marine Biota	• Archaeology and cultural heritage
• Soils, land use and land capability baseline	• Mammals (including primates)	• Community health and nutrition

There is a specific focus on soils, land use capability, biodiversity, heritage and socio-economic aspects. The baseline data will be used to conduct impact assessments and identify mitigation opportunities.

An important aspect in the ESHIA process is consideration of communities where their livelihood or assets may be compromised. Sierra Rutile has recently completed a resettlement project in the current operational area and consequently gained experience that would be helpful for the Sembahun Project.

Based on the 2019 household surveys conducted as part of the ESHIA, it was estimated that the following Project Affected Communities (**PACs**) would require resettlement:

- twelve villages located within the project development area (comprising 341 households and 1,981 people) will require physical resettlement. These villages include Benduma 1, Benduma 2, Dodo, Gambia, Kamatipa, Kangahun, Kibi, Massan, Matieu, Mosegi, Njala and Nyandehun;
- a further two villages, Komende (542 persons in 88 households) and Mokumba (155 persons from 26 households), may require resettlement pending the final mine design and consultation with these PACs; and
- an additional four surrounding villages with land that will be impacted by the Project may experience economic displacement. These villages include Ngeibu, Senegai / Mosago, Mosago Junction and Gbangbatoke Junction.

A detailed Resettlement Action Plan (**RAP**), including a Livelihood Restoration Plan (**LRP**) and an indicative cost estimate, will be developed as part of the ESHIA process. This will be informed by updated household surveys and an update to the socio-economic study.

The ESHIA contains a number of work packages essential to the approval of the project, including a RAP, a Mine Closure Plan and an Influx and Land Access Management Strategy.

Sierra Rutile has a mature Environmental, Health, Safety and Social Management System (**EHSMS**) that would be extended into the project area.

3.12.21 KEY RISKS

The risk management process in the Sembahun PFS included qualitative project risk review, together with a quantitative risk assessment. Key risks identified through this process are detailed below.

TABLE 3.10 SEMBEHUN PFS KEY RISK REVIEW

Risk	Description
Commercial and internal business environmental risks	
Significant environmental event (loss event)	<ul style="list-style-type: none"> • Improper management of contaminated and/or legacy sites and failure of containment embankments may lead to environmental loss events resulting in fines or sanctions and environmental impacts.
Construction skills and resources for execution	<ul style="list-style-type: none"> • There may be limitations regarding construction skills and resources due to the limitations of the local workforce.
Resource constraints (owners, engineering until commissioning)	<ul style="list-style-type: none"> • Lack of dedicated owners/stakeholders' team from engineering and design until commissioning may lead to resource constraints for integration.
Construction risks	
Schedule delays during project construction and commissioning	<ul style="list-style-type: none"> • There is a risk of scheduling delays due to: <ul style="list-style-type: none"> • Earthworks not being completed within the dry season. • Mobilisation of disciplines being delayed, and reworks required on previous disciplines. • Delays while waiting for delivery of new items. • Extension of time and standing time claims applicable to scope impacted by logistical delays. • Commissioning and ramp up being delayed. • Downtime due to equipment failure and running out of spares. • Access issues arising from community and related claims during the resettlement process.

Risk	Description
Construction risks	
Underestimation of supply and cost of materials within the market and logistics within the schedule / supply chain / logistics / market	<ul style="list-style-type: none"> Supply constraints in the market may result in reduced material availability and increased pricing, resulting in both increased costs and delays. The current high inflation environment may also result in increased costs. There is also the potential for unforeseen supply chain and logistical issues associated with sourcing the necessary materials for construction. An underestimation of logistics within the schedule may result in cost and time impacts.
Engineering and technical risks	
Uncertain dry mill product qualities and lower MSP mineral recoveries / further test work required	<ul style="list-style-type: none"> Bench-scale test work has not been undertaken at Sembehun. This test work could impact recoveries, product specifications and saleable product volumes at Sembehun. This work is being commenced as part of the Pre-DFS Work Plan.
Bridge and road may be overruled by the government	<ul style="list-style-type: none"> The road classification standard according to the government requirements for the road and bridge has not been clarified for the project, which may lead to the classification of roads in the current design being rejected and having to be reworked at additional cost.
Tailings deposition and process water dam methodology	<ul style="list-style-type: none"> Certain matters regarding the TSF still require confirmation prior to the commencement of a DFS, including the TSF pumping method, construction method, TSF size and overall integration with the mine plan. Similarly, further work is also required on the PWD to confirm size and design prior to commencement of a DFS. This work is being commenced as part of the Pre-DFS Work Plan.
Further hydrogeological work required	<ul style="list-style-type: none"> Further hydrogeological work is required to generate a revised groundwater model suitable for the DFS and that work is being commenced as part of the Pre-DFS Work Plan. This could impact costs of or approach to the development.
External interfaces	
Sovereign risk exposure / Country risk	<ul style="list-style-type: none"> There is a risk that unknowns in relation to unplanned regulation or requirement changes lead to increasing project complexity.
Limited power supply / selection of IPP	<ul style="list-style-type: none"> There may be limited power supply if late selection of an IPP occurs, including an impact of tariffs for LOM.
Project management & scope risks	
Combined overall risk due to project complexity, combination of resource, sovereign, community, capital and HSEC risks	<ul style="list-style-type: none"> Possible causes of combined overall risk include: <ul style="list-style-type: none"> Not securing IPP model for power plant. Increased cost for relocation and livelihood restoration due to timing and influx. Capex required to maintain reliability of existing infrastructure.
Significant increase in capital cost	<ul style="list-style-type: none"> Significant increase to project scope or initial capital estimates due to several contributing factors or possible scenarios that may result in increased capital cost, that may include: <ul style="list-style-type: none"> Requirement for increased capacity of PWD. Not securing IPP model for power plant. Increased cost for relocation and livelihood restoration due to timing and influx.

Risk	Description
Safety and health and community	
Communities may introduce new requirements / Community dissatisfaction	<ul style="list-style-type: none"> During the RAP process, currently undefined parts of the communities may introduce new requirements and increase the magnitude of the relocation exercise resulting in underestimation of RAP costs and delays.
Securing land and negotiations (RAP / LRP)	<ul style="list-style-type: none"> Delays and cost increases associated with resettlement: <ul style="list-style-type: none"> Resettlement negotiations may take longer than estimated. Land required for the RAP / LRP may not be available to relocate villages that are within the project development area footprint or may be more costly than estimated.

3.12.22 SEMBEHUN EXPLORATION

Since the discovery of the Sembehun mineral sands deposit in the 1960s, there has been extensive exploration and feasibility work completed to assess the optimal approach to developing Sembehun. In recent years, exploration works at Sembehun have focused on improving confidence in known Mineral Resources, with the latest Ore Reserve and Mineral Resource update as at 31 December 2021 (which was released in February 2022). Following the development of Sembehun, Sierra Rutile management expects to conduct Mineral Resource definition drilling and greenfields exploration activity across its large tenement holding, which includes a number of highly prospective exploration targets.

3.12.23 SEMBEHUN COMMUNITY AND GOVERNMENT RELATIONS

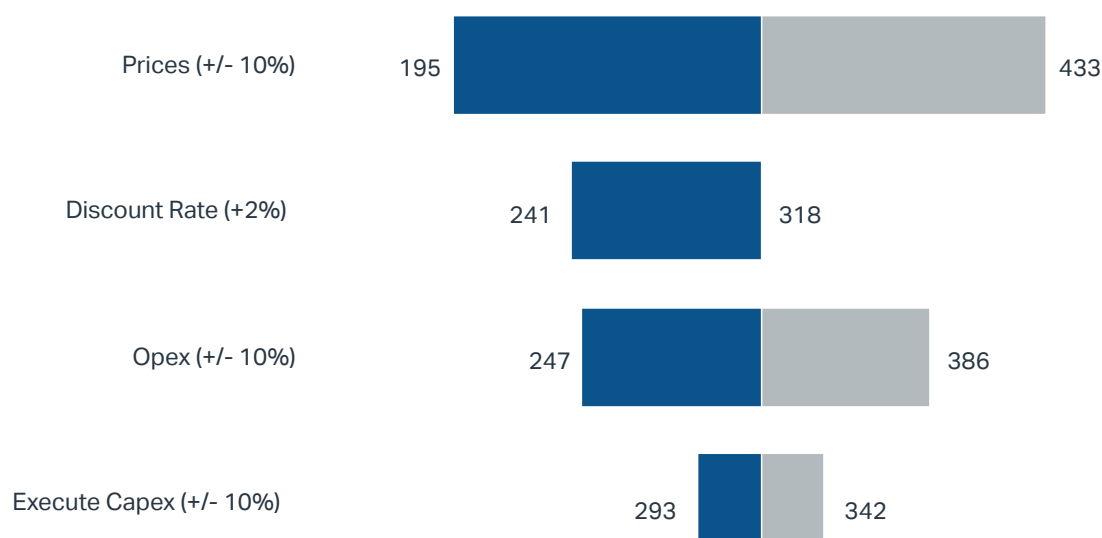
Sierra Rutile's EHSMS specifically guides the management of stakeholder relationships. The Sembehun community has been part of the Area 1 social investment and stakeholder management process for the past number of years. Stakeholder relations will continue to be a focus area for site management.

Refer to Section 3.21 for further information on the Sierra Leone mining and fiscal scheme that applies to Sembehun.

3.12.24 SENSITIVITY ANALYSIS

Figure 3.19 below outlines key sensitivities for the Sembehun PFS to the base case Project NPV of US\$318 million.

FIGURE 3.19 SEMBEHUN PFS KEY PROJECT NPV SENSITIVITIES (US\$M)



Note: For the base case assumptions for pricing, the discount rate, operating expenditure, and execute capital expenditure, refer to Sections 3.12.2, 3.12.1, 3.12.14 and 3.12.15 respectively.

3.13 REHABILITATION AND MINE CLOSURE PLAN

3.13.1 REHABILITATION OBLIGATION

Rehabilitation and mine closure within Sierra Leone are regulated by the EPA-SL. The overall closure objective of the EPA-SL is to ensure that remedial measures are planned and implemented in a manner that the land capability of the rehabilitated areas is capable of sustaining a variety of post closure land uses, where the residual post closure risks are acceptable to Sierra Rutile and Sierra Rutile's stakeholders. The sub-objectives to support this objective are:

- ensure safety and health of all stakeholders during closure and post closure, and that communities using Area 1 after closure are not exposed to unacceptable risks;
- utilise closure methodologies that relinquish areas in a self-sustaining condition with little or no need for ongoing care and maintenance;
- understand and address community concerns regarding closure;
- comply with mine closure permitting and regulatory requirements;
- obtain documented confirmation of meeting all closure requirements; and
- physically and chemically stabilise remaining structures to minimise residual risks.

As at 31 December 2021, the rehabilitation estimate for Area 1 was approximately US\$45 million. This rehabilitation estimate is reviewed annually in accordance with the IFRS and Iluka's closure provisioning accounting policy.

3.13.2 APPROACH TO REHABILITATION AND ILUKA SUPPORT

Iluka will establish an externally managed rehabilitation trust, cash funded by a one-off Iluka payment of US\$45 million, to provide confidence that the rehabilitation obligations incurred prior to the Demerger of Sierra Rutile can be satisfied by Sierra Rutile as a standalone entity.

The trust deed for the rehabilitation trust will specify the mechanism by which Sierra Rutile can draw down on the trust funds for rehabilitation purposes.

Please refer to Section 9.3 for further detail on the Sierra Rutile rehabilitation trust.

3.14 SIERRA RUTILE MINERAL CONCENTRATES SALES AND MARKETING

Sierra Rutile currently produces three primary products for sale: SGR, IGR, and chloride ilmenite.

SGR accounts for approximately 85-90% of Sierra Rutile's annual rutile production. Sierra Rutile's SGR is considered to be an industry leading high quality product and is consumed primarily in the manufacture of titanium dioxide pigment and titanium sponge (a precursor to titanium metal).

Sierra Rutile's IGR product is well suited to high quality flux core welding wire applications due to its high packing density and low contaminant level. These favourable physical and chemical characteristics enable the product to trade at a premium to competing products.

Sierra Rutile also produces chloride-grade ilmenite which is sold mainly for pigment production as well as being upgradeable into titanium slag.

In addition to the three primary products above, Sierra Rutile also produces around 5kt of zircon annually, in the form of ZIC. Zircon content in the ZIC is variable, but typically around 20-25%. While only a minor contributor to Sierra Rutile's overall production volume, zircon's high value means it provides an attractive revenue stream to Sierra Rutile.

Sierra Rutile's products are highly sought after in several end-use markets and applications. Associated sales arrangements are custom-tailored, varying by end-use application and ranging from spot to six-month duration, as detailed below. In 2021, 77% of Sierra Rutile's revenue was from sales to customers located in Europe, 19% was from customers located in Asia, and the remaining 4% was from customers located in North America and South America. Except for the arrangements with Iluka in relation to rutile described below, the longest dated Sierra Rutile offtake agreement entered into in 2022 will expire on 31 December 2022.

TABLE 3.11 SIERRA RUTILE PRODUCT SALES SUMMARY

Product	End-Use Application	Offtake arrangement
Rutile	TiO ₂ pigment	<p>Sierra Rutile's largest pigment customer is Kronos Worldwide, Inc. (Kronos) (4th largest global pigment producer). Sierra Rutile has a longstanding supply history with Kronos, with annual offtake of over 80kt in each of the last 6 years. Sierra Rutile's existing contract with Kronos is due to expire on 30 June 2022.</p> <p>Other pigment customers include Venator (5th largest global producer) and Tronox (2nd largest global producer), who are each sold to on a spot shipment by shipment basis.</p> <p>Pigment customers buy on FOB Incoterms. Spot sales can also be contracted under CIF Incoterms, with ocean freight charged on a cost plus basis.</p>
Rutile	Ti Metal (sponge)	<p>In the current tight supply environment, select top tier titanium sponge producers purchase 6-12 ktpa of rutile on a spot basis. In recent years, offtake agreements were of multi-year duration, with pricing linked to Sierra Rutile's other bulk rutile contracts.</p>
Rutile	Welding and industrial	<p>Sierra Rutile's IGR is regarded as a premium product for high quality welding applications.</p> <p>Rather than buying in bulk on a FOB basis, welding customers purchase packaged product in small parcels on a delivered to factory gate or container terminal basis. Although volumes are regular, contracts see price and quantity agreed quarterly to adjust to fluctuations in supply and demand.</p> <p>As part of the transition, any remaining IGR stock in Iluka's Malaysian warehouse and one shipment of approximately 3kt will be sold to Iluka at market rates, with the balance sold independently by Sierra Rutile.</p>
Ilmenite	TiO ₂ pigment or Ti slag	<p>Sierra Rutile ilmenite is highly desired and readily sold on a spot basis since it is a secondary ilmenite suitable for direct chlorination or transformation into titanium slag. If Sembehun is developed, a lower value ilmenite concentrate will also be produced in addition to the high quality ilmenite stream.</p> <p>As part of the transition, Iluka will be granted a first right of refusal to purchase up to 30ktpa of ilmenite produced by Sierra Rutile. This arrangement will continue for a period of 3 years.</p> <p>Iluka has nominated Sierra Rutile to deliver certain quantities of ilmenite to meet Iluka's obligations under one of Iluka's multi-year sales contracts. There are two remaining shipments of ilmenite that are scheduled for delivery by Sierra Rutile under this arrangement after the Demerger.</p>

Product	End-Use Application	Offtake arrangement
ZIC	Asian processors who extract remaining zircon, rutile and other valuable heavy minerals credits	Concentrate streams that are no longer economic for Sierra Rutile to process, or that exceed the current MSP processing capabilities are sold to specialized processors on a spot basis. To manage shipping costs, quantities are accumulated and sold/shipped once or twice a year.

Sierra Rutile has a long and established market presence, including relationships with all of the primary chloride-based titanium pigment manufacturers as well as the world's largest producers of high-specification aircraft-quality titanium metal.

3.15 EMPLOYEE HEALTH AND SAFETY

The health and safety of all employees, contractors and visitors is of fundamental importance to Sierra Rutile. Safety and health have historically been managed to the standards deployed by Iluka and have significantly improved since the acquisition of Sierra Rutile by Iluka in 2016. Sierra Rutile intends to manage its business to this same standard post Demerger, as a standalone entity.

Examples of health initiatives adopted by Sierra Rutile include the establishment of the Sierra Rutile Clinic in the 1970s, increased numbers of medical professionals in response to the COVID-19 pandemic, investment in two ambulances, a fire truck and fire fighting vehicle, and investment in additional equipment such as haematology analytical equipment, x-ray and ultrasound machines.

Sierra Rutile's initiatives and resources have allowed earlier intervention for any injured employees, as well as improving service delivery for non-work related injuries and illnesses, with improved clinical outcomes for patients at the Sierra Rutile Clinic.

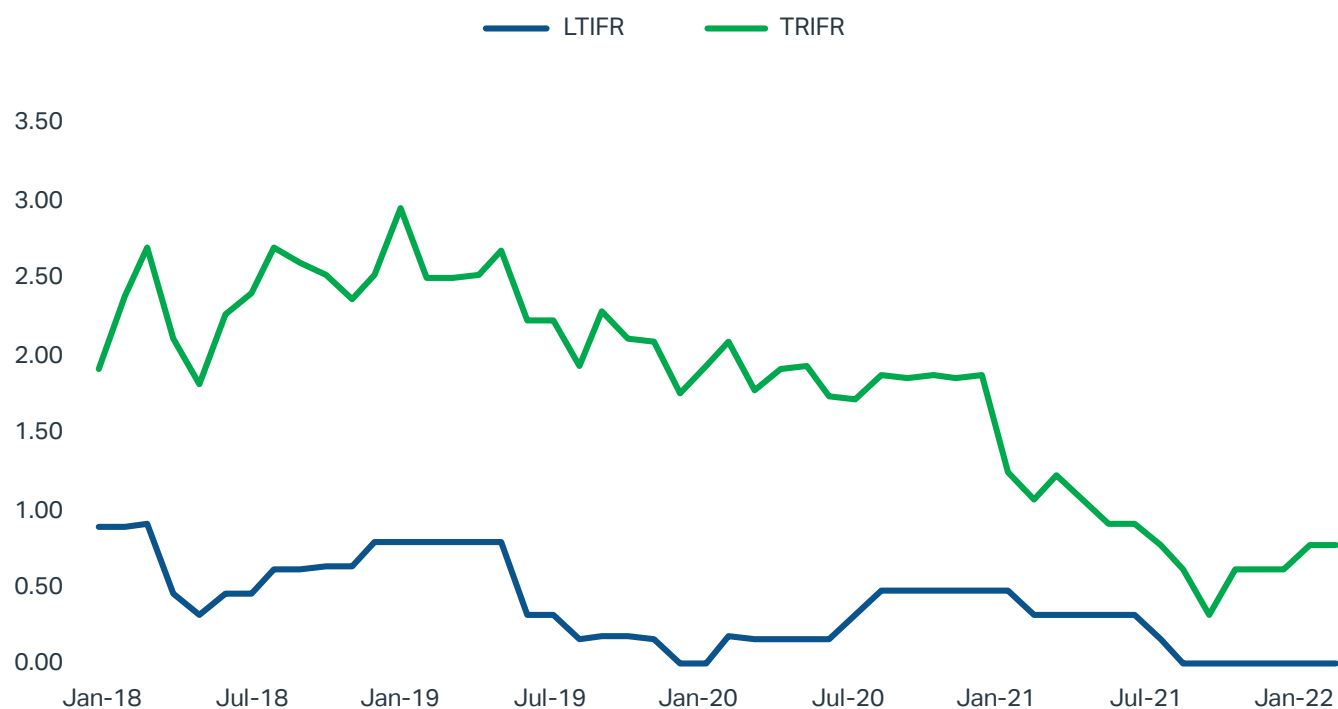
Examples of safety initiatives adopted by Sierra Rutile include:

- establishment of Sierra Rutile's Life Saving Commitments campaign across all operations and support services;
- introduction of the Incident Causal Analysis Methodology to ensure consistency in investigations and outcomes;
- introduction of pre-start safety checks, driver training and competency assessments and integrated Traffic Management Plans for all operational areas;
- investment in the Health and Safety Management System to manage risk management, with minimum compliance levels established and enforced;
- mandatory risk assessments for all non-routine tasks;
- the adoption of lifting, guarding, fatigue management and hazard reporting procedures in line with Iluka's high standards;
- fire response training for the Emergency Response team;
- fully integrated tailings management, involving regular operations and geotechnical monitoring; and
- introduction of mandatory daily alcohol testing across all sites and shifts.

Risk management is an integral part of the health, safety, environment and community management system and the above initiatives have been undertaken to ensure that processes are in place to identify, analyse and evaluate hazards, to assess the risk posed by the hazards and to develop controls to reduce the level of risk to acceptable levels.

Sierra Rutile has recorded a strong safety performance in recent years, with positive trends observed across Total Recordable Injury Frequency Rate (**TRIFR**) and Lost Time Injury Frequency Rate (**LTIFR**) measures. This is attributable to the implementation of training programs, risk assessment and enhanced hazard identification.

FIGURE 3.20 SIERRA RUTILE'S LTIFR AND TRIFR (2018-2022)



3.16 ANTI-BRIBERY AND CORRUPTION

Sierra Rutile is committed to complying with all applicable anti-bribery and corruption laws and has adopted an Anti-Bribery and Corruption Policy. SRL in Sierra Leone also has its own anti-bribery and corruption procedures which are consistent with Sierra Rutile's zero-tolerance approach to bribery and corruption.

Sierra Rutile's approach to and management of anti-bribery and corruption applies to individuals working at all levels of the company, including senior managers, officers, directors, employees (whether permanent, fixed term or temporary), consultants, contractors, trainees, seconded staff, homeworkers, casual workers and agency staff, volunteers, interns, sponsors, or any other person associated with us, wherever located.

3.17 ENVIRONMENT

Sierra Rutile is committed to managing its environmental performance to ensure that it complies with its obligations under all environmental legislation and is at the forefront of environmental management in the Sierra Leone mining industry. The EPA-SL is the custodian of environmental law within Sierra Leone.

Sierra Rutile has an ESHIA and Management Plan in place to ensure compliance and manage its obligations in regards to all aspects of environmental management including water, biodiversity, rehabilitation and waste management for Area 1. An ESHIA for Sembahun is required to be submitted and approved ahead of commencing development of the project.

Please refer to Section 3.21.3 for details in relation to Sierra Rutile's Environmental Impact Assessment Licence from the EPA-SL for mining activities at Area 1 (**EIA Licence**).

3.18 COVID-19 MANAGEMENT

Since the beginning of the COVID-19 pandemic, Sierra Rutile has undertaken a number of initiatives to protect its workforce, community and operations from the impact of the virus. The company activated its Emergency Management Team protocol in early 2020, continued to operate the Sierra Rutile Clinic and dedicated a team of people to managing its response to the pandemic. Since the outbreak of the pandemic, Sierra Rutile has supported government initiatives in the community ranging from the supply of basic hygiene commodities (masks, hand wash soap, buckets) to providing support to the District contact tracing teams. The company has also worked with the Government of Sierra Leone District Health Management Team to rollout COVID-19 vaccinations across the local community and Sierra Rutile workforce. Sierra Rutile also purchased its own PCR machine and conducts regular PCR tests on employees, community members and contractors.

It is estimated that the total cost of the extra measures required to deal with the pandemic contributed approximately US\$4.4 million to the 2020 and 2021 cost base in total. Approximately US\$1.9 million (A\$2.7 million) was invested in 2021 to provide vaccination and health services to employees and their families, and to establish on-site quarantine and isolation facilities.

3.19 CONTRIBUTIONS TO THE SIERRA LEONE ECONOMY AND LOCAL COMMUNITIES

Sierra Rutile is proud of its long association with the local communities in which it operates and makes a significant contribution to the community through wages, local sourcing and suppliers, social investment and numerous other commitments in addition to the statutory rents and taxes that it pays to the Government of Sierra Leone.

In 2021, Sierra Rutile's contribution included:

- payment of US\$18.7 million in wages to Sierra Leone direct employees;
- expenditure of US\$61.9 million on local goods and services from Sierra Leone businesses;
- more than US\$500,000 on social investment and agricultural development;
- the direct and indirect employment of more than 2,800 people; and
- a contribution to the economy of Sierra Leone (through government payments including taxes and royalties) of US\$21.8 million.

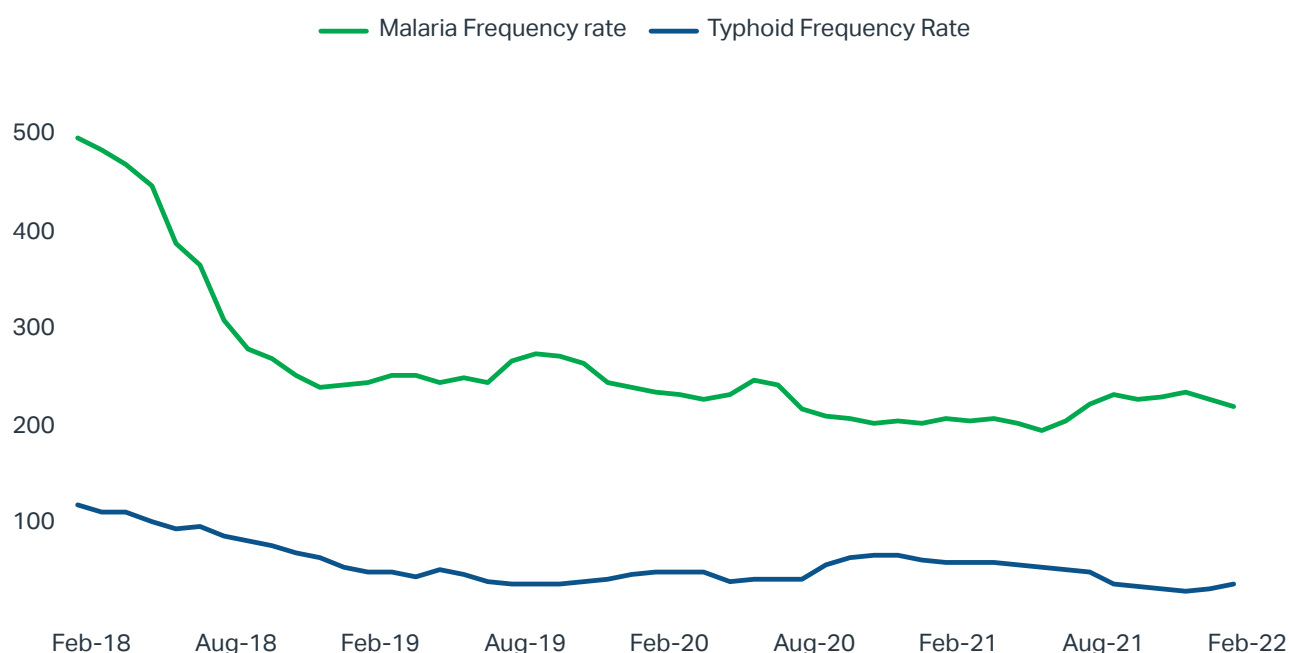
Sierra Rutile's commitment to its corporate social responsibility focuses on health, education, safety and social investment and development.

3.19.1 HEALTH

Examples of initiatives undertaken to support community health include:

- the establishment of the Sierra Rutile Clinic in the 1970s to provide medical support to employees and their families. The team of doctors, nurses, intensive care paramedics, laboratory specialists and support staff provide health care for a wide range of medical conditions including the delivery of 63 babies during 2021;
- actively investing in primary healthcare, leveraging existing infrastructure including water supply, power, land tenure and security, to provide healthcare to employees and their dependents as well as emergency care to members of the local community;
- community education regarding diseases such as typhoid, malaria, polio, HIV and other sexually transmitted diseases to support efforts by the Government of Sierra Leone to reduce communicable diseases across the broader population;

- **HIV/AIDS:** Sierra Rutile has partnership agreements with the Sierra Leonean National HIV/AIDS Control Programme, the National AIDS Secretariat and has a staff member placed in the Sierra Rutile Clinic to support HIV control interventions in the workplace and broader community. Free contraceptive vending machines have been placed in common areas for Sierra Rutile employees and at the Sierra Rutile Clinic for employees and dependants.
- **Malaria and Typhoid:** Malaria and typhoid continue to remain as significant threats in the region, however good progress has been made in reducing the frequency of these diseases. Initiatives which contributed to the reduction in cases included: typhoid vaccinations for employees and their dependents; clinical testing; provision of community education; supply of insecticide treated nets to community members; improvements in water quality management; and investment in better equipping the Sierra Rutile Clinic. The positive impact of Sierra Rutile's initiatives is shown in Figure 3.21 below.

FIGURE 3.21 SIERRA RUTILE'S MALARIA AND TYPHOID INFECTION RATES (2018-2022)

- To improve health and wellbeing awareness, Sierra Rutile Clinic staff regularly schedule face-to-face talks in the communities surrounding Sierra Rutile's operations to cover various topics relevant to each community and improve health and wellbeing awareness;
- the Sierra Rutile Chief Medical Officer and Clinic Matron participate in a fortnightly radio talkback program where they respond to health-related questions from callers; and
- Sierra Rutile donates superseded medical clinic equipment such as stethoscopes from the Sierra Rutile Clinic to local clinics to improve their capability.

3.19.2 EDUCATION

Sierra Rutile invests in education in Sierra Leone through its support of the Ruby Rose Educational Resource Centre, which provides educational facilities to primary school children from nearby schools. The centre provides access to a library and internet facilities to young learners, outdoor play areas and a feeding program. Sierra Rutile also invests in a school bursary program.

Further demonstrating its commitment to education, Sierra Rutile launched a school bus service in the mining communities in which it operates. The two buses commissioned in September 2019 provide support to families in the mining chiefdoms by providing a free transportation service for their children, especially those who cannot afford transport costs to send their children to schools.

3.19.3 SOCIAL INVESTMENT AND DEVELOPMENT

Sierra Rutile seeks to promote the development of its local communities through the following initiatives:

- in 2019, Sierra Rutile established a local sourcing initiative with the aim of increasing local procurement by working with potential Sierra Leonean companies that can be developed to provide a sustainable source of supply to meet Sierra Rutile requirements;
- Sierra Rutile implemented several community infrastructure projects in 2021, including rehabilitating five hand-pump water wells to supplement water availability in the Mogbwemo community, constructing two three-classroom schools at the Gbangbaia and Semabu villages, and constructing a new pedestrian bridge for the safe passage of local communities across a significant waterbody;
- beyond direct disclosures, Sierra Rutile supports the Extractive Industries Transparency Initiative (EITI), a standard to promote the open and accountable management of resources and to inform reforms for greater transparency and accountability in the extractives sector. Sierra Rutile also works closely with the Sierra Leone Chamber of Mines to provide industry input to the Sierra Leone EITI by way of its role in the multi-stakeholder group; and
- the Sierra Rutile Partnership Program, which is aimed at contributing to positive social, environmental and operational outcomes in the communities and regions in which the company operates. Partnership activities are undertaken for mutual benefit of Sierra Rutile and a third party for purposes aligning with one of Sierra Rutile's focus areas (e.g. diversity and inclusion, land management and sustainability, education and training, health and wellbeing) and may consist of financial sponsorship, in-kind support, collaboration or employee participation.

3.20 WORKFORCE

As at 31 March 2022, Sierra Rutile employed over 2,200 people, of whom 97% are Sierra Leone nationals. There are 79 Sierra Leoneans in management positions, 258 senior staff members and 1,838 general staff members. There are approximately 62 expatriates employed by Sierra Rutile, all of whom are expected to remain within the Sierra Rutile workforce post Demerger.

Sierra Rutile's commitment to employing locally is guided by the Sierra Rutile Local Content Policy and the Sierra Leone Local Content Agency Act (2016).

Wherever possible, Sierra Rutile also seeks to engage local companies and suppliers to support economic development in the region. This has included engaging local service providers for implementing coaching and development programs.

3.21 SIERRA LEONE MINING REGIME

Sierra Rutile and the Government of Sierra Leone entered into the "Agreement between the Government of the Republic of Sierra Leone and Sierra Rutile Limited" on 20 November 2001 (**Sierra Rutile Agreement**), replacing an earlier agreement which had been paused due to a long period of civil unrest in Sierra Leone. The Sierra Rutile Agreement was ratified by the Parliament of Sierra Leone when the Sierra Rutile Agreement (Ratification) Act 2002 (**Sierra Rutile Act**) came into force on 21 March 2002.

The Sierra Rutile Agreement is the primary instrument to regulate Sierra Rutile's operations in Sierra Leone. The Agreement operates as a framework that confers Sierra Rutile the authority to conduct mining, processing and export operations for rutile and other minerals.

The ratification of the Sierra Rutile Agreement by the Sierra Rutile Act means that the provisions of the agreement take effect notwithstanding any inconsistent law. This means that Sierra Rutile must also comply with the general laws of the land applying in Sierra Leone, except to the extent that the Sierra Rutile Agreement otherwise provides. The regime established by the Sierra Rutile Agreement regulates Sierra Rutile's operations in four key areas:

- **Mine tenure and mining activities** – including with respect to processing of rutile and other products and export at Nitti Port;
- **Fiscal scheme** – including with respect to royalties, taxes, duties and other charges;
- **Environmental management and planning** – including with respect to rehabilitation and mine closure; and
- **Community development** – including with respect to local content and stakeholder management.

These areas are discussed at a high level below.

3.21.1 MINE TENURE AND MINING ACTIVITIES

Sierra Rutile conducts mining and processing operations on Mining Lease and Dredging Licence No. 2134 of 1984 dated on 1 July 1984, as extended to cover additional ground by the Mining Lease and Dredging Licence No. 2134 - Additional Lease Area dated 17 September 1991 (**Mining Lease**).

The Mining Lease covers a range of a range of discrete areas set out in Table 3.12, which includes the Area 1 and Sembehun deposits.

TABLE 3.12 MINING LEASE AREA SUMMARY

Mining Lease Areas	Area (km ²)	Date Issued	Expiry Date
Area 1	291	01-Jul-1984	23-Jan-2039
Gambia	18	01-Jul-1984	
Jagbahun	21	01-Jul-1984	
Nyandehun	6	01-Jul-1984	
Sembehun	74	01-Jul-1984	
Sembehun Extension	125	17-Sep-1991	
Taninahun Boka	12	01-Jul-1984	
Mosavi	13	01-Jul-1984	
Total	559 km²		

The Mining Lease was initially granted in 1984 under the terms of The Minerals Act (196). Although predating the current version of the Sierra Rutile Agreement, in 2002, the Mining Lease was deemed to be subject to the terms of the Sierra Rutile Agreement by virtue of the SRA Act. In 2002, the Mining Lease was also deemed to be subject to the provisions of the Mines and Minerals Act, 1994 (**MMA 1994**) to the extent the provisions of the MMA 1994 were not inconsistent with the provisions of the Sierra Rutile Agreement. That change was made to reflect the fact that, by 2002, The Minerals Act (196) had been replaced by the MMA 1994.

The MMA 1994 has since been replaced by the Mines and Minerals Act, 2009 (**MMA**), which applies generally to mining activities within Sierra Leone. The Mining Lease is effectively considered to be a “large-scale mining licence” for the purposes of the MMA, except that, where the provisions of the MMA are inconsistent with the Sierra Rutile Agreement, the terms of the Sierra Rutile Agreement prevail.

A Mines and Mineral Development Bill 2021 was tabled in the Sierra Leone Parliament in November 2021 (**Draft MMA Bill**), which is intended to replace the MMA. At the date of this Demerger Booklet, the Draft MMA Bill is not expected to have a material impact on Sierra Rutile’s operations (noting that the Sierra Rutile Agreement would continue to prevail over the Draft MMA Bill to the extent of any inconsistency).

3.21.2 FISCAL SCHEME

A key feature of the Sierra Rutile Agreement is that it contains a fiscal scheme which provides Sierra Rutile with certain concessional arrangements for tax, duty, royalty and other dues and charges that would otherwise be payable by mining entities operating under the general laws of Sierra Leone. These concessional arrangements are valid owing to the ratification of the Sierra Rutile Agreement.

The fiscal scheme set out in the Sierra Rutile Agreement has been amended on a number of occasions, in response to the operational conditions affecting Sierra Rutile and the general economic conditions affecting Sierra Leone. The most recent amendment to the fiscal scheme occurred in 2021, when the Parliament of Sierra Leone ratified an agreement between Sierra Rutile and Government of Sierra Leone with effect from 1 August 2021, affording Sierra Rutile a number of concessional arrangements to improve the financial conditions relating to Area 1 only.

If in future the Government of Sierra Leone proposes to introduce new legislation or change any administrative rule or practice that is more onerous than the provisions of the Sierra Rutile Agreement as at 21 March 2002, the Sierra Rutile Agreement contains a provision that holds Sierra Rutile harmless from the increased cost of performing the more onerous obligation.

3.21.3 ENVIRONMENTAL MANAGEMENT AND PLANNING

Apart from the Sierra Rutile Agreement and the MMA, the Environmental Protection Agency Act 2008 (**EPA Act**) and the Environment Protection (**Mines and Minerals**) Regulations 2013 (**EP Regulations**) are key regulatory instruments that apply to Sierra Rutile's operations in Sierra Leone.

The EPA Act is administered by the EPA-SL which plays an active role in managing the environmental impact of Sierra Rutile's mining operations. The EPA Act requires Sierra Rutile to hold an Environmental Impact Assessment Licence granted by the EPA-SL for its mining activities (**EIA Licence**), which must be renewed on an annual basis.

The process to renew Sierra Rutile's current EIA Licence is underway and, in short, the renewal process for the EIA Licence requires Sierra Rutile to have:

- an ESHIA in place – as noted in Section 3.17, Sierra Rutile has an ESHIA for Area 1 approved, and the ESHIA for the Sembahun Project is expected to be submitted and approved ahead of the final investment decision for that project;
- an Environmental, Social and Health Management Plan (**ESHMP**) for its current activities; and
- a mine closure plan that will form part of the ESHMP – Sierra Rutile's current mine closure plan was last submitted to the Agency in December 2020.

A new Environment Protection Agency Bill, 2021 was tabled in the Sierra Leone Parliament in July 2021 (**Draft EPA Bill**), which is intended to replace the EPA Act. At the date of this Demerger Booklet, the Draft EPA Bill is not expected to have a material impact on Sierra Rutile's operations.

3.21.4 COMMUNITY DEVELOPMENT

The Sierra Rutile Agreement and the MMA impose a range of obligations on Sierra Rutile to enter into agreements and engage with primary host communities affected by its operations. In 2017, Sierra Rutile entered into a Community Development Agreement (**CDA**) with its primary host community which acts as a framework for the implementation of Sierra Rutile's community development obligations – some of the community initiatives under the CDA are summarised in Section 3.19.

At the date of this Demerger Booklet, Sierra Rutile is well advanced in the process of renewing the CDA with the assistance of the National Minerals Agency, which process is expected to conclude by the end of this Financial Year.

In addition to the obligations under the CDA, Sierra Rutile is subject to a range of local content obligations aimed at developing Sierra Leone content in connection with Sierra Rutile operations. Those obligations are administered by the Sierra Leone Local Content, established under The Sierra Leone Local Content Agency Act, 2016 (**LCA**).

Under the LCA, Sierra Rutile must submit a Sierra Leonean Content Plan setting out how it will give first consideration to Sierra Leone companies, materials, goods, and products, and report annually on its activities and expenditure. The LCA also sets out a process that Sierra Rutile must follow before entering into certain contracts, including providing contracts and tender documents to the Local Content Agency for approval.

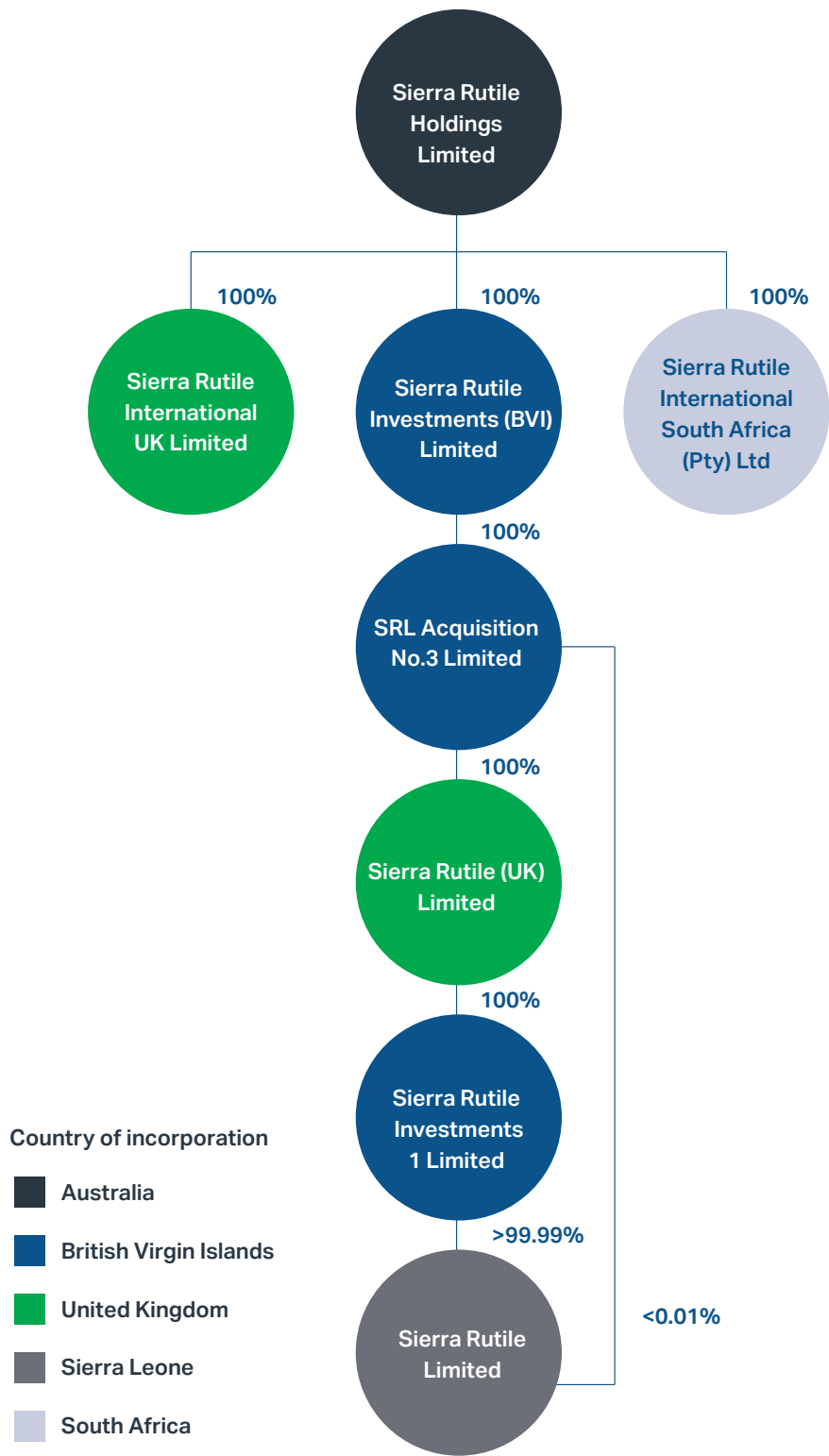
3.22 SIERRA RUTILE GROUP CORPORATE STRUCTURE

3.22.1 SIERRA RUTILE CORPORATE STRUCTURE

A summary of Sierra Rutile's post Demerger corporate structure is provided in Figure 3.22 below.

Except for SRL, each of Sierra Rutile's subsidiaries shown below are non-operating holding entities. SRL is the operating entity for Sierra Rutile's operations in Sierra Leone, as described in this Demerger Booklet.

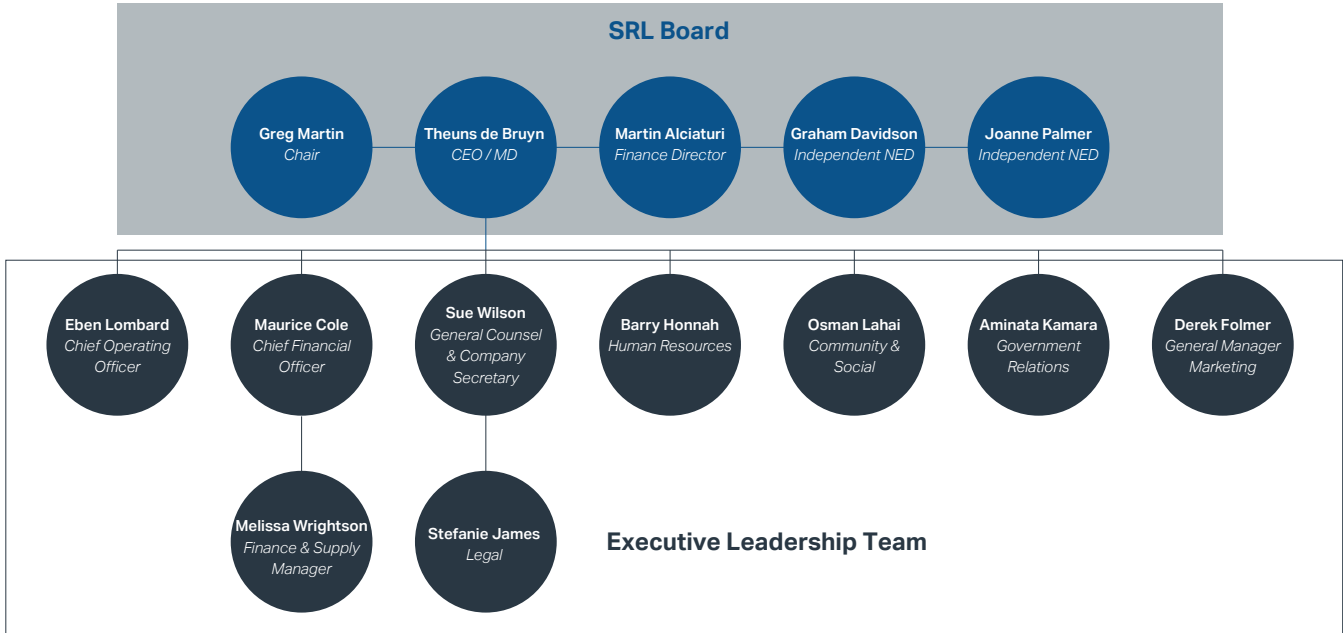
FIGURE 3.22 SIERRA RUTILE’S CORPORATE STRUCTURE



3.22.2 SIERRA RUTILE ORGANISATIONAL STRUCTURE

Following the Demerger, Sierra Rutile intends to adopt the organisational structure as shown in Figure 3.23 below.

FIGURE 3.23 SIERRA RUTILE’S BOARD AND EXECUTIVE LEADERSHIP TEAM



3.23 SIERRA RUTILE BOARD AND SENIOR MANAGEMENT

3.23.1 SIERRA RUTILE BOARD

In determining the appropriate Board composition for Sierra Rutile, a focus was given to identifying candidates with a diverse range of expertise necessary to effectively govern Sierra Rutile. Directors have been sought who together hold industry experience across exploration, project development, mining, processing, marketing, rehabilitation, environment, social and governance, business development, capital markets, and operating in West Africa generally. As outlined in Table 3.13 below, Sierra Rutile’s Board will provide balanced and extensive expertise across these skill sets. If the Demerger is implemented, the Sierra Rutile Board will comprise of an Independent Chair, a Managing Director/Chief Executive Officer, a Finance Director and 2 Independent Non-Executive Directors.

TABLE 3.13 SIERRA RUTILE BOARD

Independent Chair	<p>GREG MARTIN</p> <p>Mr Martin contributes 40 years' experience in the mining, utilities, financial services, energy and energy related infrastructure sectors in Australia, New Zealand and internationally.</p> <p>Mr Martin currently serves as an independent, non-executive Director and Chair of Global Energy Ventures, non-executive Chair of Hunter Water Corporation, non-executive Deputy Chair of Western Power Corporation and non-executive Chair of Mawson Infrastructure Group. Mr Martin was a non-executive director and Chairman of Iluka from 2013 to 2022.</p> <p>Mr Martin holds a Bachelor of Economics from the University of Sydney and a Bachelor of Laws from Western Sydney University. He is also a Fellow of the Australian Institute of Management and a Member of the Australian Institute of Company Directors.</p>
Managing Director and Chief Executive Officer	<p>THEUNS DE BRUYN</p> <p>Mr de Bruyn joined Sierra Rutile in August 2019, as the Chief Operating Officer and was appointed Chief Executive Officer in January 2021. He has over 25 years' experience in the mineral sector, starting his career with BHP where he worked across various commodities and departments including Operations and Business Development.</p> <p>Mr de Bruyn has held a range of senior positions including Executive Vice President of Processing with Lonmin Platinum and as Chief Operating Officer for Metorex.</p> <p>Mr de Bruyn holds a Bachelor of Engineering in Chemical Engineering from the University of Pretoria and a Master of Business Administration from Heriot Watt University.</p>
Finance Director	<p>MARTIN ALCIATURI</p> <p>Mr Alciaturi has more than 40 years' experience across investment banking, corporate finance, and as a mining executive.</p> <p>Mr Alciaturi is currently a Non-Executive Director at 29Metals. His previous roles include Partner in Charge of Corporate Finance at Ernst & Young Perth, Head of Corporate Finance (Perth) at Macquarie Capital and Chief Financial Officer at Aquila Resources.</p> <p>Mr Alciaturi holds a Bachelor of Science (with honours) in Mechanical Engineering from University College London, and a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australia. He is a Fellow of Chartered Accountants Australia and New Zealand, and a member of the Australian Institute of Company Directors.</p>
Independent Non-Executive Director	<p>GRAHAM DAVIDSON</p> <p>Mr Davidson has over 30 years' professional experience of executive and board positions with a track record of leading large multicultural teams on natural resource projects, across three continents.</p> <p>Mr Davidson is currently Managing Director at Millstream Consultants. He has held a range of senior positions including Managing Director of Rio Tinto's Simandou project, Chief Executive Officer of Rio Tinto's Port Waratah Coal Services and General Manager of Operations at Rio Tinto's Uranium project in Namibia. Mr Davidson has also served on several non-profit and governing boards.</p> <p>Mr Davidson holds a Bachelor of Engineering in Mechanical Engineering from Newcastle University and a Diploma of Maintenance Management from Central Queensland University. He is also a member of the UK Institute of Directors, member of the Australian Institute of Company Directors and the Institute of Engineers Australia and various associations within.</p>

Independent Non-Executive Director**JOANNE PALMER**

Ms Palmer has over 25 years' of industry experience providing audit and assurance services on company listings, mergers, acquisitions and takeovers and significant experience in auditing internal mining companies.

Ms Palmer is currently an Executive Director at Pitcher Partners, a Non-Executive Director of Paladin Energy, a Non-Executive Director of NextOre, a company operating in the mining technology field, and a Councillor at the Association of Australian Mining and Exploration Companies (AMEC). Prior to her existing roles, Ms Palmer was an equity Partner at EY in the Assurance Practice and led EY's Financial Accounting Advisory Services team in Perth for three years prior to her departure.

Ms Palmer holds a Bachelor of Science (with honours) in Mathematics and Statistics from the University of Birmingham. She is a fellow of both the Chartered Accountants Australia and New Zealand and Institute of Chartered Accountants in England & Wales. She also holds a graduate diploma from the Australian Institute of Company Directors and is a Registered Company Auditor with the Australian Securities and Investments Commission.

3.23.2 SIERRA RUTILE SENIOR MANAGEMENT

The senior management of Sierra Rutile have extensive experience and expertise in mining operations and development, business development, corporate strategy and capital markets. Further information on the Sierra Rutile senior management team is summarised in Table 3.14 below.

TABLE 3.14 SIERRA RUTILE SENIOR MANAGEMENT

Managing Director and Chief Executive Officer	THEUNS DE BRUYN Refer to Section 3.23.1.
Finance Director	MARTIN ALCIATURI Refer to Section 3.23.1.
Chief Operating Officer	EBEN LOMBARD <p>Mr Lombard joined Sierra Rutile in August 2020 and served as the General Manager Services. He was appointed as Chief Operating Officer in December 2021. He has 22 years' experience in metals and minerals processing in various commodities including steel, chrome, platinum, copper, cobalt and lead and worked for Arcelor Mittal Steel in his early career.</p> <p>Mr Lombard held senior positions including Head of Processing/Production in Arcelor Mittal Steel, Samancor Chrome, Lonmin Platinum, Metorex and ERG Africa as well as General Manager in the ZIMCO and the Welding Alloys Groups.</p> <p>Mr Lombard holds a Bachelor of Science in Metallurgical Engineering from the University of Pretoria, a Master of Business Administration from the University of the Free State and a Certificate in the Fundamentals of Financial Management from Stellenbosch University.</p>

Chief Financial Officer

MAURICE COLE

Mr Cole joined Sierra Rutile in October 2017 as Finance Manager and was promoted in September 2019 to the position of Chief Finance Officer. He has over 30 years' experience in the Accounting and Auditing. He started his career with KPMG and has worked in various sector including Energy, Banking, Petroleum and mining.

Mr Cole previously held a number of senior positions including Financial Controller, Chief Finance Officer and Managing Director of the biggest Petroleum Company in Sierra Leone (NP(SL)LTD) before joining Sierra Rutile.

Mr Cole holds qualifications from the Association of Chartered Certified Accountants of England and Wales and the Association of Accounting Technicians of England. He is also a Fellow of the Association of Chartered Accountants of England and Wales and a Fellow of the Association of Chartered Accountants of Sierra Leone.

General Manager Marketing

DEREK FOLMER

Mr Folmer joined Sierra Rutile in April 2013 and transitioned to be Vice President TiO₂ Sales for the Americas and Europe for Iluka in 2017. He will be reappointed as General Manager Marketing by Sierra Rutile post Demerger.

Mr Folmer has over 25 years of commercial experience in the mineral sands sector, including 9 years of active involvement with Sierra Rutile, where he was Chief Marketing Officer and also a director of the company's in-country board. He has also held previous senior positions including General Manager Sales and Marketing for Rutile and Zircon at Rio Tinto.

Mr Folmer holds a Bachelor of Engineering in Mining Engineering and a Master of Business Administration in Finance, both from McGill University, and is a member of the Quebec Order of Engineers.

**General Counsel and
Company Secretary**

SUE WILSON

Ms Wilson is an experienced General Counsel and senior executive. She is currently a consultant at Iluka after retiring as General Counsel and Company Secretary of Iluka in September 2021. Sue was previously the Head of Company Secretariat at South32 following the demerger from BHP Billiton. She was also General Counsel and Company Secretary and a member of the executive team at Bankwest and HBOS Australia. Prior to joining Bankwest, Ms Wilson was a partner of law firm Parker & Parker (now part of Herbert Smith Freehills). She is currently the Chair of aged care provider, Amana Living. She was previously the Pro Chancellor and a member of the Council at Curtin University, Chairman of the WA State Council of the Governance Institute of Australia and is a former non-executive director of Western Power.

Ms Wilson holds a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia. In 2021, Sue was awarded an Honorary Doctorate from Curtin University for exceptional leadership and wise counsel to Curtin University and the community. She is also a Fellow of the Australian Institute of Company Directors and the Governance Institute of Australia.

3.24 SIERRA RUTILE PRO FORMA HISTORICAL FINANCIAL INFORMATION

This Section contains pro forma historical financial information in relation to the Sierra Rutile Group (the **Sierra Rutile Pro Forma Historical Financial Information**) comprising:

- the Sierra Rutile pro forma historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021;
- Sierra Rutile pro forma historical balance sheet as at 31 December 2021; and
- Sierra Rutile pro forma historical free cash flows for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

In this Demerger Booklet (including in this Section 3.24 and Section 4.7), references to Sierra Rutile Pro Forma Historical Financial Information are references to the pro forma historical financial information of Sierra Rutile during the relevant period or at the relevant time, being the corporate group that is being restructured to form Sierra Rutile as it will exist immediately following implementation of the Demerger. The financial information in this Section 3.24 is presented in US dollars unless otherwise stated.

References to Sierra Rutile Pro Forma Historical Financial Information refers to Sierra Rutile on a consolidated basis.

The financial information in this Section 3.24 is presented in an abbreviated form and does not contain all presentation, comparatives and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act. The Independent Accountant has prepared an Independent Limited Assurance Report in respect of the Sierra Rutile Pro Forma Historical Financial Information, a copy of which is included in Section 7.

The financial information in this Section should be read in conjunction with the risk factors set out in Section 3.27.

3.24.1 BASIS OF PREPARATION

The Sierra Rutile Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Iluka Shareholders to understand the financial position, financial performance and cash flows of Sierra Rutile. By its nature, pro forma historical financial information is illustrative only. Consequently, the pro forma historical financial information does not purport to reflect the actual financial performance, financial position and cash flows that would have occurred if Sierra Rutile had operated as a standalone group for the relevant periods.

The Sierra Rutile Pro Forma Historical Financial Information has been derived from the Sierra Rutile BVI financial

statements, audited by PricewaterhouseCoopers, and adjusted for the effects of the pro forma adjustments described below. PricewaterhouseCoopers issued unqualified audit opinions with an emphasis of matter on going concern and on the basis of accounting and restriction on distribution and use on the 2019 and 2020 financial statements and an unqualified opinion with an emphasis of matter on basis of accounting and restriction on use on the 2021 financial statements. The emphasis of matter on the basis of accounting and restriction on distribution and use relates to the Sierra Rutile BVI financial statements having been prepared to satisfy the requirements of the IFC Shareholders Agreement (which terminated on 13 May 2022). The accounting records behind these financial statements were also used to generate Iluka's financial statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. The Iluka financial statements for these periods are available from Iluka's website (www.iluka.com) or the ASX website (www.asx.com.au).

Sierra Rutile BVI is a direct subsidiary of Sierra Rutile. Sierra Rutile is a holding entity, therefore the results of the Sierra Rutile BVI consolidated group materially reflect the historical financial information of Sierra Rutile.

The Iluka financial statements have been audited respectively by PricewaterhouseCoopers in accordance with Australian Auditing Standards and Interpretations. PricewaterhouseCoopers issued unqualified audit opinions on these financial statements.

The Sierra Rutile Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards (**AAS**) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (**AASB**), which comply with the recognition and measurement principles of the International Accounting Standards Board and interpretations adopted by the International Accounting Standard Board.

The AAS are subject to amendments from time to time, and any such changes may impact the balance sheet or income statement of Sierra Rutile post Demerger. Sierra Rutile adopted AASB 16 Leases, effective from 1 January 2019. No further AAS amendments were noted for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. As such, there are no retrospective pro forma adjustments to be applied to any previous historical periods, as all periods presented have adopted consistent accounting standards.

The Sierra Rutile Pro Forma Historical Financial Information has been prepared on a consistent basis to the accounting policies set out in Sierra Rutile BVI's audited financial statements for the year ended 31 December 2021.

The Sierra Rutile Pro Forma Historical Information includes pro forma adjustments to reflect the impact of certain transactions as if they occurred as at 31 December 2021 in the pro forma historical balance sheet and immediately prior to 1 January 2019 in the pro forma historical income statements and pro forma historical free cash flows.

Pro forma adjustments have been made to the Sierra Rutile pro forma historical income statements to reflect:

- removal of the income statement impact of the IFC put option;
- additional standalone corporate costs of Sierra Rutile. This includes corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and the costs of a separate board of directors; and
- change in net interest and finance charges.

Pro forma adjustments have been made to the Sierra Rutile pro forma historical balance sheet to reflect:

- settlement of the IFC put option;
- settlement of borrowings with Iluka;
- the establishment of the Rehabilitation Trust;
- impairment reversal for the Sembehun mine development asset previously impaired; and
- Sierra Rutile's share of transaction costs.

The Sierra Rutile Pro Forma Historical Free Cash Flow set out in Section 3.24.6 are presented as cash flows after net capital expenditure, finance costs and tax.

Following the Demerger, Sierra Rutile will prepare its general purpose financial statements in accordance with AAS and the Corporations Act. The AAS are subject to amendments from time to time, and any such changes may impact on the balance sheet or income statement of Sierra Rutile post Demerger. In addition, following the Demerger, Sierra Rutile may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS.

3.24.2 EXPLANATION OF CERTAIN NON-IFRS FINANCIAL MEASURES

This Demerger Booklet uses non-IFRS financial information which are used to measure operational performance. Non-IFRS measures are unaudited but derived from audited accounts. The principal non-IFRS financial measures referred to in this Section are as follows:

- **EBIT** is reported earnings before the following:
 - interest income, interest expense and finance costs; and
 - income tax expense.
- **Underlying EBITDA** excludes non-recurring adjustments including write-downs, Sierra Rutile Limited transaction costs, and changes to rehabilitation provisions for closed sites.
- **Free cash flow** is net cash flow before proceeds/repayment of borrowings, proceeds on issue of shares and dividends paid in the year.
- **Unit cash cost of production – Z/R** represents the total cash costs of production divided by the total tonnes of rutile (inclusive of TIC) and zircon produced.
- **Unit cash cost of production (net of co-product credits) – R** represents the total cash costs of production less the revenue earned from co-products (ZIC and ilmenite), divided by the total tonnes of rutile produced (inclusive of TIC).

3.24.3 SIERRA RUTILE PRO FORMA HISTORICAL INCOME STATEMENTS

Set out below are Sierra Rutile's pro forma historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. For the purposes of presenting the Sierra Rutile pro forma historical income statement, the income statements have been adjusted for the effects of pro forma adjustments outlined in Section 3.24.1 to reflect the impact of certain transactions as if they occurred immediately prior to 1 January 2019.

TABLE 3.15 SIERRA RUTILE PRO FORMA HISTORICAL INCOME STATEMENTS

USD \$'m	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Revenue	183.1	157.7	184.2
Other income	1.4	0.0	2.1
Expenses	(141.3)	(145.9)	(165.8)
Underlying EBITDA	43.2	11.9	20.5
Depreciation and amortisation expense	(46.0)	(52.1)	(32.1)
Write down of non-current assets	(290.0)	-	(5.7)
Inventory movement – non cash	(1.4)	1.3	(0.8)
Changes in rehabilitation provision recognised in profit and loss	(6.3)	2.3	28.9
EBIT	(300.5)	(36.7)	10.9
Rehab and mine closure discount unwind	(1.6)	(7.5)	(0.8)
Net interest and finance charges	(0.3)	0.1	(0.5)
Profit/(loss) before income tax	(302.5)	(44.1)	9.6
Income tax expense	(121.2)	(5.6)	(3.4)
Profit/(loss) after tax	(423.6)	(49.7)	6.1

Sierra Rutile's minimum tax rate for FY19, FY20 and January 2021 to July 2021 was 3.5% of turnover, decreasing to 0.5% from August 2021 to December 2021. The minimum tax rate changed as a result of the Third Amendment Agreement to the Sierra Rutile Act in relation to Area 1. The rate is expected to be maintained at 0.5% going forward for Area 1. No pro forma adjustment has been reflected for the change in tax rate in the pro forma historical income statements.

TABLE 3.16 RECONCILIATION OF SIERRA RUTILE BVI REPORTED HISTORICAL RESULTS, AS DERIVED FROM THE FINANCIAL STATEMENTS OF SIERRA RUTILE BVI, TO SIERRA RUTILE PRO FORMA HISTORICAL PROFIT AFTER TAX

USD \$'m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Historical profit/(loss) after tax	1	(419.3)	(31.2)	7.5
Removal of remeasurement (gain)/ loss relating to IFC put option	2	-	(14.5)	2.5
Pro forma Sierra Rutile ongoing costs	3	(4.9)	(4.8)	(5.3)
Pro forma change in investment income, net interest and finance charges	4	0.6	0.8	1.4
Pro forma historical profit/ (loss) after tax		(423.6)	(49.7)	6.1

Notes:

1. Represents the reported Sierra Rutile BVI historical results prior to the Demerger occurring, derived from the audited Sierra Rutile BVI financial statements.
2. Removal of remeasurement (gain)/ loss relating to the IFC put option, as the put option was settled prior to the Demerger and will not continue as part of Sierra Rutile's operations going forward.
3. Following the Demerger, Sierra Rutile will be a separate group listed on the ASX. Sierra Rutile will incur net additional operating costs estimated to be A\$7.0 million per annum, translated to US\$ using the average exchange rate used to prepare the financial statements in each respective year. These estimated costs include corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and board of directors costs.
4. Removal of the interest expense incurred on Sierra Rutile's borrowings which will be settled prior to the Demerger and recognition of the estimated investment income to be earned on the rehabilitation trust funds, assumed to be US\$0.6 million per annum at an assumed investment return rate of 1.25% p.a.

3.24.4 MANAGEMENT COMMENTARY ON SIERRA RUTILE'S PRO FORMA HISTORICAL PERFORMANCE**TABLE 3.17 SIERRA RUTILE PRODUCTION VOLUMES AND UNIT CASH COST OF PRODUCTION**

		Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Production volumes				
Zircon (Z)	kt	8.5	6.6	4.1
Rutile (R)	kt	137.2	120.2	129.3
Total Z/R production	kt	145.7	126.8	133.4
Ilmenite	kt	59.2	45.8	52.1
Total production	kt	204.9	172.6	185.5
HMC produced	kt	288	306	301
HMC processed	kt	290	293	312
Unit cash cost of production - Z/R	US\$/t	823	1,002	1,047
Unit cash cost of production (net of co-product credits) - R	US\$/t	744	929	985

Sierra Rutile's pro forma underlying EBITDA was US\$43 million in FY19. Total revenue was US\$183 million. Operational performance was below target as production was challenged by lower run time and throughput. The unit cash cost of Z/R was US\$823t, above forecast as a result of the higher costs and lower production volumes. The pro forma loss after tax for 2019 was US\$424 million, driven by the impairment recognised at the end of the year. The carrying value of Sierra Rutile's Area 1 and Sembehun cash generating units were written down by US\$290 million, as a function of operational performance achieved being below Iluka's 2016 acquisition investment case for Area 1; and that Iluka did not have a defined development approach for the Sembehun deposit, resulting in difficulties ascribing meaningful value to that asset. The useful lives of these assets were revised to mid-2022 as a result of their performance, with depreciation being accelerated. Sierra Rutile also wrote off the deferred tax asset associated with unrecognised tax losses in FY19.

In 2020, Sierra Rutile's mineral sands revenue decreased by 14% as production was impacted by a number of downtime events, leading to lower mining and processing throughputs, despite slightly higher HMC production from the prior period. The impact of the COVID-19 pandemic reduced Iluka's ability to retain specialised skillsets, typically available by expatriate channels, due to quarantine and travel restrictions. Additional costs were incurred during the year as a result of unplanned outages, increased maintenance and Sierra Rutile's response and management of the COVID-19 pandemic.

Sierra Rutile's pro forma underlying EBITDA for 2021 was US\$21 million. The operational challenges caused by the COVID-19 pandemic continued into 2021 coinciding with lower HMC grade affecting rutile production and in May, Iluka announced a six month notice to suspend operations at Sierra Rutile and the useful lives of the remaining PPE was further accelerated, revised to the end of January 2022. Despite the challenges, mineral sands revenue increased by 4% from 2020 based on improved mining performance and runtime in H2 2021, following implementation of a number of operational improvement initiatives, as well as higher rutile prices as key markets recovered through the year. Total HMC production was 301 thousand tonnes, with 129 thousand tonnes of rutile being produced. EBIT reflected a favourable material change in Area 1's rehabilitation provision during the year as a result of changing the annual target rate of rehabilitation from 200 ha/annum to 400 ha/annum, and changes in scope to the rehabilitation plan of the Northern Ponds. Following successful renegotiation of fiscal terms (which was contained in the Third Amendment Agreement), Sierra Rutile's minimum tax rate in relation to Area 1 (3.5% of turnover up until July 2021) decreased to 0.5% from August 2021 onwards. In January 2022 the Third Amendment Agreement was ratified by the Government of Sierra Leone, resulting in the withdrawal of notice to suspend operations.

3.24.5 SIERRA RUTILE PRO FORMA HISTORICAL BALANCE SHEET

The following table sets out the Sierra Rutile historical balance sheet as at 31 December 2021. For the purposes of presenting the pro forma historical balance sheet, the balance sheet has been adjusted for the effects of pro forma adjustments outlined in Section 3.24.1 to reflect the impact of certain transactions as if they had been effected and completed on 31 December 2021.

The Sierra Rutile pro forma historical balance sheet has been prepared in order to give Iluka Shareholders an indication of Sierra Rutile's balance sheet in the circumstances noted in this Section, and does not reflect the actual or prospective financial position of Sierra Rutile at the time of the Demerger.

TABLE 3.18 SIERRA RUTILE PRO FORMA HISTORICAL BALANCE SHEET

USD \$'m	Year ended 31 December 2021	Settlement of IFC put option ¹	Rehabilitation Trust ²	Settlement of borrowings ³	Impairment reversal ⁴	Demerger transaction costs ⁵	Pro forma Sierra Rutile as at 31 December 2021
Cash and cash equivalents	26.0			(16.0)		(0.6)	9.4
Rehabilitation Trust deposit/ asset (*)	-		0.7				0.7
Trade receivables	43.4						43.4
Inventories	40.5						40.5
Total current assets	109.9		0.7	(16.0)		(0.6)	94.0
Rehabilitation Trust deposit/ asset (*)	-		44.3				44.3
Property, plant and equipment	3.5				23.4		26.9
Right-of-use assets	0.1						0.1
Total non-current assets	3.6		44.3		23.4		71.3
Total assets	113.5		45.0	(16.0)	23.4	(0.6)	165.3
Trade and other payables	22.8						22.8
Borrowings	16.0			(16.0)			-
Lease liabilities	0.1						0.1
Current tax liabilities	0.7						0.7
Provisions	6.2						6.2
Other current liabilities	1.1						1.1
Total current liabilities	46.8			(16.0)			30.8
Employee benefit obligations	9.6						9.6
Provisions	44.3						44.3
Other financial liabilities	8.0	(8.0)					-
Total non-current liabilities	61.9	(8.0)					53.9
Total liabilities	108.7	(8.0)		(16.0)			84.7
Net assets	4.8	8.0	45.0	-	23.4	(0.6)	80.6
Share capital	492.5	8.0	45.0				545.4
Reserves and retained losses	(487.7)				23.4	(0.6)	(464.9)
Total equity	4.8	8.0	45.0	-	23.4	(0.6)	80.6

Notes:

1. In May 2022, Iluka agreed to settle the IFC put option for an amount of US\$8.0 million, equivalent to A\$11.0 million at an exchange rate of A\$:US\$ 0.7248.
2. As part of the proposed Demerger, a rehabilitation trust will be established for an amount of US\$45.0 million to support Sierra Rutile's future rehabilitation activities. Refer to Section 9.3.1 for further details on the establishment of the trust.
3. Settlement of borrowings of US\$16.0 million from Iluka prior to the proposed Demerger.
4. Sierra Rutile has recognised an impairment reversal of US\$23.4 million relating to its Sembehun mine development asset which was historically impaired.
5. Represents Sierra Rutile's share of the estimated Demerger transaction costs US\$0.6 million comprising advisory fees.

(*) REHABILITATION TRUST DEPOSIT/ ASSET

The rehabilitation trust asset disclosed above includes US\$45.0 million which will be held on trust to support future rehabilitation activities of SRL. These funds will be subject to restrictions and are therefore not available for general use by the other entities within the group. The current portion of US\$0.7 million reflects the expected draw down of the rehabilitation trust funds to support rehabilitation expenditure in the 12 months post 31 December 2021.

CRITICAL ESTIMATES AND JUDGEMENTS: REHABILITATION AND MINE CLOSURE PROVISION

During mining operations, land is disturbed as tailings, ponds and borrow pits are created. SRL has an obligation in Sierra Leone under the Sierra Rutile Act, Mines and Minerals Act 2009 and other relevant legislation to rehabilitate these areas.

Costs of reclamation and rehabilitation are assessed on a regular basis and estimated costs are provided over the life of the mine and represents the Iluka Directors' best estimate of Sierra Rutile's liability for close-down, dismantling and restoration of the mining and processing sites, including reclamation of areas disturbed by mining activities. The costs are estimated using the work of external consultants as well as internal experts. Significant estimates and assumptions are made in determining the provision for mine rehabilitation and closure as there are numerous factors that will affect the ultimate amount payable over the life of the mine. Costs of reclamation, rehabilitation and dismantling are assessed on a regular basis and estimated costs are provided over the life of the mine. The estimates include costs of labour, materials and equipment required to rehabilitate disturbed areas.

Rehabilitation, restoration and mine closure costs are provided at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices over the assumed life of the mine.

The provision at the reporting date represents the Iluka Directors' best estimate of the present value of the future rehabilitation costs required. Changes to one or more of the assumptions used to calculate the rehabilitation and mine closure provision is likely to result in a change to the carrying value of the provision and the related asset or a change to profit and loss in accordance with Sierra Rutile's accounting policy.

PRO FORMA CASH AND CASH EQUIVALENTS AS AT 31 MAY 2022

The pro forma cash and cash equivalents of the Sierra Rutile group as at 31 May 2022 is US\$20.7 million. The calculation of the pro forma cash and cash equivalents amount includes the pro forma adjustments for the settlement of borrowings of US\$16.0 million and the payment of the transaction costs of US\$0.6 million but excludes the establishment of the Rehabilitation Trust.

3.24.6 SIERRA RUTILE PRO FORMA HISTORICAL FREE CASH FLOW

Set out below are the Sierra Rutile pro forma historical free cash flows for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. For the purposes of presenting the Sierra Rutile pro forma historical free cash flows, the historical free cash flows have been adjusted for the effects of pro forma adjustments outlined in Section 3.24.1 to reflect the impact of certain transactions as if they occurred immediately prior to 1 January 2019.

TABLE 3.19 SIERRA RUTILE PRO FORMA HISTORICAL FREE CASH FLOW

USD \$'m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Pro forma historical operating cash flow		28.0	26.3	2.6
Interest paid		0.3	0.6	(0.2)
Income taxes paid		(9.5)	(5.7)	(3.8)
Capital expenditure		(49.8)	(15.0)	-
Pro forma historical free cash flow		(31.0)	6.1	(1.5)

TABLE 3.20 RECONCILIATION OF THE SIERRA RUTILE HISTORICAL FREE CASH FLOW TO PRO FORMA HISTORICAL FREE CASH FLOW

Reconciliation of the Sierra Rutile historical free cash flow to the Sierra Rutile pro forma historical free cash flow for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 are shown in the following table.

USD \$'m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Historical free cash flow	1	(26.7)	10.4	3.2
Pro forma standalone operating costs	2	(4.9)	(4.8)	(5.3)
Pro forma change in net interest and finance charges	3	0.6	0.6	0.6
Pro forma historical free cash flow		(31.0)	6.1	(1.5)

Notes:

1. Represents the reported Sierra Rutile BVI historical free cash flow prior to the Demerger occurring, derived from the audited Sierra Rutile BVI financial statements.
2. Represents the standalone operating costs Sierra Rutile anticipates incurring after the Demerger. These estimated costs include corporate staff, company secretarial costs, ASX listing fees, share registry costs, audit fees, insurance and board of directors costs.
3. Inclusion of the estimated interest revenue to be earned on the rehabilitation trust funds, assumed to be US\$0.6 million per annum at an assumed interest rate of 1.25% p.a.

3.24.7 REVERSAL OF HISTORICAL IMPAIRMENT

In 2019, an impairment indicator was identified due to management's decision to delay the Sembehun Early Works at the time along with lower operational performance than was anticipated with Iluka's acquisition. The resultant impairment test indicated that the carrying amount of Sierra Rutile Limited (SRL) exceeded its recoverable amount, and SRL was accordingly written down to its recoverable amount.

As part of the Demerger considerations and finalisation of the PFS for Sembehun, an impairment reversal of US\$23.4 million has been recognised in relation to the carrying value of the Sembehun assets.

No impairment reversal has been recognised in relation to Area 1 due to the historically impaired assets being depreciated to \$nil as at 31 December 2021.

3.24.8 CONTINGENCIES AND COMMITMENTS

The group has no capital expenditure commitments as at 31 December 2021 (2020: US\$4.12 million).

ENVIRONMENTAL CLASS ACTION

On 22 January 2019, SRL was served with a writ and statement of claim in respect of an action filed in the High Court of Sierra Leone Commercial and Admiralty Division against both SRL and the EPA-SL.

The proceedings have been brought by a group of landowner representatives who allege that they suffered loss as a result of SRL's mining operations. The claims primarily relate to environmental matters that arose prior to the Iluka Group acquiring its interest in SRL. The landowner representatives allege, in part, that SRL engaged in improper mining practices resulting in environmental degradation and contamination, did not meet certain rehabilitation obligations and violated local mining laws. SRL denies liability in respect of the allegations and intends to defend the claims. SRL filed its defence in March 2019 and also applied to the Court for an order requiring the landowner representatives to provide further detail on their claims.

As at 31 December 2021, the status of the proceedings had not reached a stage where SRL could reliably estimate the quantum of liability, if any, that SRL may incur in respect of the class action.

TRANSCEND PROCEEDINGS

On 17 April 2018, Transcend International Resources Ltd (**Transcend**) initiated proceedings in the High Court of Sierra Leone against Sierra Rutile. Transcend's claim is for US\$816,500 in relation to the supply and delivery of zircon middling to Transcend, plus general damages, interest and costs. Sierra Rutile denies that it is liable. Trial of the matter has ended and the judge has reserved the matter for judgment.

This proceeding is in addition to the judgment in favour of Transcend for approximately US\$3.2 million, that was fully provided for as at 31 December 2021. Sierra Rutile has been granted an interim stay of execution pending appeal by the Court of Appeal of Sierra Leone. Refer to Section 9.4 for further details.

OTHER CLAIMS

In the course of its normal business, the Group receives claims arising from its operational activities. In the opinion of the directors, all such matters are covered by insurance or, if not covered, are without merit or are of such kind or involve such amounts that would not have a material adverse impact on the operating results or financial position of the Group if settled unfavourably.

3.24.9 EVENTS POST BALANCE SHEET DATE

On 14 January 2022, Sierra Rutile withdrew its notice to suspend operations following the ratification in December by the Parliament of Sierra Leone of the Third Amendment Agreement which contained adjustments to the applicable fiscal regime for Area 1.

On 19 February 2022, a fire in a warehouse compound at SRL damaged sheds containing stored equipment parts and spares. The gross estimated loss caused by the fire is US\$13.0 million, of which the majority is expected to be recoverable under an insurance policy. The financial impact of the fire, and subsequent insurance claim, have not been reflected in the pro forma historical balance sheet given the expected insurance recovery.

Other than the above matters, the directors are not aware of any matter or circumstance that has or may significantly affect the operations of the entity, the results of its operations or the state of affairs of the entity in subsequent financial years.

3.24.10 SHAREHOLDERS' EQUITY

At the time of the Demerger, Sierra Rutile will have approximately 424.2 million ordinary shares on issue as at the Record Date, with no options over shares, preferred shares or other forms of external hybrid capital. The number of Iluka Shares on issue as at the Record Date will be approximately 424.2 million shares plus any Iluka Shares issued under the Iluka employee incentive schemes since the date of this Demerger Booklet.

3.24.11 TAXATION

SRL is taxed under the provisions of the Sierra Rutile Act, subject to a minimum amount based on percentage of turnover. The applicable turnover tax rate for the year ended 31 December 2021 was 3.5% from January to July, and 0.5% from August to December. Going forward, the applicable turnover tax rate is 0.5% for Mining Area 1. SRL is, prima facie, subject to corporation tax of the rate of 25%, but is subject to alternative minimum turnover tax if its net profit tax does not exceed its turnover tax. Consequently, the alternative minimum turnover tax is applied as stipulated in the Sierra Rutile Act as outlined above.

SRL has conducted its operations in the ordinary course of business in accordance with its understanding of applicable tax legislation. In particular, SRL operates and is guided by the Sierra Rutile Act and the Third Amendment Agreement in relation to the applicability of taxes in Sierra Leone.

Sierra Leone tax legislation and custom regulations continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by the tax authorities and other governmental bodies. Instances of inconsistent interpretations are not unusual. The

uncertainty of application of Sierra Leone transfer pricing legislation and the continued evolution of Sierra Leone's tax laws, including those affecting cross-border transactions, create a risk of additional tax payments having to be made by SRL, which could have a material effect on SRL's financial position and performance.

3.24.12 DIVIDEND POLICY

Given Sierra Rutile's focus on developing the Sembahun Project and the pre-production capital required to bring Sembahun into production, Sierra Rutile will not have an active dividend policy immediately post Demerger.

Sierra Rutile's approach to dividends and dividend policy will be determined by the Sierra Rutile Board at its discretion and may change over time with the strategic objective of maximising distributions and value for shareholders.

3.25 SIERRA RUTILE DIRECTORS' INTERESTS AND REMUNERATION

3.25.1 SIERRA RUTILE EXECUTIVE ARRANGEMENTS

3.25.1.1 MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Term	Description
Employer	Mr Theuns de Bruyn is currently employed by Sierra Rutile International South Africa (Pty) Ltd as Chief Executive Officer of Sierra Rutile Limited. From the Effective Date, Mr de Bruyn will be employed by Sierra Rutile International South Africa (Pty) Ltd as Managing Director and Chief Executive Officer of Sierra Rutile.
Fixed remuneration arrangements	Under the terms of his employment, Mr de Bruyn is entitled to annual fixed remuneration (FR) of A\$600,000, the equivalent of which will be paid to Mr de Bruyn in South African Rand. Remuneration levels for Sierra Rutile's key management personnel (KMP) have been set following detailed market benchmarking of ASX listed companies of a similar size and with similar attributes to Sierra Rutile.
Expatriate allowances	Mr de Bruyn resides in South Africa and works a rotational assignment of seven weeks in Sierra Leone and three weeks in South Africa. Whilst working in Sierra Leone Mr de Bruyn is entitled to expatriate allowances which equate to 28% of FR net of any taxes A\$168,000.
Variable remuneration arrangements - short term incentive	Sierra Rutile will operate a separate Short Term Incentive (STI) as outlined in Section 3.25.6.1. The maximum annual opportunity for Mr de Bruyn under the STI plan is 100% of FR (excluding any expatriate allowances), being A\$600,000.
Variable remuneration arrangements – long term incentive	Mr de Bruyn will participate in the Long Term Incentive (LTI) plan outlined in Section 3.25.6.2 under which performance rights will be granted subject to performance and vesting conditions. The maximum annual opportunity for Mr de Bruyn under the LTI plan is 100% of FR, being A\$600,000. The first grant will be made in the 2023 financial year. Mr de Bruyn is also entitled to participate in an initial equity grant, subject to performance and vesting conditions as outlined in Section 3.25.6.3. This initial equity grant is intended to bridge the gap until the first equity grant under the LTI plan is capable of vesting in 2026. The maximum opportunity for Mr de Bruyn under the initial equity grant is 300% of FR being A\$1,800,000, vesting over three tranches.

Termination

Mr de Bruyn's employment may be terminated:

- by Sierra Rutile giving 6 months' written notice to Mr de Bruyn (with Sierra Rutile able to provide payment in lieu of all or part of the notice period). Where Mr de Bruyn's employment is terminated by Sierra Rutile (other than summary termination) or by mutual agreement, Mr de Bruyn will be entitled to a payment equivalent to 6 months' of his annual FR less any amount paid to him in lieu of his notice period;
- by Sierra Rutile without notice in circumstances including serious or wilful misconduct and failure to perform or observe any lawful direction from Sierra Rutile or the Sierra Rutile Board; or
- by Mr de Bruyn, upon giving 6 months' written notice.

On termination of employment Mr de Bruyn will be subject to a restraint of trade period of up to 6 months. The enforceability of the restraint clause is subject to all usual legal requirements.

Any payments made to Mr de Bruyn upon termination of his employment are subject to the termination benefits cap under the Corporations Act.

Legacy Iluka incentive awards

Mr de Bruyn holds a number of incentive awards under existing Iluka employee equity incentive plans. Details regarding how those awards and entitlements will be dealt with on implementation of the Demerger are set out in Section 3.25.6.4.

Summary of remuneration arrangements

The following table summarises the maximum remuneration available to Mr de Bruyn for the financial year ending 31 December 2023. Also displayed is remuneration receivable on threshold performance.

	Maximum remuneration (A\$)	Remuneration based on threshold performance (A\$)
FR	600,000	600,000
Expatriate Allowances	168,000	168,000
STI award	600,000	150,000
LTI award ¹	600,000	300,000
Total	1,968,000	1,218,000

1. The LTI award will be granted in the 2023 financial year with vesting subject to performance and vesting conditions in 2026.

Mr De Bruyn will participate in the initial equity grant with a maximum opportunity of A\$1,800,000 vesting over three tranches.

3.25.1.2 FINANCE DIRECTOR

Term	Description															
Employer	From the Effective Date, Mr Alciaturi will be employed by Sierra Rutile as Finance Director.															
Fixed remuneration arrangements	Under the terms of his employment with Sierra Rutile, Mr Alciaturi is entitled to annual FR of A\$400,000. Remuneration levels for Sierra Rutile KMP have been set following detailed market benchmarking of ASX listed companies of a similar size and with similar attributes to Sierra Rutile.															
Variable remuneration arrangements – short term incentive	Sierra Rutile will operate a separate STI as outlined in Section 3.25.6.1. The maximum annual opportunity for Mr Alciaturi under the STI plan is 100% of FR, being A\$400,000.															
Variable remuneration arrangements	<p>Mr Alciaturi will participate in the LTI plan outlined in Section 3.25.6.2 under which performance rights will be granted subject to performance and vesting conditions. The maximum annual opportunity for Mr Alciaturi under the LTI plan is 80% of FR, being A\$320,000. The first grant will be made in the 2023 financial year.</p> <p>Mr Alciaturi is also entitled to participate in an initial equity grant, subject to performance and vesting conditions as outlined in Section 3.25.6.3. This initial equity grant is intended to bridge the gap until the first equity grant under the LTI offer plan is capable of vesting in 2026. The maximum opportunity for Mr Alciaturi under the initial equity grant is 240% of FR being A\$960,000, vesting over three tranches.</p>															
Termination	<p>Mr Alciaturi’s employment with Sierra Rutile may be terminated:</p> <ul style="list-style-type: none">• by Sierra Rutile giving 3 months’ written notice to Mr Alciaturi (with Sierra Rutile able to provide payment in lieu of all or part of the notice period). Where Mr Alciaturi’s employment is terminated by Sierra Rutile (other than summary termination) or by mutual agreement, Mr Alciaturi will be entitled to a payment equivalent to 3 months’ of his annual FR less any amount paid to him in lieu of his notice period;• by Sierra Rutile without notice in circumstances including serious or wilful misconduct and failure to perform or observe any lawful direction from Sierra Rutile or the Sierra Rutile Board; or• by Mr Alciaturi upon giving 3 months’ written notice. <p>On termination of employment Mr Alciaturi will be subject to a restraint of trade period of up to 6 months. The enforceability of the restraint clause is subject to all usual legal requirements.</p> <p>Any payments made to Mr Alciaturi upon termination of his employment are subject to the termination benefits cap under the Corporations Act.</p>															
Summary of remuneration arrangements	<p>The following table summarises the maximum remuneration available to Mr Alciaturi for the financial year ending 31 December 2023. Also displayed is remuneration receivable on threshold performance.</p> <table><tr><th></th><th>Maximum remuneration (A\$)</th><th>Remuneration based on threshold performance (A\$)</th></tr><tr><td>FR</td><td>400,000</td><td>400,000</td></tr><tr><td>STI award</td><td>400,000</td><td>100,000</td></tr><tr><td>LTI award</td><td>320,000</td><td>160,000</td></tr><tr><td>Total</td><td>1,120,000</td><td>660,000</td></tr></table> <p>1. The LTI award will be granted in the 2023 financial year with vesting subject to performance and vesting conditions in 2026.</p> <p>Mr Alciaturi will participate in the initial equity grant with a maximum opportunity of A\$960,000 vesting over three tranches.</p>		Maximum remuneration (A\$)	Remuneration based on threshold performance (A\$)	FR	400,000	400,000	STI award	400,000	100,000	LTI award	320,000	160,000	Total	1,120,000	660,000
	Maximum remuneration (A\$)	Remuneration based on threshold performance (A\$)														
FR	400,000	400,000														
STI award	400,000	100,000														
LTI award	320,000	160,000														
Total	1,120,000	660,000														

3.25.1.3 SIERRA RUTILE SENIOR MANAGEMENT

Senior management is employed under individual employment agreements with Sierra Rutile or its subsidiaries. These agreements establish an entitlement to FR which is inclusive of superannuation (where relevant) or base pay plus social security payments and in some cases other benefits.

Senior management team members may be eligible to participate in the STI plan, on terms as outlined in Section 3.25.6.1.

Certain members of the senior management team may participate in the LTI plan and initial equity grant from the Sierra Rutile listing on the terms outlined in Sections 3.25.6.2 and 3.25.6.3.

Payments made to senior management team members upon termination of employment may be subject to the terminations benefits cap under the Corporations Act.

3.25.1.4 SIERRA RUTILE SENIOR MANAGEMENT REMUNERATION

Sierra Rutile has established the Sierra Rutile Equity Plan (Plan) to assist in the motivation, retention and reward of certain employees. The Plan is designed to align the interests of employees with the interests of Sierra Rutile Shareholders by providing an opportunity for employees to receive an equity interest in Sierra Rutile.

The Plan provides flexibility for Sierra Rutile to offer rights, options, units and/or restricted shares as incentives, subject to the terms of individual offers and the satisfaction of performance and/or service conditions determined by the Sierra Rutile Board from time to time.

The Sierra Rutile Board is committed to reviewing the remuneration mix for the senior management team to ensure that it continues to be appropriate for Sierra Rutile as a newly listed entity.

3.25.2 SIERRA RUTILE NON-EXECUTIVE DIRECTOR ARRANGEMENTS

Under the Sierra Rutile Constitution, the Sierra Rutile Board decides the total amount paid to each director as remuneration for their services as a Sierra Rutile Director. However, under the ASX Listing Rules, the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by Sierra Rutile in general meeting. This amount has been fixed by Sierra Rutile at A\$850,000 per annum. This amount is intended to provide Sierra Rutile with flexibility to continue to attract and retain Non-Executive Directors of appropriate skill, expertise and calibre. It is not proposed that the whole of the annual aggregate Non-Executive Director fee amount will be used. Future increases in the Non-Executive Director fee pool are subject to shareholder approval.

Annual Non-Executive Directors' fees, inclusive of superannuation (where applicable) and committee fees, currently agreed to be paid by Sierra Rutile are A\$150,000 to the Chair and A\$100,000 to each other Non-Executive Director. No separate fees will be paid for service on Board committees.

Greg Martin commenced his role as Chair-elect of Sierra Rutile on 14 April 2022 and since that date has assisted Sierra Rutile in its preparations for the Demerger and will be remunerated from that date at an amount of A\$150,000 per annum. Graham Davidson and Joanne Palmer commenced as Non-Executive Directors elect from 1 May 2022 and will be remunerated from that date at an amount of \$100,000 per annum.

3.25.3 OTHER INFORMATION

Sierra Rutile Non-Executive Directors may be reimbursed for travel and other expenses incurred in attending to Sierra Rutile's affairs. Non-Executive Directors may be paid such additional remuneration as the Sierra Rutile Board decides is appropriate where a Sierra Rutile Non-Executive Director performs extra services, makes any special exertions for the benefit of Sierra Rutile or otherwise performs services which in the opinion of the Sierra Rutile Board are outside the scope of duties of a Non-Executive Director.

There are no retirement benefits paid to Sierra Rutile Non-Executive Directors, other than the statutory entitlements.

3.25.4 SIERRA RUTILE DIRECTORS' DEEDS OF INDEMNITY, INSURANCE AND ACCESS

Sierra Rutile will enter into deeds of indemnity, insurance and access with each of the Sierra Rutile Directors.

In summary, each deed will provide the Sierra Rutile Directors right of access to Sierra Rutile Board papers and requires Sierra Rutile to indemnify the Sierra Rutile Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Sierra Rutile Director as an officer of Sierra Rutile or of a related body corporate on the terms set out in the deed.

Under the deeds of indemnity, insurance and access, Sierra Rutile must maintain a directors and officers insurance policy insuring a Sierra Rutile Director (among others) against liability as a director and officer of Sierra Rutile and its related bodies corporate from the appointment date until the later of seven years after a Sierra Rutile Director ceases to hold office as a director of Sierra Rutile or a director of a related body corporate or the date any relevant proceedings commenced (and notified by the director to Sierra Rutile) during the seven-year period have been finally resolved. The Board of Sierra Rutile has declined to obtain 'side C' insurance cover, which would provide coverage in respect of securities class action claims, given the significant cost of this coverage and the Sierra Rutile Board's preference to minimise the company's cost.

3.25.5 SIERRA RUTILE DIRECTORS' INTERESTS IN SIERRA RUTILE SHARES

The Sierra Rutile Directors are not required by the Sierra Rutile Constitution to hold any Sierra Rutile Shares.

3.25.6 INCENTIVE PLANS

3.25.6.1 SHORT TERM INCENTIVE

The Sierra Rutile Board intends to implement an annual short term incentive plan. The Sierra Rutile Board will set an annual performance scorecard to focus Executives and Senior Managers on financial and strategic imperatives they can influence and which are critical to Sierra Rutile's long-term sustainability. Objectives will be set covering:

- financial performance;
- production;
- sustainability focusing on protecting people, the environment and communities; and
- individual strategic measures.

In setting objectives, the Sierra Rutile Board will aim to ensure that targets are quantifiable and drive the right commercial and strategic outcomes for Sierra Rutile. The Sierra Rutile Board will review the performance of Sierra Rutile against the specific objectives at the end of the performance period and determine the outcome.

The target STI opportunity is set at 50% of FR for Mr de Bruyn being A\$300,000 and 50% of FR for Mr Alciaturi being A\$200,000.

The actual STI payment, which will be a cash payment, will be made after the completion of the performance period. A formal deferral policy is not considered appropriate at this time for KMP, given that a significant portion of the Managing Director and CEO's and the Finance Directors total remuneration opportunity is in the form of long term equity linked awards.

For 2022 the STI will operate from the date of listing to 31 December 2022. Performance will be assessed against scorecard targets and individual strategic measures over the period and outcomes will be paid in 2023 on a pro rata basis. The performance period for 2023 will commence on 1 January 2023 and end on 31 December 2023.

3.25.6.2 LONG TERM INCENTIVE PLAN

Sierra Rutile intends to make a long term incentive grant of performance rights under the Plan with a total face value of A\$600,000 to Mr de Bruyn and with a total face value of A\$320,000 to Mr Alciaturi (LTI Offer).

The key terms of the initial LTI Offer under the Plan are set out in the below table.

Eligibility	Offers may be made at the Sierra Rutile Board's discretion to certain employees of Sierra Rutile or any other person that the Sierra Rutile Board determines to be eligible to receive a grant under the Plan.	
	The LTI Offer is being made to the Sierra Rutile Managing Director and Finance Director.	
Offers under the Plan	Under the Plan, the Sierra Rutile Board may make an equity incentive grant offer at its discretion, subject to any requirements for shareholder approval. The Sierra Rutile Board has the discretion to set the terms and conditions on which it will offer an equity incentive grant in an individual offer document. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis.	
	The LTI Offer will be made during 2023 and will be made on an opt-out basis.	
Grant of securities	The LTI Offer is a grant of performance rights, each being a conditional right to acquire one fully paid ordinary share in Sierra Rutile (or at the Sierra Rutile Board's discretion, a cash equivalent payment), subject to meeting specified performance and vesting conditions. No consideration is payable upon grant or vesting of the performance rights under the LTI Offer.	
Quantum	Mr de Bruyn A\$600,000	Mr Alciaturi A\$320,000
	The final number of performance rights awarded to each participant will be calculated by dividing the face value of their opportunity by the five-day volume-weighted average price (VWAP) of Sierra Rutile Shares commencing on a date to be set by the Sierra Rutile Board.	

Performance conditions and vesting schedule	<p>The performance rights will be subject to a performance period commencing on 1 January 2023 and ending on 31 December 2025.</p> <p>The performance rights will be subject to Sierra Rutile relative total shareholder return (RTSR) performance compared to a peer group of other companies as determined by the Sierra Rutile Board (Comparator Group). The Comparator Group will include ASX listed companies from the metals and mining sector. The Sierra Rutile Board will determine the Comparator Group taking into account market capitalisation (as a guide the Sierra Rutile Board will consider companies within a range from 50% to 200% of Sierra Rutile's market capitalisation) and other characteristics in terms of complexity, stage of development and risk profile that are considered comparable with Sierra Rutile.</p> <p>Sierra Rutile RTSR performance will be measured over a three-year period commencing on 1 January 2023. Vesting will be determined based on Sierra Rutile's performance compared to the Comparator Group with the following vesting schedule:</p> <table data-bbox="427 750 1321 1019"> <tr> <th>Performance level to be achieved</th><th>Percentage vesting</th></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>50th percentile</td><td>50%</td></tr> <tr> <td>Between 50th and 75th percentile</td><td>Sliding scale vesting</td></tr> <tr> <td>75th percentile</td><td>100%</td></tr> </table>	Performance level to be achieved	Percentage vesting	Below 50th percentile	0%	50th percentile	50%	Between 50th and 75th percentile	Sliding scale vesting	75th percentile	100%
Performance level to be achieved	Percentage vesting										
Below 50th percentile	0%										
50th percentile	50%										
Between 50th and 75th percentile	Sliding scale vesting										
75th percentile	100%										
Voting and dividend entitlements	<p>No dividends will be paid on performance rights.</p> <p>Shares allocated to participants on vesting of awards carry the same voting rights as other Sierra Rutile Shares.</p>										
Disposal restrictions	<p>Any dealing (transfer, sale, disposal or hedging) of a performance right is prohibited. Following vesting of performance rights, no disposal restrictions will apply to the resulting Sierra Rutile Shares (except for Sierra Rutile's Securities Dealing Policy).</p>										
Cessation of employment	<p>Unless the Sierra Rutile Board determines otherwise, where a participant resigns (other than by mutual agreement) or is terminated for cause, their unvested performance rights will lapse.</p> <p>If a participant ceases employment for other reasons (including by mutual agreement) unless the Sierra Rutile Board determines otherwise, their unvested performance rights will generally remain on foot subject to the original terms of the grant and be performance tested in the ordinary course.</p>										
Change of control	<p>The Sierra Rutile Board has discretion to determine the level of vesting (if any) on a change of control, having regard to shareholder outcomes realised, performance to date against any of the applicable performance conditions, the portion of the performance period elapsed and any other factors it considers appropriate.</p>										
Clawback and preventing inappropriate benefits	<p>Under the Plan and the LTI Offer, the Sierra Rutile Board will be able to lapse or clawback incentives (including incentives that have vested) in certain circumstances, including:</p> <ul style="list-style-type: none"> • where the participant acts fraudulently or dishonestly; or • if there is a material misstatement or omission in the accounts of the Sierra Rutile Group company. 										

3.25.6.3 INITIAL EQUITY GRANT

Shortly after the Listing, Sierra Rutile intends to make an initial equity grant of performance rights under the Plan with a total face value of A\$1,800,000 to Mr de Bruyn and with a total face value of A\$960,000 to Mr Alciaturi (**Equity Offer**). The Equity Offer is a transitional grant intended to bridge the gap until the LTI Offer is capable of vesting in 2026. The award also recognises the value that Mr de Bruyn and Mr Alciaturi will bring to delivering Sierra Rutile growth through the targeted extension of Area 1 mining life and the progression of the Sembehun development opportunity.

The key terms of the Equity Offer are set out in the below table.

Eligibility	The Equity Offer is being made to the Sierra Rutile Managing Director and Chief Executive Officer and Finance Director.	
Equity Offer	The Equity Offer will be made shortly after the Listing (and no later than 12 months from the Listing) and will be made on an opt-out basis.	
Grant of securities	The Equity Offer is a grant of performance rights, each being a conditional right to acquire one fully paid ordinary share in Sierra Rutile (or at the Sierra Rutile Board's discretion, a cash equivalent payment). Subject to meeting specified performance and vesting conditions. No consideration is payable upon grant or vesting of the performance rights under the Equity Offer.	
Quantum of grants	Mr de Bruyn A\$1,800,000	Mr Alciaturi A\$960,000
	The final number of performance rights awarded to each participant will be calculated by dividing the face value of their opportunity by the five-day VWAP of Sierra Rutile Shares immediately following Listing.	
Performance conditions and vesting schedule	<p>The performance rights will be awarded in three tranches, with specific performance objectives set for each tranche.</p> <p>Tranche 1 (25% of the total award): Vesting to occur upon Sierra Rutile Board approval and market disclosure of a final investment decision for the two phased development of Sembehun.</p> <p>Tranche 2 (25% of the total award): Vesting subject to completion, by the end of Q3 2024, of a plan for ongoing operations at Area 1 through to 2027 underpinned by JORC compliant Ore Reserves signed by a competent person.</p> <p>Tranche 3 (50% of the total award): Vesting will occur upon successful commissioning of Sembehun Phase 1 (as defined in the final investment decision).</p>	
Additional terms	<p>The Equity Offer will be subject to the same restrictions on dealing, treatment on cessation of employment, treatment on change of control of Sierra Rutile and clawback provisions as the LTI Offer outlined above.</p> <p>Performance rights and Sierra Rutile Shares allocated to participants under the Equity Offer will also carry the same voting, dividend entitlements as the LTI Offer outlined above.</p> <p>Any unvested performance rights will lapse after five years from the date of the award grant.</p>	

3.25.6.4 ILUKA LEGACY AWARD REPLACEMENT AWARDS FOR THE MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

As outlined in Section 3.25.1.1 above, the Sierra Rutile Managing Director and Chief Executive Officer is eligible to receive a number of 'replacement' awards in the form of Sierra Rutile restricted rights or performance rights (**Replacement Awards**). The Replacement Awards are being granted to Mr de Bruyn to replace Iluka awards or entitlements held by Mr de Bruyn prior to the Demerger.

The Replacement Awards are as follows:

- Sierra Rutile restricted rights and performance rights to be awarded shortly after listing as replacements for Iluka restricted rights and performance rights awarded to Mr de Bruyn which are being lapsed:
 - Iluka 2020 equity incentive plan: 4,967 restricted rights vesting in 2024 and 2025;
 - Iluka 2020 equity incentive plan: 5,587 performance rights vesting in 2025;
 - Iluka 2021 equity incentive plan: 15,047 restricted rights vesting in 2024, 2025 and 2026;
 - Iluka 2021 equity incentive plan: 20,604 performance rights vesting in 2026.
- Iluka 2022 equity incentive plan (pro rata for the period 1 January 2022 to 4 August 2022: an incentive award with a target face value of A\$294,256 (maximum value of A\$441,385) as a pro rata award in respect of the 2022 year. The actual award outcome is typically subject to Iluka and Mr de Bruyn's achievement against relevant scorecard measures for Iluka's 2022 financial year. The outcome and the format of any award will be determined by the Iluka Board in February 2023, with the award, to be funded by Iluka, as a cash payment.

The Replacement Awards will be awarded to Mr de Bruyn under the Plan on the following terms:

- The number of Sierra Rutile restricted rights and performance rights for the 2020 and 2021 Replacement Awards will be determined by the following calculation:
 - Number of Iluka performance rights held before Demerger x (Sierra Rutile five-day VWAP + Iluka five-day VWAP/Sierra Rutile five-day VWAP)
- The Replacement Awards for restricted rights will be granted on substantially the same terms and conditions as would have applied with respect to the original award of (Iluka) restricted rights.
- For Replacement Awards being provided as Sierra Rutile performance rights, the performance rights will be subject to performance conditions (described below) and a service condition based on continued employment with Sierra Rutile. The Replacement Awards will otherwise be granted on substantially the same terms and conditions as would have applied with respect to the original award of (Iluka) performance rights.

Replacement Award	Performance conditions
Iluka 2020 equity incentive plan	The performance rights comprising each Replacement Award will vest based on Sierra Rutile's RTSR performance compared to the Comparator Group over the period from Listing to the 31 December 2024 and 31 December 2025 respectively (applying the same vesting schedule applicable for the LTI Offer – see Section 3.25.6.2).
Iluka 2021 equity incentive plan	

3.25.6.5 ILUKA LEGACY AWARD REPLACEMENT AWARDS FOR OTHER EMPLOYEES

There are eight Sierra Rutile group employees who are eligible to receive a number of Replacement Awards. The Replacement Awards are being granted to these employees to replace Iluka awards or entitlements held by them prior to the Demerger.

The Replacement Awards are as follows:

- Sierra Rutile restricted rights and performance rights to be awarded shortly after listing as replacements for Iluka restricted shares, restricted rights, performance rights and cash units awarded to the employees which are being lapsed:
 - Iluka 2020 executive incentive plan: 2,961 performance rights vesting in 2025, 2,960 restricted rights vesting in 2024 and 2025;
 - Iluka 2021 executive incentive plan: 8,213 performance rights vesting in 2026, 6,159 restricted rights vesting in 2024, 2025 and 2026; and
 - Iluka 2021 short term incentive plan: 2,110 restricted shares vesting in 2024, and 16,152 cash units vesting in 2024.
- The Replacement Awards will be awarded to the relevant employees under the Plan on the same terms as for Mr de Bruyn as set out in Section 3.25.6.4.

3.26 SIERRA RUTILE CORPORATE GOVERNANCE

3.26.1 OVERVIEW

This Section 3.26 explains how the Sierra Rutile Board will oversee the management of the Sierra Rutile business. The Sierra Rutile Board is responsible for the overall corporate governance of Sierra Rutile. Details of Sierra Rutile's key policies and practices and the charters for the Sierra Rutile Board and each of its committees are available at www.sierra-rutile.com.

The Sierra Rutile Board will monitor the financial position and corporate performance of Sierra Rutile and oversee its business strategy. The Sierra Rutile Board is committed to protecting and optimising performance and building sustainable value for Sierra Rutile Shareholders, as well as promoting a good corporate culture within the organisation. In conducting the Sierra Rutile business with these objectives, the Sierra Rutile Board will seek to ensure that Sierra Rutile is properly managed to protect and enhance Sierra Rutile Shareholder interests and that Sierra Rutile and Sierra Rutile Directors, officers and team members operate in an environment of strong corporate governance.

Accordingly, the Sierra Rutile Board has created a framework for managing Sierra Rutile, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for the Sierra Rutile business and that are designed to promote the responsible management and conduct of Sierra Rutile.

The main policies and practices adopted by Sierra Rutile, which will take effect from the Listing, are summarised below. In addition, many governance elements are contained in the Sierra Rutile Constitution, which is summarised in Section 9.2.

3.26.2 ASX CORPORATE GOVERNANCE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Sierra Rutile is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations 4th Edition (**ASX Recommendations**) for Australian-listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations.

The ASX Recommendations are not mandatory, but rather guidelines designed to produce an outcome that is of high quality and integrity. Under the ASX Listing Rules, Sierra Rutile will be required to provide a statement in its annual report, or the URL of the page on its website where such a statement is located, disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where Sierra Rutile does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. Sierra Rutile intends to comply with all of the ASX Recommendations from the time of the Sierra Rutile Listing.

3.26.3 SIERRA RUTILE BOARD OF DIRECTORS

The Sierra Rutile Board will be comprised of 5 directors, including an independent, non-executive chair, the managing director and chief executive officer, a finance director, and two independent non-executive directors.

Detailed biographies of the Sierra Rutile Board members on Sierra Rutile Listing are provided in Section 3.23.1.

The Sierra Rutile Board has adopted a definition of independence that is based on the ASX Recommendations. The Sierra Rutile Board considers a Sierra Rutile Director to be independent where they are free of any interest, position or relationship that might influence, or might reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the Sierra Rutile Board and to act in the best interests of Sierra Rutile as a whole rather than in the interests of an individual Sierra Rutile Shareholder or other party. The Sierra Rutile Board will regularly assess the independence of each Sierra Rutile Director in light of information disclosed to the Sierra Rutile Board.

The Sierra Rutile Board considers that three are Independent Non-Executive Directors.

3.26.4 SIERRA RUTILE BOARD CHARTER

The Sierra Rutile Board has adopted a written charter to provide a framework for the effective operation of the Sierra Rutile Board, which sets out the:

- Sierra Rutile Board's composition;
- Sierra Rutile Board's role and the responsibilities and processes of the Sierra Rutile Board;
- relationship and interaction between the Sierra Rutile Board and management; and
- authority delegated by the Sierra Rutile Board to management and to Sierra Rutile Board committees.

The Sierra Rutile Board's role includes to:

- represent and serve the interests of shareholders by overseeing Sierra Rutile's strategies, policies and performance;
- set, review and monitor compliance with Sierra Rutile's culture, values and governance framework; and
- keep shareholders informed of Sierra Rutile's performance and major developments affecting its state of affairs.

The management function is the responsibility of the Sierra Rutile Managing Director and Chief Executive Officer, supported by his direct reports. Management must supply the Sierra Rutile Board with information in a form, timeframe and quality that will enable the Sierra Rutile Board to discharge its duties effectively.

Each Sierra Rutile Director, with the written consent of the Chair, may seek independent professional advice at Sierra Rutile's expense on any matter connected with the discharge of their responsibilities.

3.26.5 SIERRA RUTILE BOARD COMMITTEES

The Sierra Rutile Board may from time to time establish and delegate powers to committees, in accordance with the Sierra Rutile Constitution, to assist in the discharge of its responsibilities. The Sierra Rutile Board has established an Audit and Risk Committee, a Sustainability and Social Accountability Committee and a People and Nominations Committee. Other committees may be established by the Sierra Rutile Board as and when required. The standing Board committees will each meet at least twice per year.

3.26.5.1 AUDIT AND RISK COMMITTEE

Under its charter, this committee must consist of a minimum of three members, only Non-Executive Directors (a majority of whom must be independent) and an independent Non-Executive Director as Chair who is not Chair of the Sierra Rutile Board. The Audit and Risk Committee will initially comprise:

- Joanne Palmer (Chair);
- Greg Martin; and
- Graham Davidson.

The role of the Audit and Risk Committee is to assist the Sierra Rutile Board to oversee, amongst other things, the following matters:

- financial and other periodic reporting;
- the external audit function and internal audit function (where it exists) and the relationship with the auditors;
- the implementation of Sierra Rutile's risk management framework and the processes for identifying and managing financial and non-financial risk;
- internal controls and systems; and
- processes for monitoring compliance with applicable legal and regulatory requirements (including those relating to the reporting of mining activities) and internal codes of conduct.

3.26.5.2 PEOPLE AND NOMINATIONS COMMITTEE

Under its charter, this committee must consist of a minimum of three members of only Non-Executive Directors (a majority of whom must be independent) and an independent Non-Executive Director as Chair.

The People and Nominations Committee will comprise:

- Greg Martin (Chair);
- Graham Davidson; and
- Joanne Palmer.

The role of the People and Nominations Committee is to assist the Sierra Rutile Board by:

- overseeing Sierra Rutile's overall remuneration strategy and its application to the directors, senior executives and employees as a whole;

- overseeing Sierra Rutile's diversity strategy, policy and practices;
- overseeing succession planning for the Managing Director and Chief Executive Officer and other senior executives;
- establishing and reviewing its capability and performance to ensure effective decision making and oversight, including in relation to its composition; and
- advising on the most suitable governance practices and processes to enable Sierra Rutile to operate to a high standard, and in an efficient way.

3.26.5.3 SUSTAINABILITY AND SOCIAL ACCOUNTABILITY COMMITTEE

Under its charter, this committee must consist of a minimum of three members of only Sierra Rutile Directors (a majority of whom must be independent) and an independent Sierra Rutile Director as Chair.

The Sustainability and Social Accountability Committee will comprise:

- Graham Davidson (Chair);
- Greg Martin;
- Theuns De Bruyn;
- Martin Alciaturi; and
- Joanne Palmer.

The role of the Sustainability and Social Accountability Committee is to assist the Sierra Rutile Board by overseeing and advising on:

- safety;
- occupational health;
- social performance;
- environment (including climate);
- sustainability; and
- human rights and security of communities, employees and operations.

3.26.6 CORPORATE GOVERNANCE POLICIES AND STANDARDS

The Sierra Rutile Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which will be available at www.sierra-rutile.com.

3.26.6.1 MARKET DISCLOSURE AND COMMUNICATIONS POLICY

Once listed, Sierra Rutile will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Sierra Rutile is aware of its obligation to keep the market fully informed of any information Sierra Rutile becomes aware of concerning it, which may have a material effect on the price or value of Sierra Rutile securities, subject to certain exceptions.

Sierra Rutile has adopted a Market Disclosure and Communications Policy to take effect from the Sierra Rutile Listing that establishes procedures aimed at ensuring that Sierra Rutile fulfils its obligations in relation to the timely disclosure of material price-sensitive information.

Sierra Rutile is committed to ensuring that:

- all investors have equal and timely access to material information about Sierra Rutile in accordance with its obligations; and
- its market disclosures are accurate, balanced and expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Additionally, Sierra Rutile recognises that potential investors and other interested stakeholders may wish to obtain information about the Sierra Rutile Group from time to time. To achieve this, Sierra Rutile will communicate information regularly to Sierra Rutile Shareholders and other stakeholders through a range of forums and publications, including Sierra Rutile's website, at the annual general meeting, and through Sierra Rutile's annual report and ASX announcements.

3.26.6.2 SECURITIES DEALING POLICY

Sierra Rutile has adopted a Securities Dealing Policy that is intended to:

- ensure public confidence is maintained in the reputation of the Sierra Rutile Group, its directors and employees and in the trading of its securities;
- explain Sierra Rutile's policy and procedures for the buying and selling of securities to assist the Sierra Rutile Group directors and employees; and
- recognise that some types of dealing in securities are prohibited by law.

The policy provides that Sierra Rutile Directors and Sierra Rutile Group employees must not:

- deal in Sierra Rutile securities on a short term trading basis or when they are aware of 'inside' information; or
- hedge unvested equity remuneration or vested equity subject to holding locks.

The policy further provides that Sierra Rutile Directors, certain restricted team members and their connected persons must not deal in Sierra Rutile's securities during trading blackout periods (except in exceptional circumstances, where prior approval is provided).

Outside of the blackout periods, these restricted persons must receive prior approval for any proposed dealing in Sierra Rutile securities (including any proposed dealing by one of their connected persons), and in all instances, buying or selling securities is not permitted at any time by any person who possesses 'inside' information.

3.26.6.3 OTHER

Sierra Rutile's Market Disclosure and Communications Policy and Securities Dealing Policy are complemented by other corporate governance policies and standards including Codes of Conduct, an Anti-Bribery and Corruption Policy and a Whistleblower Policy. The Anti-Bribery and Corruption Policy sets out policies and procedures for Sierra Rutile employees to follow in managing bribery and corruption risks. The Whistleblower Policy provides a process for Sierra Rutile employees, suppliers and their family members to report breaches of the Codes of Conduct or Anti-Bribery and Corruption Policy, as well as other types of potential misconduct.

In addition, Sierra Rutile intends to comply with applicable modern slavery laws.

3.27 RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN SIERRA RUTILE SHARES

3.27.1 OVERVIEW

This Section outlines a number of risks that may affect Sierra Rutile following the Demerger.

The risks set out in this Section may adversely affect the future operating or financial performance or prospects of Sierra Rutile, and the investment returns or value of Sierra Rutile Shares. Some of these risks may be mitigated by appropriate controls, systems and other actions, but others will be outside the control of Sierra Rutile.

Many of these are risks to which Iluka Shareholders are currently exposed, but may be more significant or concentrated for Sierra Rutile and Sierra Rutile Shareholders, while others arise as a result of Sierra Rutile becoming a standalone ASX-listed entity independent from Iluka following the Demerger.

This Section should be read in conjunction with Section 1 which sets out the advantages and disadvantages and risks of the Demerger, and Section 4.8 which sets out the risk factors associated with an investment in Iluka (post Demerger).

Further, the risks set out in this Section are not exhaustive of all the risks to which Sierra Rutile could be exposed.

3.27.2 SIERRA RUTILE SPECIFIC RISKS

3.27.2.1 RISK THAT THE PROPOSED DEVELOPMENT OF SEMBEHUN MAY NOT PROCEED AS CONTEMPLATED IN THE PFS OR AT ALL

Whilst the results of the Sembehun PFS are positive and Sierra Rutile plans to commence a DFS by Q3 of 2022 and has already commenced the critical activities that are either required as inputs to the DFS or are important

milestones for the overall execution of the DFS (see the discussion of the Pre-DFS Work Plan in Section 3.12.4), there is no guarantee that Sierra Rutile will proceed to develop Sembahun or that development (if it proceeds) will be successful.

A positive final investment decision in relation to Sembahun will be dependent on the results of the DFS.

The development of Sembahun contemplated in the PFS is based on certain assumptions with respect to the method and timing of operations. By their nature, these estimates and assumptions are subject to significant uncertainties and the timeframe for and actual costs of developing Sembahun may materially differ from the estimates and assumptions. Accordingly, no assurance can be given that the indicative timeline for development and the cost estimates and the underlying assumptions will be realised in practice, which may materially adversely affect the development of Sembahun and, in turn, Sierra Rutile's viability. Refer to the key risks identified in the Sembahun PFS which are summarised in Section 3.12.21.

The development of Sembahun will also be dependent on Sierra Rutile's ability to obtain finance for the development of Sembahun on acceptable terms. It is intended that the development of Sembahun will be integrated with the remaining operations at Area 1 in order to optimise Sembahun pre-production capital expenditure and maximise Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembahun. The extent to which it will be possible to integrate the remaining operations at Area 1 with the development of Sembahun will in part depend on Sierra Rutile's ability to convert its Mineral Resources at Area 1 to Ore Reserves. If there is a gap between the completion of Area 1 operations ahead of Sembahun commissioning this will result in Sierra Rutile carrying additional costs through the production gap, increase the external financing requirement for the development of Sembahun and may adversely affect Sierra Rutile's financial performance and impede the development of Sembahun. Refer to Section 3.27.2.2 and Section 3.27.2.17 respectively for further discussion of the risks associated with Sierra Rutile's future capital requirements and with the conversion of Mineral Resources to Ore Reserves.

If the development of Sembahun does not proceed, or is not successful, Sierra Rutile's activities will be limited to the remaining mine life at Area 1 and the prospects and future viability of Sierra Rutile will be materially adversely affected.

3.27.2.2 FUTURE CAPITAL REQUIREMENTS

Sierra Rutile is likely to require further financing in the future, in particular for the development of Sembahun. Any equity financing may be dilutive to Sierra Rutile Shareholders and any debt financing, if available, may involve restrictive covenants which limit Sierra Rutile's operations and business strategy.

There cannot be any assurance that appropriate capital or funding, if and when needed (including to fund the development of Sembahun) will be available on terms favourable to Sierra Rutile or at all. If Sierra Rutile is unable to obtain additional financing as needed, it may result in a material adverse effect on Sierra Rutile's activities and its ability to continue as a going concern.

3.27.2.3 OPERATIONAL RISK

Sierra Rutile's operations are, and will continue to be, subject to numerous risks, many of which are beyond Sierra Rutile's control. Sierra Rutile's operations may be curtailed, delayed or cancelled as a result of factors such as: adverse weather conditions; fire; flood; mechanical difficulties; shortages in or increases in the costs of labour, consumables, spare parts, plant and equipment; external services failure (including energy and water supply); industrial disputes and action; difficulties in commissioning, ramp up and operating plant and equipment; IT system failures, mechanical failure or plant breakdown; and non-compliance with governmental requirements.

Hazards incidental to the exploration and development of mineral properties such as unusual or unexpected geological formations, difficulties and/or delays associated with groundwater and dewatering may be encountered by Sierra Rutile.

Industrial and environmental accidents such as the collapse of a tailings storage facility could lead to substantial claims against Sierra Rutile for injury or loss of life, damage or destruction to property, as well as regulatory investigations, clean up responsibilities, penalties and the suspension of operations.

Sierra Rutile will endeavour to take appropriate action to mitigate these operational risks (including by seeking to ensure legislative compliance, properly documenting arrangements with counterparties, and adopting industry appropriate policies and procedures) or to insure against them, but the occurrence of any one or a combination of these events may have a material adverse effect on Sierra Rutile's performance and the value of its assets.

3.27.2.4 SOVEREIGN AND POLITICAL RISK

The Mining Lease is located in Sierra Leone and Sierra Rutile will be subject to the various political, economic, labour and other risks and uncertainties associated with operating in that country. There are risks attached to exploration and mining operations in a developing country like Sierra Leone which are not necessarily present in a developed country like Australia. These risks and uncertainties include, but are not limited to, economic, social, labour or political instability or change, hyperinflation, currency non-convertibility or instability and changes of law affecting government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, export and import duties, environmental protection, mine safety and labour relations (including collective bargaining arrangements), bribery

and corruption, as well as government control over mineral properties or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents. Sierra Rutile may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity.

Any future material adverse changes in government policies or legislation in Sierra Leone that affect taxation, foreign ownership, Government of Sierra Leone ownership of or equity participation in mining projects, mineral exploration, development or mining activities, may affect the viability and profitability of Sierra Rutile. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on exploration, development, mining, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of primary host communities and local people, water use, local economic empowerment or similar policies, employment (including collective bargaining disputes), contractor selection and mine safety. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements. The occurrence of these various factors adds uncertainties that cannot be accurately predicted and could have an adverse effect on Sierra Rutile's operations and/or profitability.

The legal system operating in Sierra Leone is less developed than in more established countries, which may result in risk such as: difficulties in obtaining effective legal redress in the courts whether in respect of a breach of law or regulation, or in an ownership dispute, a higher degree of discretion on the part of governmental agencies, including revenue authorities and environmental protection agencies, the lack of political or administrative guidance on implementing applicable rules and regulations including, in particular, as regards local taxation and property rights, risks associated with the interpretation or application of laws and inconsistencies or conflicts between and within various laws, the effect of statutory endorsement processes affecting its rights and obligations under the Sierra Rutile Agreement and amendments to that agreement, the Sierra Rutile Act and laws of general application, the creation of new laws which are inconsistent with old laws or impose more onerous obligations, regulations, decrees, orders and resolutions, or relative inexperience of the judiciary and courts in such matters.

The commitment by local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal

redress may be uncertain or delayed. There can be no assurance that licences, licence applications or other legal arrangements will not be adversely affected by the actions of the government authorities or others and the effectiveness and enforcement of such arrangements cannot be assured.

3.27.2.5 NO GEOGRAPHIC DIVERSIFICATION OF ASSETS

Sierra Rutile's assets are located in Sierra Leone, the sovereign and political risks of which are discussed in Section 3.27.2.4 above. Any circumstance or event which negatively affects Sierra Leone could materially affect the financial performance of Sierra Rutile more significantly than if it had a geographically diversified asset base.

3.27.2.6 APPROVALS, PERMITS, LICENCES AND CONSENTS

Sierra Rutile currently holds all material authorisations required to undertake its current mining activities in respect of Area 1. However, certain of Sierra Rutile's authorisations require renewal on a regular basis (such as the EIA, which requires annual renewal) and Sierra Rutile is subject to the need for ongoing or new government approvals, licences and permits as the scope of its operations change. The granting and renewal of such approvals, licences and permits are, as a practical matter, subject to the discretion of applicable government agencies or officials.

If Sierra Rutile pursues development of the Sembahun deposit, it will, among other things, require various approvals, permits and licences before it will be able to develop and mine the deposit, and need to satisfy certain environmental approval processes. There is no guarantee that Sierra Rutile will be able to obtain, or obtain in a timely manner, all required approvals, licences or permits or satisfy all environmental approval processes. To the extent that required authorisations are not obtained or are delayed or are cancelled or forfeited after being obtained, Sierra Rutile's operations may be materially adversely impacted.

3.27.2.7 COMMUNITY AND SOCIAL RISKS

Sierra Rutile's ability to operate and expand its mining activities on the Mining Lease will depend in part on its ability to maintain good relations with the local community. Although Sierra Rutile believes that the local communities generally welcome its mining activities and perceive that they will bring benefits to them, no assurance can be given that any negotiation with local communities about the benefits they will derive from mining activities on the Mining Lease, covering employment and local business, will be successful. Any failure to adequately manage community and social expectations may lead to local dissatisfaction with Sierra Rutile's activities, which in turn may lead to unrest and disruptions of current operations and future proposed operations.

Sierra Rutile expects that the development of Sembahun will create significant social and economic benefits for local

communities, including employment opportunities, but acknowledges that some local residents may be directly or indirectly affected by the development of Sembahun and associated operations. Community programs and social impact studies will be conducted at the earliest opportunity to understand community issues and, where possible, address concerns.

As discussed in Section 3.12.20, the development of Sembahun will impact on some local villages and as a housing which may result in Sierra Rutile will being required to negotiate a resettlement program with the affected community members. As it is intended that local residents will be the source of a significant number of employees for Sembahun, and the quality of the housing constructed is expected to be higher than the existing buildings, community support is expected but cannot be guaranteed. If some members of the community are slow to relocate or resist moving altogether, it may have the potential to adversely affect the development of Sembahun and future production. In addition, if land is not readily available to relocate villages within the Sembahun development footprint that may delay or increase the costs of the development.

3.27.2.8 ENVIRONMENTAL IMPACTS

Sierra Rutile's operations and proposed activities may adversely impact the environment. Such impacts can give rise to substantial costs for environmental rehabilitation and remediation for any adverse environmental impacts, including those relating to contamination and pollution.

The operations and proposed activities of Sierra Rutile are subject to Sierra Leonean laws and regulations concerning the environment. If such laws are breached, Sierra Rutile could be required to suspend or cease its operations and / or incur significant liabilities (including penalties) due to past or future activities.

Sierra Rutile is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase Sierra Rutile's cost of doing business or affect its operations in any area.

3.27.2.9 ESTIMATE OF REHABILITATION AND MINE CLOSURE PROVISIONS

Iluka will establish a US\$45 million rehabilitation trust, cash funded on a one-off basis to support Sierra Rutile's estimated rehabilitation obligations as at 31 December 2021 in respect of the Mining Lease and associated operations under Sierra Leonean laws and regulations concerning the environment. The amount of US\$45 million to be contributed by Iluka into the Rehabilitation Trust represents the Iluka Directors' best estimate of the present value of the costs required to satisfy the rehabilitation obligations in respect of the Mining Lease and associated operations under Sierra Leonean laws and regulations concerning the environment as at 31 December 2021, and is based on certain estimates and judgements

(further details of which are set out in Section 3.24.5). It is possible that the actual costs to carry out Sierra Rutile's rehabilitation obligations will be more than that estimated or that the Government of Sierra Leone may seek additional financial support for Sierra Rutile's rehabilitation obligations under the relevant legislation, and that Sierra Rutile could be required to meet those additional costs, or be required to provide additional or different financial support in respect of existing or future rehabilitation obligations, which could materially and adversely affect Sierra Rutile's viability.

3.27.2.10 TITLE RISK

Sierra Rutile has a right to renew the Mining Lease for a minimum term of 15 years on expiry of the current term of the Mining Lease, which ends on 23 January 2039. The terms applying to the renewal are on equivalent terms and conditions of the current Mining Lease, except for payments by Sierra Rutile which are to be on such fair and equitable terms as to payment as Sierra Rutile and the Government of Sierra Leone may agree.

Sierra Rutile's right to renew the Mining Lease under the Sierra Rutile Agreement is subject to Sierra Rutile's compliance with the provisions of the Sierra Rutile Agreement and the Mining Lease, such as due and punctual payment of rents and meeting of expenditure commitments.

There are no guarantees that the Mining Lease will be capable of renewal on expiry of the current term, or on what terms the Government of Sierra Leone may require to renew the Mining Lease.

3.27.2.11 COMMODITY PRICES

The prices of commodities relevant to Sierra Rutile's business are subject to price fluctuations. Demand for a commodity may be influenced by a range of events, including macroeconomic conditions and global events. Future material commodity price declines will result in a decrease in revenue or, in the case of severe, prolonged declines in commodity prices may cause the suspension of mining operations resulting in a complete cessation of revenue.

3.27.2.12 NATURE OF SALES AND MARKETING ARRANGEMENTS AND CUSTOMER CONCENTRATION

Sierra Rutile sells its mineral sands products to customers under either spot or short term contracts, and it does not have any long term contracts in place beyond December 2022. While these arrangements are customary in the mineral sands industry and the market outlook is positive (see Section 2), these arrangements mean that Sierra Rutile's near term revenue will be more affected by changes in the requirements of its key customers than if Sierra Rutile mineral sands products were sold under longer term arrangements.

In addition, while Sierra Rutile's mineral sands products are sold to a range of customers globally, sales to Sierra Rutile's largest customer accounted for the majority of Sierra Rutile's sales volumes and revenue in FY21.

There can be no guarantee that Sierra Rutile's key customers will not reduce their production requirements or seek to source some or all of their mineral sands products from existing or future competitors in the future. In that case, Sierra Rutile would need to identify other customers and if is unable to do so, or the terms are less favourable, then this could have a material adverse effect on Sierra Rutile's business, operational performance and financial results.

There is also the potential that Sierra Rutile will not receive payments for the supply of its mineral sands products if a customer becomes insolvent or fails to make a payment in accordance with its contract with Sierra Rutile.

3.27.2.13 RELIANCE ON KEY PERSONNEL

The success of Sierra Rutile and its business will be highly dependent on the expertise and experience of the Sierra Rutile executive leadership team. The loss of any key personnel could harm the business or cause delay in the implementation of Sierra Rutile's plans, while management time is directed to finding suitable replacements. In particular, Sierra Rutile relies heavily on the experience of its executive leadership team in developing and maintaining important relationships with governmental and regulatory authorities, partners and contractors in Sierra Leone. Sierra Rutile's business therefore may be materially negatively affected by the failure to attract, or the departure of, any of these individuals, or any of a number of other key employees. There can be no guarantee that Sierra Rutile will be able to continue to attract and retain required employees.

The loss or diminution in the services of any of the Sierra Rutile executive leadership team or an inability to recruit, attract, train and/ or retain necessary personnel with the requisite expertise and experience could materially adversely affect Sierra Rutile's prospects, operations, financial condition and results of operations.

Sierra Rutile will ensure that the remuneration of its directors, executives, management and personnel is market competitive, fair and equitable so as to attract, motivate and retain high quality personnel and assist in mitigating such risks to Sierra Rutile.

3.27.2.14 DEPENDENCE ON EXTERNAL CONTRACTORS

Sierra Rutile currently outsources, and may continue to outsource, substantial parts of its mining activities pursuant to services contracts with third party contractors. Such contractors may not be available to perform services for Sierra Rutile, when required, or may only be willing to do so on terms that are not acceptable to Sierra Rutile. Once in contract, performance may be constrained or hampered by capacity constraints, mobilisation issues, plant, equipment and staff shortages, labour disputes, managerial failure

and default or insolvency. Contractors may not comply with provisions in respect of quality, safety, environmental compliance and timeliness, which may be difficult to control. In the event that a contractor underperforms or is terminated, Sierra Rutile may not be able to find a suitable replacement on satisfactory terms within time or at all. These circumstances could have a material adverse effect on Sierra Rutile's production and operations.

3.27.2.15 COUNTERPARTY RISK

The ability of Sierra Rutile to achieve its business objectives will depend to an extent on the performance by Sierra Rutile and counterparties of their contractual obligations. If any party defaults in the performance of its obligations under a contract, it may be necessary for the other party to approach a court to seek a legal remedy, which could be costly for Sierra Rutile. The operations of Sierra Rutile also require the involvement of a number of third parties, including consultants, contractors and suppliers. Financial failure, default or contractual non-compliance on the part of such third parties may have a material impact on Sierra Rutile's operations and performance. It is not possible for Sierra Rutile to predict or protect itself against all such risks.

3.27.2.16 LITIGATION, CLAIMS AND DISPUTES

Sierra Rutile is currently, and may continue to be, subject to litigation and other claims and disputes in the ordinary course of its business, including employment and collective bargaining disputes, contractual disputes, indemnity claims, occupational health and safety claims, or civil proceedings in the course of its business. Such litigation, claims and disputes, including the cost of settling claims or paying any fines, operational impacts and reputational damage, could materially adversely affect Sierra Rutile's business, operating and financial performance.

Details of the current material legal proceedings involving a Sierra Rutile Group Member are set out in Section 9.4.

3.27.2.17 ESTIMATES OF ORE RESERVES AND MINERAL RESOURCES

Ore Reserve and Mineral Resource estimates are expressions of judgment based on detailed geological and other technical and financial information, as well as knowledge, experience, market information and industry practice. Estimates which were valid when originally calculated may be altered when new information or techniques become available. In addition, by their very nature, Mineral Resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, positively or adversely affect Sierra Rutile's operations.

There can be no assurance that Sierra Rutile will be able to convert its Mineral Resources to Ore Reserves or of the conversion rate that may be achieved (including in respect

of the Pejebu and Ndendemoia deposits at Area 1 and the Mineral Resource at Sembehun).

3.27.2.18 CLIMATE CHANGE

Climate change or prolonged periods of adverse weather and climatic conditions (including rising sea levels, floods, hail, extreme storms, drought, fires, water, scarcity, temperature extremes, frosts, earthquakes and pestilences) may have an adverse effect on Sierra Rutile's ability to access and utilise its Mining Lease and/or on Sierra Rutile's ability to transport or sell mineral commodities.

Changes in policy, technological innovation and consumer or investor preferences could adversely impact Sierra Rutile's business strategy or the value of its assets (including its Mining Lease), or may result in less favourable pricing for mineral commodities, particularly in the event of a transition to a lower-carbon economy.

3.27.2.19 CHANGING EXPECTATIONS WITH RESPECT TO ESG STANDARDS

Changing community attitudes towards and increasing regulation of ESG risks and disclosure may impact the operation of Sierra Rutile's mining assets in the future which may also have an impact on Sierra Rutile. Increased expectations with respect to ESG risk management may impact on the profitability or value of Sierra Rutile's operations, restrict Sierra Rutile's ability to attract financing or investment, or result in heightened compliance costs associated with meeting prevailing regulatory and disclosure standards.

3.27.2.20 SAFETY RISKS

Safety is a fundamental risk for any company with regard to personal injury, damage to property and equipment, and other losses. The occurrence of any of these risks could result in legal proceedings against Sierra Rutile and substantial losses to Sierra Rutile due to injury or loss of life, damage to or destruction of property, regulatory investigation, and penalties or suspension of operations. Damage occurring to third parties as a result of such risks may give rise to claims against Sierra Rutile.

Whilst Sierra Rutile is able to transfer some of these risks to third parties through insurance and the retention of contractors, many of the associated risks are not transferable. Injuries to employees may result in significant lost time for the employee and costs and impacts to Sierra Rutile's business beyond what is covered under workers compensation schemes.

3.27.2.21 COMPETITION

The industry in which Sierra Rutile is involved is subject to global competition. While Sierra Rutile will undertake reasonable due diligence in its business decisions and operations, Sierra Rutile will have no influence or control over the activities or actions of its competitors, whose activities or actions may, positively or negatively, affect the

operating and financial performance of Sierra Rutile and its business.

3.27.2.22 INSURANCE

Sierra Rutile intends to insure its operations in accordance with industry practice and applicable laws. However, in certain circumstances Sierra Rutile's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of Sierra Rutile.

Insurance of all risks associated with mineral exploration and production is not always available and where available the costs can be prohibitive.

3.27.2.23 FORCE MAJEURE EVENTS

Events may occur within or outside Sierra Leone and/or Australia that could impact upon the global, Sierra Leone and/or Australian economies, the operations of Sierra Rutile, or the price of Sierra Rutile Shares. These events include, but are not limited to, terrorism, outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease such as COVID-19 or other man-made or natural events or occurrences that can have an adverse effect on Sierra Rutile's activities and the demand for mineral sands.

3.27.2.24 COVID-19

The COVID-19 pandemic continues to have a material impact on the global business climate, primarily due to various government policies implemented to manage the health crisis. COVID-19 has significantly affected operations of governments and businesses as well as day-to-day activities of individuals in countries across the world, including those in Sierra Leone and Australia.

Travel, trade, working arrangements, supply chain management, and availability of goods and services have all, to varying extents, been impacted by COVID-19. Government policies, including quarantining and travel bans, have had a particular impact on business activities globally and domestically. The situation is ongoing and is also dependent on the efficacy and long-term performance of the COVID-19 vaccines. Any further measures to limit the transmission of the virus, such as mandatory quarantining, may continue to adversely impact Sierra Rutile's operations.

The economic impact of the pandemic has also resulted in uncertainty and volatility across financial, commodity and other markets. COVID-19 has had, and may continue to have, a significant impact on capital markets and share prices. Sierra Rutile's Share price may be adversely affected by the economic uncertainty caused by COVID-19.

Given the extraordinary circumstances presented by COVID-19 and the uncertainty of Sierra Rutile's operating environment, the ongoing impact of COVID-19 on Sierra Rutile's business is difficult to predict.

3.27.2.25 LIQUIDITY

There is currently no public market for Sierra Rutile Shares and there can be no guarantee that an active market in Sierra Rutile Shares will develop or continue after Listing or that the price of Sierra Rutile Shares will stabilise or not decrease. There may be relatively few or many potential buyers or sellers of the Sierra Rutile Shares on ASX at any given time. This may affect the volatility of the market price of Sierra Rutile Shares. It may also affect the prevailing market price at which Sierra Rutile Shareholders are able to sell their Sierra Rutile Shares. This may result in Sierra Rutile Shareholders receiving a market price for their Sierra Rutile Shares that is above or below the price that Sierra Rutile Shareholders paid.

The price at which Sierra Rutile Shares trade on ASX after Listing could be subject to fluctuations in response to variations in operating performance and general operations and business risk, as well as external operating factors over which Sierra Rutile and the Sierra Rutile Directors have no control, such as movements in mineral prices and exchange rates, changes to government policy, legislation or regulation and other events or factors.

3.27.2.26 SPECULATIVE INVESTMENT

Sierra Rutile is principally aiming to achieve long term profitability and may not generate profits in the short or medium term. Accordingly, an investment in Sierra Rutile Shares may not be suitable as a short-term investment.

An investment in Sierra Rutile involves a considerable degree of risk. Although the Sierra Rutile Directors have between them significant operational experience, Sierra Rutile's ability to meet its objectives will be reliant on its ability to implement current operational plans and take appropriate action to amend those plans in respect of any unforeseen circumstances that may arise.

3.27.3 GENERAL RISKS

3.27.3.1 ECONOMIC CONDITIONS

General economic conditions, movements in interest and inflation rates, and currency exchange rates may have an adverse effect on Sierra Rutile's activities as well as on its ability to fund those activities. General economic conditions may also affect the value of Sierra Rutile and its valuation regardless of its actual performance.

3.27.3.2 TAXATION

The tax information provided in this Demerger Booklet is based on current taxation law in Australia as at the date of the Demerger Booklet.

Tax laws, including tax laws in Sierra Leone, are complex and are subject to change periodically as is their interpretation by the relevant courts and the tax revenue authorities. Such changes in interpretation and application may impact the tax outcome of a transaction.

In addition, tax revenue authorities may review the tax treatment of transactions entered into. Any actual or alleged failure to comply with, or any change in the application or interpretation of, tax rules applied in respect of such transactions may increase tax liabilities or create exposure to legal, regulatory or other actions.

An interpretation of the taxation laws that is contrary to that of the tax revenue authority in Australia or Sierra Leone may give rise to additional tax payable. In order to manage this risk, external expert advice on the application of tax laws is sought in the context of the transaction completed.

3.27.3.3 ACCOUNTING

The introduction of new or refined accounting or financial reporting standards may affect the future measurement and recognition of key income statement and balance sheet items, including revenue and receivables. There is also a risk that interpretations of existing accounting or financial reporting standards, including those relating to the measurement and recognition of key income statement and balance sheet items, may differ. Changes to accounting or financial reporting standards or changes to commonly held views on the application of those standards could materially and adversely affect the financial performance and position reported in Sierra Rutile's financial statements.

3.27.3.4 SHAREHOLDER DILUTION

In the future, Sierra Rutile may elect to issue shares to fund or raise proceeds for working capital, growth, acquisitions, to repay debt, or for any other reason.

While Sierra Rutile will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply) following admission to the official list of ASX, Sierra Rutile Shareholder interests may be diluted and Sierra Rutile Shareholders may experience a loss in value of their equity as a result of such issues of Sierra Rutile Shares and fundraisings.

3.27.3.5 DIVIDEND RISK

Payments of dividends on Sierra Rutile Shares is within the discretion of the Sierra Rutile Board and will depend upon Sierra Rutile's future earnings, capital requirements, financial performance, and other relevant factors.

4. Overview of Iluka (post Demerger)



4.1 BACKGROUND INFORMATION ON ILUKA (POST DEMERGER)

Iluka is a leading Australian focused mineral sands and rare earths company with expertise in exploration, development, mining, processing, marketing and rehabilitation. The company's purpose is to deliver sustainable value. Iluka's industry position and purpose will be unchanged following the Demerger of Sierra Rutile.

Iluka is a market leader in the supply of zircon and high grade titanium feedstocks, the latter encompassing the products synthetic rutile and rutile. The company is also developing a significant rare earths business based in Australia. This is underpinned by its cornerstone Eneabba project where Iluka is developing a fully integrated rare earths refinery.

With over 900 direct employees, Iluka has operations in Australia; a diverse pipeline of development projects; a strong exploration programme; and a globally integrated marketing network.

The company has an established track record of safe, responsible operations that minimise the impact of mining and processing activities on the environment. Rehabilitation efforts are focussed on current and former sites in Australia and the United States.

Post Demerger, Iluka will continue to be listed on the ASX, with its corporate headquarters located in Perth, Western Australia.

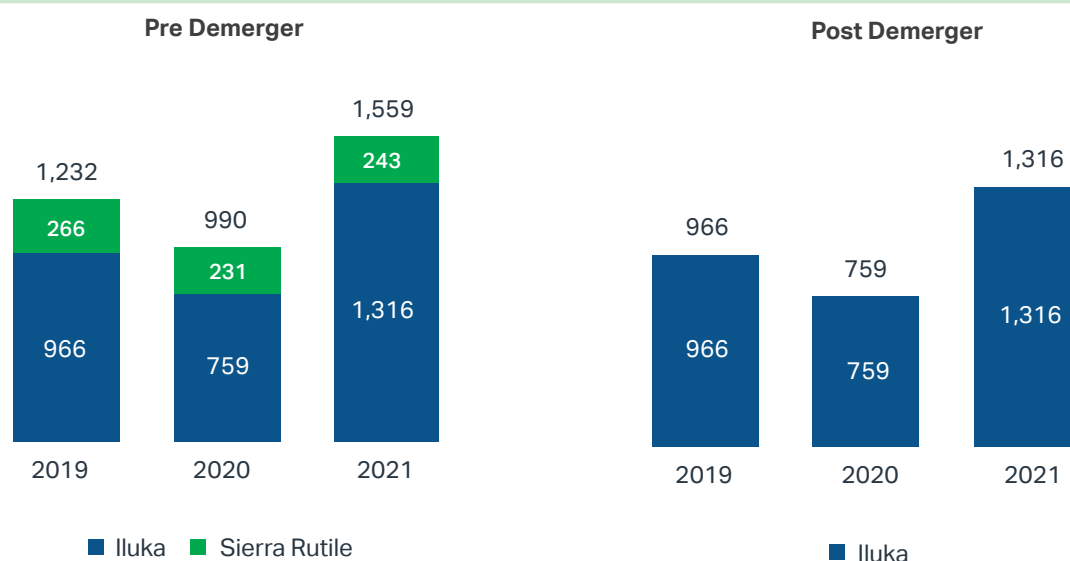
FIGURE 4.1 ILUKA'S OPERATIONS – MINERAL SANDS



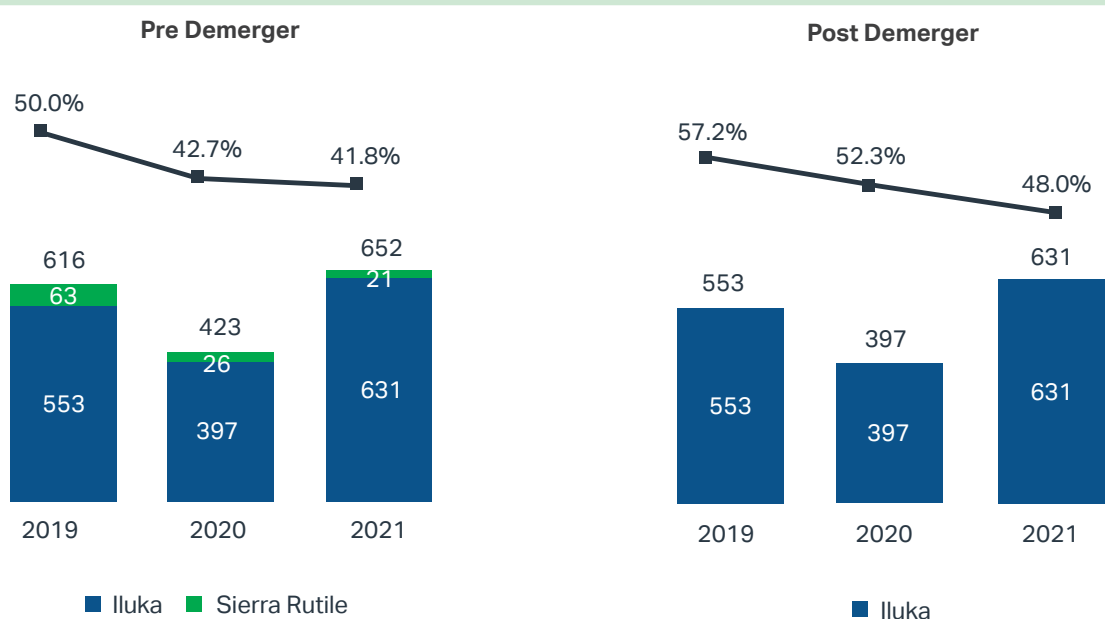
Iluka's mineral sands business has – on an underlying pro forma basis – historically generated significant revenue and underlying EBITDA, including strong underlying EBITDA margins, as shown in Figure 4.2 below. A reconciliation between underlying EBITDA and the reported profit/(loss) after tax can be found in Section 4.7.3.

FIGURE 4.2 ILUKA UNDERLYING SEGMENT REVENUE AND EBITDA PRE AND POST DEMERGER

Revenue by business (A\$ million)



Underlying EBITDA by business and EBITDA margin (A\$ million; %)



4.2 KEY STRENGTHS OF ILUKA (POST DEMERGER)

1. Positive long-term market fundamentals for mineral sands	<ul style="list-style-type: none"> ✓ Iluka operates in markets that are correlated strongly with global GDP and rising living standards, such as construction, transportation, power generation, medical, lifestyle and industrial ✓ Trends towards sustainable development are anticipated to support increasing demand for zircon, High Grade Feedstocks and rare earths, which collectively have key applications in renewable energy technologies
2. Portfolio of quality mineral sands production and development assets	<ul style="list-style-type: none"> ✓ Iluka operates high quality mining and processing mineral sands assets, and is a major global producer of rutile, zircon and synthetic rutile ✓ Mining operations include Jacinth-Ambrosia and Cataby, and processing operations include the Narngulu MSP and Capel synthetic rutile processing ✓ Iluka has a portfolio of development projects to maintain or grow production over the medium term. See Section 4.3.3 for details
3. Highly strategic rare earths business	<ul style="list-style-type: none"> ✓ Iluka is building a globally significant rare earths business based in Australia, underpinned by its cornerstone Eneabba project. This will see the development of a fully integrated refinery for the production of separated rare earth oxides
5. Value driven marketing model	<ul style="list-style-type: none"> ✓ Iluka employs a value driven marketing model, focused on high value, high margin products ✓ Iluka's two traditional product streams – zircon and High Grade Feedstocks – have different customers, different industry dynamics and consequently require different marketing strategies ✓ Rare earths are a group of 17 chemical elements, and Iluka's focus is on high value elements that are critical to the development of permanent magnets used in electric vehicles and wind turbines, amongst other things
6. Strong balance sheet and disciplined approach to capital allocation	<ul style="list-style-type: none"> ✓ Iluka's strong balance sheet will be retained post Demerger, with a pro forma net cash position of A\$154 million and undrawn committed debt facilities of approximately A\$512 million as at 31 December 2021 ✓ Post Demerger, Iluka will continue to employ a disciplined capital allocation approach to evaluating new projects
7. Experienced board and management team	<ul style="list-style-type: none"> ✓ Iluka will continue to be led by an experienced board and management team, with a breadth of experience spanning the operational, commercial and sustainable development dimensions of the resources sector

4.3 BUSINESS OVERVIEW

4.3.1 PRODUCTS OVERVIEW

Iluka engages in the mining and processing of the two core product streams of the mineral sands industry:



- **titanium feedstocks** – in which Iluka participates predominantly in the very high grade chloride segments of rutile and synthetic rutile (High Grade Feedstocks); and
- **zircon** – in which Iluka participates with a portfolio of products targeted at specific user applications.

In the rare earths industry, Iluka is developing a fully integrated rare earths refinery with cracking and leaching and separation and finishing plants to produce rare earth oxides (**REO**). Iluka's REO are a critical input to permanent magnets which are used in a range of sustainable energy technologies including electric vehicles and wind turbines.

Following the development of its refinery, Iluka intends to sell a wide range of potential down-stream rare earth oxide products, including neodymium, praseodymium, dysprosium and terbium.

4.3.2 ILUKA KEY OPERATIONS

The following outlines Iluka's key operational assets post Demerger. A reconciliation between underlying EBITDA and the reported profit/(loss) after tax can be found in Section 4.7.3.

Business Division	Description	Z/R/SR Production (kt)	Revenue (A\$ million)	CY 21	
				Underlying EBITDA contribution (A\$ million)	Revenue contribution (%) (ex Sierra Rutile)
Jacinth-Ambrosia / Mid-West processing	<p>The Jacinth-Ambrosia operation in South Australia is the world's largest zircon mine.</p> <p>Comprising two contiguous deposits, Jacinth and Ambrosia, the mine is located approximately 800 km from Adelaide and 270 km from the Port of Thevenard.</p> <p>The Jacinth-Ambrosia operation encompasses mining and wet concentration activities with HMC transported to Iluka's Narngulu MSP in Western Australia for final processing.</p> <p>Eneabba based monazite concentrate sales are included in Jacinth-Ambrosia / Mid-West processing Revenue and EBITDA figures.</p>	301.5	599.6	383.1	
Cataby / South West processing	<p>Cataby is a large predominantly chloride ilmenite deposit, located approximately 150 km north of Perth, in the Shire of Dandaragan.</p> <p>Cataby produces two streams; an ilmenite rich concentrate for cleaning and upgrading to synthetic rutile at Capel, and a zircon/rutile rich concentrate for separation at Narngulu.</p> <p>Cataby material is processed into premium grade synthetic rutile at Iluka's SR2 kiln at Capel; and shipped out of the Port of Bunbury.</p>	284.6	639.1	339.7	

4.3.3 PROJECT PIPELINE

Iluka's project pipeline includes rare earths as well as both traditional mineral sands developments and those based on innovation and technology, drawing on Iluka's considerable technical expertise.

Each element of Iluka's project pipeline is developed and gated towards execution in a disciplined manner, subject to acceptable progress in the following areas:

1. confidence in satisfactory project risk-return attributes;
2. high level of strategic alignment to Iluka's core objective; and
3. sequenced to take advantage of the economic and market outlook.

In addition to the development projects outlined below, Iluka has an ongoing commitment to exploration activities globally, with these greenfield efforts forming an additional component of the company's approach.

Project	Overview
Balranald <i>(New South Wales)</i> <i>High grade titanium, Zircon</i>	<ul style="list-style-type: none"> Balranald is a rutile-rich deposit in the northern Murray Basin, New South Wales. Owing to its relative depth, Iluka is assessing the potential to develop this deposit via a novel, internally developed underground mining technology. The technology has the potential to enable access to the below surface ore body as an alternative to a traditional open pit operation. Effectiveness of the method was confirmed in July 2021, validating key elements of the mining unit design. Balranald's DFS funding was approved by Iluka's Board in August 2021. A final investment decision is planned for Q4 2022, subject to satisfactory study outcomes and Iluka Board approval.
SR1 Kiln Restart and South West Deposits <i>(Western Australia)</i> <i>High grade titanium, Zircon</i>	<ul style="list-style-type: none"> The synthetic rutile kiln 1 (SR1) is located adjacent to Iluka's operating synthetic rutile kiln 2 (SR2) in Capel, Western Australia. SR1 was placed on care and maintenance in 2009. Iluka announced the execution of the restart of SR1 in August 2021. The restart represents a capital efficient, low risk opportunity to produce an additional 110kt of synthetic rutile per annum, in light of industry supply constraints. Start-up remains on track for Q4 2022 with feedstock to support an initial 24 month campaign secured from internal and external sources. Options to extend production, subject to feedstock availability and market conditions, will continue to be evaluated. Iluka retains a number of tenements in south Western Australia containing chloride ilmenite suitable as a feedstock to the synthetic rutile kilns. A preliminary feasibility study to develop these deposits is underway.
Atacama <i>(South Australia)</i> <i>Zircon, High grade titanium</i>	<ul style="list-style-type: none"> Atacama is a satellite deposit located approximately 5-10 kilometres north-east of Iluka's existing operations at Jacinth-Ambrosia in South Australia. Atacama has a high zircon and ilmenite assemblage. The project represents a logical extension for the operation at Jacinth-Ambrosia with the potential to supplement and extend zircon production by utilising existing infrastructure. The deposit could also provide a meaningful supply of ilmenite, subject to a processing solution to address impurities. Work in 2021 was focused on determining such a technical solution, with pleasing progress made. Atacama's PFS is focused on increasing technical and commercial confidence as well as advancing project approvals.

Project	Overview
Wimmera <i>(Victoria)</i> <i>Zircon, Rare earths, High grade titanium</i>	<ul style="list-style-type: none"> Wimmera is a large-scale, fine grained heavy minerals sands deposit located in the Murray Basin, Western Victoria. The project has the potential to support long-term supply of ceramic-grade zircon and rare earths. One characteristic shared by the fine grained mineral sands deposits located in Western Victoria is higher levels of impurities (Uranium and Thorium) in their zircon. Absent a processing solution to remove these impurities, the zircon is ineligible for sale into most markets, including ceramics. Iluka is progressing a novel, internally developed processing solution to reduce the impurities. Larger scale piloting was commissioned in Q4 2021 and purified zircon has been recovered, with favourable ceramic properties and low uranium and thorium. Test work to inform economic feasibility is underway and will continue through 2022. The rare earth bearing minerals at Wimmera are very similar to those stockpiled at Eneabba and could supplement feed to Iluka's potential downstream refining activities at Eneabba in future years.
Euston <i>(New South Wales)</i> <i>Zircon, High grade titanium</i>	<ul style="list-style-type: none"> The Euston deposit is a traditional mineral sands deposit located in western New South Wales. The deposit has significant zircon and rutile assemblages, with ilmenite feedstock as a possible supplement for Iluka's synthetic rutile kilns. The Euston project was added to Iluka's development pipeline in the first half of 2021. The development would be a traditional open cut, dry mine. A PFS for Euston is currently underway.
Eneabba <i>(Western Australia)</i> <i>Rare earths</i>	<ul style="list-style-type: none"> Iluka's Eneabba stockpile is the world's highest grade operational rare earths deposit. Iluka has taken an incremental approach to Eneabba's development. In April 2022, Iluka announced its final investment decision for Eneabba Phase 3, a fully integrated refinery for the production of separated rare earth oxides at Eneabba, Western Australia. The decision was taken following the agreement of a risk sharing arrangement with the Australian Government, including a A\$1.25 billion non-recourse loan under the A\$2 billion Critical Minerals Facility administered by Export Finance Australia. Eneabba Phase 3 has been designed to be a multi-generational asset for the downstream processing of Australia's rare earth resources.

4.4 EXPECTED IMPACT OF THE DEMERGER ON ILUKA'S CAPITAL STRUCTURE

Iluka has and will continue to take a conservative approach to its capital structure. This approach will be unchanged following the Demerger.

Iluka will continue to have a strong balance sheet, including a net cash position of A\$154 million (at 31 December 2021) post pro forma adjustments, and unsecured committed debt facilities via a Multi Option Facility Agreement (**MOFA**) of approximately A\$512 million (at 31 December 2021) which are due to expire in July 2024. Iluka will also have access to its A\$1.25 billion non-recourse loan under the Australian Government's A\$2 billion Critical Minerals Facility, administered by Export Finance Australia, to fund the development of Eneabba. Refer to ASX announcement Eneabba Rare Earths Refinery – Final Investment Decision, released 4 April 2022, for further detail.

Iluka intends to maintain adequate liquidity facilities to manage periods of heightened capital investment and provide operational flexibility.

In addition, Iluka's pro forma inventory balance of A\$499 million as at 31 December 2021 and its 20% stake in Deterra Royalties Ltd, an ASX-listed royalty portfolio manager, will provide further balance sheet strength.

The company will continue to employ a disciplined approach to evaluating new projects and will only commit funds when it is sufficiently confident of achieving satisfactory returns for shareholders on a risk adjusted basis.

4.5 EXPECTED IMPACT OF THE DEMERGER ON ILUKA DIVIDENDS

Post Demerger, Iluka will maintain its current dividend framework to pay dividends equal to 100 per cent of dividends received from Deterra Royalties and a minimum of 40 per cent of free cash flow from the mineral sands business not required for investing or balance sheet activity. Iluka will seek to distribute the maximum franking credits available.

4.6 ILUKA BOARD AND SENIOR MANAGEMENT TEAM AFTER THE DEMERGER

In connection with the Demerger, Theuns de Bruyn will retire from Iluka's senior management team and continue his role with Sierra Rutile (which role is to be renamed Managing Director and Chief Executive Officer).

No other changes will be made to the Iluka Board or senior management team as a result of the Demerger.

Detailed biographies of the Iluka Board and senior management team can be found at www.iluka.com.

4.7 ILUKA PRO FORMA HISTORICAL FINANCIAL INFORMATION

4.7.1 OVERVIEW

This Section 4.7 contains historical financial information of Iluka (hereafter the **Iluka Historical Financial Information**) comprising:

- the historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021;
- the historical balance sheet as at 31 December 2021; and
- the historical free cash flow for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

This Section also contains the following pro forma historical financial information of Iluka following the Demerger (hereafter the **Iluka (post Demerger) Pro Forma Historical Financial Information**) comprising:

- the pro forma historical income statements of Iluka (post Demerger) for the years ended 31 December

2019, 31 December 2020 and 31 December 2021;

- the pro forma historical balance sheet of Iluka (post Demerger) as at 31 December 2021; and
- the pro forma historical free cash flows of Iluka (post Demerger) for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

The financial information in this Section 4.7 is presented in Australian dollars unless otherwise stated.

4.7.2 BASIS OF PREPARATION

4.7.2.1 ILUKA HISTORICAL FINANCIAL INFORMATION

The Iluka Historical Financial Information has been derived from the financial statements of Iluka, which were audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards and Interpretations. PricewaterhouseCoopers issued unqualified audit opinions on these financial statements. The financial statements for these periods are available from Iluka's website (www.iluka.com) or the ASX website (www.asx.com.au).

The Iluka Historical Financial Information has been prepared in accordance with the recognition and measurement principles contained in Australian Accounting Standards (**AAS**) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (**AASB**), which comply with the recognition and measurement principles of the International Accounting Standards Board and interpretations adopted by the International Accounting Standard Board.

4.7.2.2 ILUKA (POST DEMERGER) PRO FORMA HISTORICAL FINANCIAL INFORMATION

The Iluka (post Demerger) Pro Forma Historical Financial Information has been prepared for illustrative purposes, to assist Iluka's Shareholders in understanding the impact of the Demerger and the financial performance, financial position and cash flows of Iluka (post Demerger). By its nature, pro forma historical financial information is illustrative only. Consequently, the Iluka (post Demerger) Pro Forma Historical Financial Information does not purport to reflect the actual or future financial performance or cash flows for the relevant period, nor does it reflect the actual financial position of Iluka (post Demerger) at the relevant time.

The Iluka (post Demerger) Pro Forma Historical Financial Information has been prepared in accordance with AAS and has been prepared on a consistent basis to the accounting policies set out in Iluka's annual report for the year 31 December 2021.

The AAS are subject to amendments from time to time, and any such changes may impact the balance sheet or income statement of Iluka (post Demerger). Iluka adopted AASB 16 Leases, effective from 1 January 2019. No further AAS amendments were noted for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. As such, there are no retrospective pro forma adjustments to be

applied to any previous historical periods, as all periods presented have adopted consistent accounting standards.

In addition, following the Demerger, Iluka may be impacted by accounting policies adopted which are different to existing policies, and differences in interpretations of AAS.

The financial information in this Section 4.7 is presented in an abbreviated form and does not contain all of the presentation, comparatives and disclosures that are usually provided in an annual financial report prepared in accordance with the Corporations Act. The Independent Accountant has prepared an Independent Limited Assurance Report in respect of the Iluka Historical Financial Information and Iluka (post Demerger) Pro Forma Historical Financial Information, a copy of which is included in Section 7.

The financial information in this Section should be read in conjunction with the risk factors set out in Section 4.8.

The Iluka (post Demerger) Pro Forma Historical Financial Information has been derived from the Iluka Historical Financial Information and adjusted for the effects of pro forma adjustments to reflect the impact of certain transactions as if they occurred as at 31 December 2021 in the pro forma historical balance sheet and immediately prior to 1 January 2019 in the pro forma historical income statements and pro forma historical free cash flows.

Pro forma adjustments have been made to the Iluka (post Demerger) pro forma historical income statements to reflect:

- deconsolidation of Sierra Rutile from Iluka.

Pro forma adjustments have been made to the Iluka (post Demerger) pro forma historical balance sheet to reflect:

- dividends paid to Iluka shareholders prior to the Demerger;
- settlement of the IFC put option;
- impairment reversal of Sierra Rutile amounts relating to Sembehun mine development previously impaired;
- establishment of the Rehabilitation Trust;
- deconsolidation of Sierra Rutile from Iluka; and
- transaction costs arising from the Demerger including financial advisory fees, legal fees and other advisory services.

No pro forma adjustments have been recognised for the historical demerger of Deterra Royalties Limited.

The Iluka (post Demerger) pro forma historical free cash flows set out in Section 4.7.10 are presented as cash flows after net capital expenditure, asset sales, principal element of lease payments under AASB 16, payments for option contracts, dividends from Iluka's equity investment, finance costs and tax.

4.7.3 EXPLANATION OF CERTAIN NON-IFRS FINANCIAL MEASURES

This document uses non-IFRS financial information which is used to measure operational performance. Non-IFRS measures are unaudited but derived from audited accounts. The principal non-IFRS financial measures referred to in this Section are as follows:

- **EBIT** is reported earnings before the following:
 - Interest income, interest expense and finance costs;
 - rehab and mine closure discount unwind; and
 - income tax expense.
- **Underlying Group EBITDA** excludes non-recurring adjustments including write-downs, Sierra Rutile Limited transaction costs, the gain on the demerger of Deterra Royalties, and changes to rehabilitation provisions for closed sites.
- **Free cash flow** is net cash flow before proceeds/repayment of borrowings, proceeds on issue of shares and dividends paid in the year.

4.7.4 ILUKA HISTORICAL INCOME STATEMENTS

Set out below are Iluka's historical income statements for the years ended 31 December 2019, and 31 December 2020, and 31 December 2021.

TABLE 4.1 ILUKA HISTORICAL INCOME STATEMENTS

A\$m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Revenue		1,231.7	990.0	1,558.9
Other Income		(1.7)	(0.8)	9.6
Expenses		(699.1)	(647.2)	(934.6)
Share of gains/(losses) of investments accounted for using the equity method	1	-	0.1	18.4
EBITDA from discontinued operations	1	85.1	81.0	-
Underlying Group EBITDA		616.0	423.1	652.3
Depreciation and amortisation expense		(163.2)	(184.8)	(171.2)
Write-down of Sierra Rutile Limited		(414.3)	-	-
Inventory movement – non cash		15.5	39.9	(12.6)
Changes in rehabilitation provision recognised in profit and loss		(3.2)	7.2	60.8
Gain/(loss) on re-measurement of Sierra Rutile put option		-	19.4	(3.4)
Impairment of exploration assets		-	(12.4)	(6.3)
Net gain on demerger of discontinued operations	1	-	2,246.8	-
EBIT		50.8	2,539.2	519.6
Interest and finance charges		(13.8)	(7.1)	(5.7)
Rehab and mine closure discount unwind		(38.0)	(26.6)	(8.9)
Total finance costs		(51.8)	(33.7)	(14.6)
Profit/(loss) before income tax		(1.0)	2,505.5	505.0
Income tax expense		(298.7)	(95.5)	(139.1)
Historical profit/(loss) after tax		(299.7)	2,410.0	365.9

Notes:

- During 2020, Iluka undertook a demerger of its royalty business, Deterra Royalties Ltd, which completed in November of that year, with Iluka retaining a 20% equity interest in the new company. Iluka's reported profit after tax from discontinued operations includes the MAC royalty revenue earned prior to the demerger and in 2020, a demerger gain of \$2,247 million. For 2021, the share of gains/ losses of investments accounted for using the equity method reflects Iluka's 20% interest in Deterra Royalties Ltd's results for the period.

4.7.5 ILUKA MANAGEMENT COMMENTARY ON HISTORICAL RESULTS

Iluka's reported loss after tax for 2019 was \$300 million. This includes a \$414 million write-down of the carrying value of assets at Sierra Rutile operations and the removal of \$162 million of associated deferred tax assets. The adjustment to the Sierra Rutile carrying value was a function of operational performance achieved being below Iluka's 2016 acquisition investment case; and that Iluka did not have a defined development approach for the Sembehun deposit, resulting in difficulties in ascribing meaningful value to that asset. Underlying EBITDA in 2019, which excludes impairment and other non-cash items was \$616 million, continuing on the strong performance in 2018, though mineral sands revenue of \$1,193 million was down 4% from 2018 reflecting mixed market conditions as higher prices were offset by lower sales volumes as markets felt subdued business and consumer confidence.

During 2020, Iluka undertook a demerger of its royalty business, Deterra Royalties Ltd, which completed in November, with Iluka retaining a 20% equity interest in the new company. Iluka's reported profit after tax for 2020 was \$2,410 million, inclusive of a \$2,247 million gain from the demerger of 80% of Iluka's royalty business. Mineral sands revenue decreased 21% from 2019, with an underlying EBITDA of \$423 million. This reflects the early impacts of the global pandemic, which had a significant impact on the mineral sands end markets and drove a decline in demand for Iluka's products, though results improved through the second half of 2020.

Iluka's reported profit after tax for 2021 was \$366 million, driven by a 43% mineral sands EBITDA margin and underlying group EBITDA of \$652 million. Mineral sands revenue achieved \$1,486 million in 2021, up 57% from 2020. Zircon sales

volumes increased 48% to 355 thousand tonnes with ceramics markets rebounding following the COVID-19 shutdowns in 2020. Demand remained strong through the year. Iluka's weighted average zircon sand price increased from US\$1,291 per tonne in Q4 2020 to US\$1,590 per tonne in Q4 2021. High grade titanium feedstock markets also saw an increase in demand in 2021. The increase in rutile sales reflected strong demand, including in welding markets. Iluka's weighted average rutile price (excluding HyTi) increased 4% from 2020. FY21 earnings include \$18m of net equity accounted gains from its 20% equity interest in Deterra Royalties, Earnings from Deterra Royalties in FY19 and FY20 were reflected in EBITDA from discontinued operations (on a 100% equity interest basis).

Further commentary on Iluka's historical financial results and the results of its business units is provided in Iluka's annual financial reports for the years ended 31 December 2019, 31 December 2020, and 31 December 2021. These reports are available on Iluka's website www.iluka.com or the ASX website at www.asx.com.au.

4.7.6 ILUKA (POST DEMERGER) PRO FORMA HISTORICAL INCOME STATEMENTS

Set out below are the Iluka (post Demerger) pro forma historical income statements for the years ended 31 December 2019, and 31 December 2020, and 31 December 2021. For the purposes of presenting the Iluka (post Demerger) pro forma historical income statement, the Iluka historical income statements have been adjusted for the effects of pro forma adjustments outlined in Section 2.2 to reflect the impact of certain transactions as if they occurred immediately prior to 1 January 2019.

TABLE 4.2 ILUKA (POST DEMERGER) PRO FORMA HISTORICAL INCOME STATEMENTS

A\$m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Revenue		966.0	759.1	1,316.0
Other Income		(4.5)	(1.7)	6.0
Expenses		(493.9)	(441.8)	(709.0)
Share of gains/(losses) of investments accounted for using the equity method	1	-	0.1	18.4
EBITDA from discontinued operations	1	85.1	81.0	-
Underlying EBITDA		552.7	396.7	631.4
Depreciation and amortisation expense		(88.6)	(112.6)	(128.0)
Inventory movement – non cash		17.5	38.0	(11.6)
Changes in rehabilitation provision recognised in profit and loss		(3.2)	4.1	20.4
Impairment of exploration assets		-	(12.4)	(6.3)
Net gain on demerger of discontinued operations	1	-	2,246.8	-
EBIT		478.4	2,560.6	505.9
Interest and finance charges		(13.7)	(6.9)	(5.6)
Rehab and mine closure discount unwind		(35.7)	(16.4)	(8.0)
Total finance costs		(49.4)	(23.3)	(13.6)
Profit/(loss) before income tax		429.0	2,537.3	492.3
Income tax expense		(124.3)	(87.4)	(134.5)
Historical profit/(loss)		304.7	2,449.9	357.8

Notes:

- During 2020, Iluka undertook a demerger of its royalty business, Deterra Royalties Ltd, which completed in November, with Iluka retaining a 20% equity interest in the new company. Iluka's 'Net gain on demerger of discontinued operations' includes the \$2,247 million gain recognised on the demerger of Deterra. From November 2020, the 'Share of gains/ (losses) of investments accounted for using the equity method' reflects Iluka's 20% interest in Deterra's results for the respective period.

4.7.7 RECONCILIATION OF ILUKA HISTORICAL INCOME STATEMENTS TO ILUKA (POST DEMERGER) PRO FORMA HISTORICAL INCOME STATEMENTS

Reconciliations of the Iluka historical income statements to the Iluka (post Demerger) pro forma historical income statements for the years ended 31 December 2019, 31 December 2020, and 31 December 2021 are shown in the following tables.

TABLE 4.3 RECONCILIATION OF ILUKA HISTORICAL PROFIT AFTER TAX TO ILUKA (POST DEMERGER) PRO FORMA HISTORICAL PROFIT AFTER TAX

A\$m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Historical profit/(loss) after tax		(299.7)	2,410.0	365.9
Deconsolidation of Sierra Rutile group	1	604.4	39.9	(8.1)
Pro forma historical profit/(loss) after tax		304.7	2,449.9	357.8

Notes:

1. This adjustment represents the deconsolidation of the Sierra Rutile group from Iluka on Demerger.

4.7.8 ILUKA HISTORICAL AND ILUKA (POST DEMERGER) PRO FORMA HISTORICAL BALANCE SHEET

The following table sets out the Iluka historical balance sheet and the Iluka (post Demerger) pro forma historical balance sheet as at 31 December 2021.

For the purposes of presenting the Iluka (post Demerger) pro forma historical balance sheet, the Iluka historical balance sheet has been adjusted for the effects of pro forma adjustments outlined in Section 2.2 to reflect the impact of certain transactions as if they had been effected and completed on 31 December 2021.

The Iluka (post Demerger) pro forma consolidated historical balance sheet has been prepared in order to give Iluka Shareholders an indication of Iluka's (post Demerger) balance sheet in the circumstances noted in this Section, and does not reflect the actual or prospective financial position of Iluka at the time of the Demerger.

TABLE 4.4 ILUKA HISTORICAL AND ILUKA (POST DEMERGER) PRO FORMA HISTORICAL BALANCESHEET

A\$m	As at 31 December 2021 [1]	Dividend [2]	Settlement of IFC put option [3]		Impairment reversal [4]	Establishment of the Rehabilitation Trust [5]		Demerger of SRL Group [6]	Transaction costs [7]	Post Demerger pro forma historical as at 31 December 2021
Cash and cash equivalents	294.8	(47.4)	(11.0)			(62.1)		(13.8)	(6.7)	153.8
Receivables	253.7							(59.9)		193.8
Inventories	489.7							(55.8)		433.9
Total current assets	1,038.2	(47.4)	(11.0)		-	(62.1)		(129.5)	(6.7)	781.5
Investments accounted for using the equity method	455.7							-		455.7
Property, plant and equipment	1,009.5			32.3				(37.1)		1,004.7
Deferred tax asset	39.1							-		39.1
Inventories	65.0							-		65.0
Right of use assets	28.7							(0.1)		28.6
Total non-current assets	1,598.0	-	(11.0)	32.3	32.3	-	(37.2)	(37.2)	-	1,593.1
Total assets	2,636.2	(47.4)	(11.0)	32.3	32.3	(62.1)	(166.7)	(166.7)	(6.7)	2,374.6
Payables	174.8							(32.9)		141.9
Derivative financial instruments	0.5							-		0.5
Current tax payable	28.5							(0.9)		27.6
Provisions	100.1							(8.5)		91.6
Lease liabilities	8.7							(0.1)		8.6
Total current liabilities	312.6							(42.5)	-	270.1
Provisions	690.8							(74.4)		616.4
Financial liabilities at fair value through profit and loss	11.0		(11.0)					-		-
Lease liabilities	27.2							-		27.2
Total non-current liabilities	729.0	-	(11.0)	(11.0)		-	(74.4)	(74.4)		643.6
Total liabilities	1,041.6	-	(11.0)	(11.0)		-	(116.9)	(116.9)		913.7
Net assets	1,594.6	(47.4)	-	32.3	32.3	(62.1)	(49.9)	(49.9)	(6.7)	1,460.8
Contributed equity	1,148.3	3.2						(76.0)		1,075.5
Retained earnings, reserves and non-controlling interests	446.3	(50.6)			32.3	(62.1)		26.1	(6.7)	385.3
Total Equity	1,594.6	(47.4)	-	32.3	32.3	(62.1)	(49.9)	(49.9)	(6.7)	1,460.8

Notes:

1. Iluka historical balance sheet as extracted from the Iluka audited financial statements for the year ended 31 December 2021.
2. Represents the dividend paid by Iluka to shareholders of \$47.4 million in cash and \$3.2 million via the dividend reinvestment plan on 7 April 2022. This has been raised as a pro forma adjustment to align to the latest equity position of Iluka (a typical pro forma adjustment).
3. In May 2022, Iluka agreed to settle the IFC put option for an amount of US\$8.0 million, equivalent to A\$11.0 million at an exchange rate of A\$:US\$ 0.7248.
4. On completion of the preliminary feasibility study over the Sembehun mine development, Sierra Rutile has recognised an impairment reversal of US\$23.4 million, equivalent to A\$32.3 million at an exchange rate of A\$:US\$ 0.7248 relating to its Sembehun assets which were historically impaired.
5. This adjustment represents the establishment of the US\$45m Sierra Rutile Rehabilitation Trust translated to AUD at an exchange rate of AUD:USD 0.7248.
6. This adjustment represents the deconsolidation of the Sierra Rutile group balance sheet from Iluka on Demerger. The adjustment includes the reported balance sheet of Sierra Rutile BVI as at 31 December 2021, inclusive of the adjustments for the IFC put option and settlement of borrowings. The value of the capital reduction will be determined in accordance with the demerger accounting method detailed in section 4.7.12 on Demerger implementation.
7. Represents Iluka's share of the estimated Demerger transaction costs arising as a result of the Demerger. This includes financial advisory fees, legal fees, accounting and taxation advice.

4.7.9 ILUKA HISTORICAL FREE CASH FLOW

Set out below are Iluka's historical free cash flow for the years ended 31 December 2019, and 31 December 2020, and 31 December 2021.

TABLE 4.5 ILUKA HISTORICAL FREE CASH FLOW

A\$m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Historical operating cash flows from continuing operations		243.7	32.8	354.9
Historical operating cash flows from discontinued operations	1	78.5	78.9	-
Capital expenditure		(197.5)	(71.2)	(53.6)
Asset sales		2.0	5.1	2.0
Principal element of lease payment AASB 16		(8.2)	(9.3)	(6.6)
Payments for options contracts		-	-	(0.1)
Dividends received - Deterra	1	-	-	14.8
Historical free cash flow		118.5	36.3	311.4

Notes:

1. Reflects the historical operating cash flows for Deterra Royalties Ltd up to the Deterra demerger in November 2020. This is subsequently replaced with dividend income in FY21 (included in operating cash flows from continuing operations), reflecting Iluka's 20% retained investment in Deterra.

4.7.10 ILUKA (POST DEMERGER) PRO FORMA HISTORICAL FREE CASH FLOW

Set out below are the Iluka (post Demerger) pro forma historical free cash flows for the years ended 31 December 2019, 31 December 2020 and 31 December 2021. For the purposes of presenting the Iluka (post Demerger) pro forma historical free cash flows, the Iluka historical free cash flows have been adjusted for the effects of pro forma adjustments outlined in Section 2.2 to reflect the impact of certain transactions as if they occurred immediately prior to 1 January 2019.

TABLE 4.6 ILUKA (POST DEMERGER) PRO FORMA HISTORICAL FREE CASH FLOW

A\$m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Pro forma historical operating cash flow		210.4	(3.9)	350.7
Historical operating cash flows from discontinued operations	1	78.5	78.9	-
Capital expenditure		(125.8)	(49.5)	(53.6)
Asset sales		2.0	5.1	2.0
Principal element of lease payment AASB 16		(8.2)	(9.3)	(6.6)
Payments for options contracts		-	-	(0.1)
Dividends received - Deterra	1	-	-	14.8
Pro forma historical free cash flow		156.9	21.3	307.2

Notes:

1. Reflects the historical operating cash flows for Deterra Royalties Ltd up to the Deterra demerger in November 2020. This is subsequently replaced with dividend income in FY21 (included in operating cash flows from continuing operations), reflecting Iluka's 20% retained investment in Deterra.

4.7.11 RECONCILIATION OF ILUKA HISTORICAL FREE CASH FLOW TO ILUKA (POST DEMERGER) PRO FORMA HISTORICAL FREE CASH FLOW

Reconciliations of the Iluka historical free cash flow to the Iluka (post Demerger) pro forma historical free cash flow for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 are shown in the following tables.

TABLE 4.7 RECONCILIATION OF ILUKA HISTORICAL FREE CASH FLOW TO ILUKA (POST DEMERGER) PRO FORMA HISTORICAL FREE CASH FLOW

A\$m	Notes	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Historical free cash flow		118.5	36.3	311.4
Deconsolidation of Sierra Rutile	1	38.4	(15.0)	(4.2)
Pro forma historical free cash flow		156.9	21.3	307.2

Notes:

1. Represents the deconsolidation of Sierra Rutile group cash flows from the Iluka group under the proposed Demerger.

4.7.12 DEMERGER ACCOUNTING

Accounting for demerger transactions is addressed in AASB Interpretation 17 Distributions of Non-cash Assets to Owners. This interpretation requires that any obligations for distributions made by a company to its shareholders should be recognised and measured under AASB 137 Provisions, Contingent Liabilities and Contingent Assets and that all liabilities for distributions payable should be measured in accordance with AASB 137 at the fair value of the assets to be distributed.

The fair value of the assets of Sierra Rutile will be determined by reference to the Sierra Rutile Shares as traded on the ASX (whether on an ordinary or deferred settlement basis).

The difference between the fair value of all Sierra Rutile Shares transferred to Iluka Shareholders (or the Sale Agent in respect of Selling Shareholders) by Iluka under the Demerger and Iluka's investment in Sierra Rutile will be recognised as profit on Demerger. AAS does not provide guidance as to where a debit to equity should be recorded for the recognition of a distribution liability in the balance sheet to the company making the distribution. The value of the Capital Reduction is to be determined in accordance with the methodology set out in the definition of Capital Reduction Amount in the Glossary. The difference between fair value of all Sierra Rutile shares transferred by Iluka and the Capital Reduction will be recognised as a dividend.

On the Effective Date, Iluka will recognise a provision based on the estimated fair value of Sierra Rutile Shares, which is expected to exceed Sierra Rutile's book value of its net assets. This provision will be settled through the transfer of the Sierra Rutile Shares under the Demerger. At that time, the difference between the book value of the net assets transferred and the fair value of Sierra Rutile Shares will be recognised as income to Iluka and included in Iluka's FY2022 income statement within discontinued operations. As outlined above, the Demerger allocation between capital and dividend will be determined at the time the Demerger of the Sierra Rutile Shares takes place. For illustrative purposes only, a range of fair values and the implied capital reduction and dividend on demerger are set out below.

TABLE 4.8 IMPLIED CAPITAL REDUCTION AND DIVIDEND

Sierra Rutile fair value per the share price (A\$cps)	47	71	94
Implied market capitalisation (A\$m)	200	300	400
Capital reduction (A\$m)	51	76	101
Implied dividend (A\$m)	149	224	299
# of Shares (m)	424.2	424.2	424.2

4.7.13 DEMERGER COSTS

The total one-off transaction costs of the Demerger are estimated to be approximately A\$7.5 million (pre-tax), including some discretionary performance fees payable to advisors.

One-off transaction costs relate to a range of activities associated with the Demerger, including advisory fees and restructuring costs associated with separating Sierra Rutile and Iluka. These costs are summarised as follows:

- Costs to be incurred by Iluka of A\$6.7 million including:
 - advisory costs of A\$6.0 million, consisting of A\$3.4 million in financial advisory costs, A\$1.9 million in legal advisory fees and A\$0.8 million in accounting, tax and other advisory fees;
 - separation costs of A\$0.7 million comprising A\$0.6 million in ASX listing and share registry fees to allow Sierra Rutile to operate as an independent entity and A\$0.1 million in estimated IT costs; and
- costs to be incurred by Sierra Rutile of A\$0.8 million including:
 - A\$0.5 million in financial advisory costs and A\$0.2 million in legal advisory fees; and
 - rebranding & organisation costs of A\$0.1 million for website development and payroll systems set-up.

These costs are estimates, and the actual costs incurred may differ from these estimated costs, and the difference may be significant.

4.7.14 DIVIDEND POLICY AND FRANKING

Iluka's current dividend policy is to pay 100% of dividends received from Deterra Royalties and pay a minimum of 40% of free cash flow from the mineral sands business not required for investing or balance sheet activity. Decisions relating to dividend policy post Demerger will depend on Iluka's available franking credits, earnings, cash flows and target credit metrics. Notwithstanding this, Iluka's dividend policy is not expected to change and will continue to consider Deterra Royalties dividends, free cash flow generation, profit generation and availability of franking credits.

4.7.15 MATERIAL CHANGES IN FINANCIAL POSITION SINCE THE MOST RECENT BALANCE DATE

The most recent published financial statements of Iluka are provided in the financial report for the year ended 31 December 2021, which was released to the ASX on 24 February 2022. To the knowledge of Iluka Directors, there has not been any material change in the financial position of Iluka since 31 December 2021, except as disclosed in the 31 December 2021 audited financial report, this Demerger Booklet or otherwise in announcements to the ASX.

Iluka will provide, free of charge, a copy of this most recent financial report to any person who requests a copy, and is also available on www.iluka.com.

4.8 RISK FACTORS ASSOCIATED WITH AN INVESTMENT IN ILUKA SHARES POST DEMERGER

The risks currently faced by Iluka will continue to be faced by the company following the Demerger. Investors are already exposed to these risks through their investment in Iluka, and these are disclosed each year in the company's Annual Report. The nature of some of these risks may be altered as a result of the Demerger.

A summary of key risks is set out below:

- fluctuations in commodity prices and impacts of ongoing global volatility may negatively affect Iluka's results;
- Iluka's financial results may be negatively affected by currency exchange rate fluctuations;
- reduction in demand for Iluka's commodities may adversely affect Iluka;
- continuity of business operations, planned growth initiatives or demand for Iluka's commodities may be negatively impacted or delayed due to the COVID-19 pandemic;
- Iluka's customers may seek to reduce commitments under take-or-pay contracts, or may default on the contract terms, which would negatively impact Iluka's revenues;
- actions by governments or political events in the countries in which Iluka operates, has non-operating assets or sells products that could have a negative impact on Iluka;
- failure to discover or acquire new reserves, maintain or enhance existing reserves or develop new operations could negatively affect Iluka's future results and financial condition;
- potential changes to Iluka's portfolio of assets following the Demerger through acquisitions and divestments may have a material adverse effect on Iluka's future results and financial condition;
- increased costs and schedule delays may adversely affect Iluka's development projects;
- if Iluka's liquidity and cash flow deteriorate significantly, it could adversely affect Iluka's ability to fund its major capital programs;
- Iluka may not recover its investments in mining assets, which may require financial write-downs;
- the commercial counterparties Iluka transacts with may not meet their obligations which may negatively impact Iluka's results;
- cost pressures and reduced productivity could negatively impact Iluka's operating margins and expansion plans;
- unexpected natural and operational catastrophes may adversely impact Iluka's operations;
- breaches in Iluka's information technology security processes may adversely impact the conduct of Iluka's business activities;
- health, safety, environment and community incidents or accidents and related regulations may adversely affect Iluka's operations and reputation or licence to operate;
- climate change and greenhouse gas effects may adversely impact Iluka's operations and markets; and
- a breach of Iluka's governance processes may lead to regulatory penalties and loss of reputation.

5. Details of the Demerger



5.1 CONDITIONS PRECEDENT TO THE DEMERGER

Implementation of the Demerger remains subject to a number of conditions being satisfied or waived. The key conditions are summarised below:

- a. the requisite majority of the Iluka Shareholders passing the Demerger Resolution;
- b. no order or injunction being issued by any court of competent jurisdiction and no other legal restraining order or prohibition preventing the Demerger being in effect;
- c. all regulatory approvals required for the Demerger being obtained (either unconditionally or on conditions reasonably satisfactory to Iluka and Sierra Rutile);
- d. the establishment of a US\$45 million cash funded rehabilitation trust in respect of the Sierra Rutile Group's estimated environmental rehabilitation liabilities as at 31 December 2021; and
- e. ASX approving the admission of Sierra Rutile to the ASX Official List and granting permission for official quotation of Sierra Rutile Shares on ASX.

The end date for satisfaction or waiver of these conditions is 30 September 2022 (or such other date determined by Iluka and Sierra Rutile).

5.2 ILUKA RESTRUCTURE AND SIERRA RUTILE SEPARATION

5.2.1 OVERVIEW

To establish Sierra Rutile Group as the owner of the Sierra Rutile business as described in Section 2, asset and share transfers and other commercial arrangements have been, or will be, implemented in connection with the Demerger. Agreements to enable these steps have been entered into and completion of the steps will occur before implementation of the Demerger. A summary of these agreements is set out in Section 5.9.1.

5.2.2 CAPITAL STRUCTURE AND FUNDING

As part of the implementation of the Demerger, it is necessary to establish an appropriate, standalone capital structure for Sierra Rutile.

Accordingly:

- all inter-company loans between Sierra Rutile and Iluka will be repaid, eliminated or discharged prior to the implementation of the Demerger; and
- Sierra Rutile will have no debt and a cash balance of approximately US\$20.7 million (at 31 May 2022), post pro forma adjustments.

Other than in connection with the capital restructuring of Sierra Rutile required for the Demerger and to satisfy the remuneration commitments made to its executives, Sierra Rutile has not issued any capital for the three months before the date of this Demerger Booklet and does not expect that it will need to raise any capital in the three months after the date of this Demerger Booklet.

5.2.3 DEED OF CROSS GUARANTEE

Iluka and certain of its subsidiaries are parties to a deed of cross guarantee in accordance with ASIC Corporations (Wholly owned Companies) Instrument 2016/785. Sierra Rutile is a party to the Iluka deed of cross guarantee. A revocation deed will be lodged with ASIC on the date of this Demerger Booklet to revoke the participation of Sierra Rutile in the Iluka deed of cross guarantee. The revocation deed will take effect on 21 December 2022 provided that no party to the Iluka deed of cross guarantee goes into liquidation during that six month period after lodgement with ASIC.

5.3 VOTING ON THE DEMERGER RESOLUTION

The Iluka Board has convened the Extraordinary General Meeting to consider and, if through fit, approve the Demerger Resolution. The terms of the Demerger Resolution are set out in the notice convening the Extraordinary General Meeting in Section 11.

Each Iluka Shareholder who is registered on the Iluka Share Register at 5.00pm (AWST) on Wednesday, 20 July 2022 is entitled to attend the Extraordinary General Meeting and vote on the Demerger Resolution.

For the Demerger to proceed, the Demerger Resolution must be approved by a majority of votes cast on the Demerger Resolution.

5.4 IMPLEMENTATION OF THE DEMERGER

5.4.1 ILUKA STEPS

It is expected that the Demerger will be implemented on Thursday, 4 August 2022.

On the Implementation Date:

- Iluka will undertake the Capital Reduction and will apply the Dividend. The Capital Reduction and Dividend will be satisfied by the in specie distribution of the Sierra Rutile Shares to the Eligible Shareholders (and the Sale Agent in respect of Ineligible Overseas Shareholders and Selling Shareholders); and
- each Eligible Shareholder (other than Selling Shareholders) will receive one Sierra Rutile Share for every Iluka Share it is registered as holding as at the Record Date.

5.4.2 INELIGIBLE OVERSEAS SHAREHOLDERS AND SELLING SHAREHOLDERS

In the case of Ineligible Overseas Shareholders and Selling Shareholders, the Sierra Rutile Shares which those shareholders would otherwise have received under the Demerger will be transferred to the Sale Agent to be sold. The proceeds of sale will be remitted to the Ineligible Overseas Shareholders and Selling Shareholders, as set out in Sections 5.5.2 and 5.8.2.

5.4.3 CONFIRMATION OF SIERRA RUTILE SHAREHOLDINGS

The transfer and distribution of Sierra Rutile Shares referred to above will be achieved by:

- in the case of the transfer of Sierra Rutile Shares to Eligible Shareholders (other than Selling Shareholders) pursuant to the Demerger, Iluka procuring the execution of and the delivery to Sierra Rutile of the transfers of the relevant Sierra Rutile Shares, pursuant to Iluka's constitution;
- entry in the Sierra Rutile Share Register of the names of Eligible Shareholders (other than Selling Shareholders); and
- Iluka procuring the dispatch to Eligible Shareholders (other than Selling Shareholders) by prepaid post to the person's address as shown in the Iluka Share Register as at the Record Date (unless directed otherwise by an Eligible Shareholder), uncertificated holding statements for the Sierra Rutile Shares transferred to them under the Demerger. In the case of joint Iluka Shareholders, uncertificated holding statements for Sierra Rutile Shares will be sent to the address of the Iluka Shareholder whose name appears first in the Iluka Share Register.

Except for the Australian tax file numbers and Australian business numbers of Eligible Shareholders (other than Selling Shareholders), any binding instruction or notification between an Eligible Shareholder (other than a Selling Shareholder) and Iluka relating to Iluka Shares as at the Record Date (including any instruction relating to payment of dividends or to communications from Iluka, including bank account details, email addresses and communication preferences) will, unless otherwise determined by Sierra Rutile, be deemed to be a similarly binding instruction or notification to Sierra Rutile in respect of relevant Sierra Rutile Shares until those instructions or notifications are, in each case, revoked or amended in writing addressed to Sierra Rutile at its share registry.

5.4.3.1 CREDITORS

In the opinion of the Iluka Directors, the Demerger will not, if implemented, materially prejudice Iluka's ability to pay its creditors.

The Independent Expert has concluded that the Demerger will not materially prejudice Iluka's ability to pay its creditors. Refer to Section 8 for the Independent Expert's Report.

5.5 ENTITLEMENT TO PARTICIPATE IN THE DEMERGER

5.5.1 ELIGIBLE SHAREHOLDERS

Iluka Shareholders whose addresses are shown in the Iluka Share Register on the Record Date as being in the following jurisdictions will be Eligible Shareholders and will receive Sierra Rutile Shares (unless they are Selling Shareholders):

- Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; and
- any other jurisdiction in which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer Sierra Rutile Shares to the Iluka Shareholder.

Certain Eligible Shareholders are entitled to participate in the Sale Facility – see Section 5.8.

5.5.2 INELIGIBLE OVERSEAS SHAREHOLDERS

Ineligible Overseas Shareholders are Iluka Shareholders whose addresses are shown in the Iluka Share Register on the Record Date as being in a jurisdiction outside the other jurisdictions referred to in Section 5.5.1.

Sierra Rutile Shares will not be transferred or distributed to Ineligible Overseas Shareholders. Instead, Sierra Rutile Shares which the Ineligible Overseas Shareholders would otherwise have received will be transferred to the Sale Agent to be sold under the Sale Facility.

Refer to Section 5.8 for more information on how the Sale Facility will operate.

5.5.3 DEALINGS IN ILUKA SHARES

Iluka Shareholders as at the Record Date will be eligible to participate in the Demerger (although the way in which an individual Iluka Shareholder participates will depend on whether that shareholder is an Eligible Shareholder or an Ineligible Overseas Shareholder or a Selling Shareholder).

For the purposes of determining which Iluka Shareholders are eligible to participate in the Demerger, dealings in Iluka Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered as the holder of Iluka Shares on the Record Date (or registered before the Record Date and remains registered on that date); and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by Iluka before the Record Date with sufficient time to allow for registration of the transferee on the Record Date (or registered before the Record Date and remains registered on that date).

For the purpose of determining entitlements under the Demerger, Iluka will not accept for registration or recognise any transfer or transmission application in respect of Iluka Shares received after the Record Date.

5.5.4 PARTICIPANTS IN ILUKA EMPLOYEE INCENTIVE PLANS

Refer to Section 5.6 for the treatment of participants in the Iluka employee incentive plans on the Record Date. Participants in the Iluka employee incentive plans on the Record Date whose addresses are shown in the Iluka Share Register or employee share trusts register (as applicable) on the Record Date as being in the following jurisdictions will be Eligible Shareholders:

- Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; or
- any other jurisdiction in which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer or distribute Sierra Rutile Shares.

Any other participants holding Iluka Shares in the Iluka employee incentive plans on the Record Date whose addresses are shown in the Iluka Share Register or employee share trusts register (as applicable) on the Record Date as being in a jurisdiction outside these jurisdictions will be Ineligible Overseas Shareholders. Sierra Rutile Shares to which the Ineligible Overseas Shareholders would otherwise have been entitled will be transferred to the Sale Agent to be sold under the Sale Facility.

Refer to Section 5.8 for more information on how the Sale Facility will operate.

5.6 TREATMENT OF LEGACY ILUKA EMPLOYEE INCENTIVE ARRANGEMENTS FOR CONTINUING ILUKA GROUP EMPLOYEES

Iluka currently has various employee incentive awards on foot, which will each be impacted by the Demerger. The current employee incentive and equity arrangements on foot at the time of Demerger include awards under the following employee incentive plans:

- Executive Incentive Plan (EIP);
- Short Term Incentive Plan (STIP); and
- Strategic Award Plan.

This Section outlines the proposed treatment of incentives on foot for employees that will continue to be employed by the Iluka Group.

In general, restricted Iluka Share awards will be treated in the same way as other Iluka Shares on implementation of the Demerger. However performance rights, restricted rights, cash units and performance units granted under other Iluka equity incentive plans do not carry a right to participate in the Demerger. The Iluka Board has determined the treatments set out in the following table in order to preserve the overall value of the incentives following the Demerger, and to ensure that participants are not disadvantaged by the Demerger.

Award	Award Type	Scheduled vesting date(s)	Treatment on demerger of Sierra Rutile
STIP – 2020 and 2021 awards	Restricted Iluka Shares	1/03/2023 and 1/03/2024	<p>Restricted Iluka Shares held by, or on behalf of, participants will participate in the Demerger and participants will be allocated one Sierra Rutile Share for each Iluka Share held prior to the Demerger.</p> <p>Sierra Rutile Shares allocated to participants will not be subject to any holding lock.</p>
STIP – 2020 and 2021 awards	Iluka cash units	1/03/2023 and 1/03/2024	Cash units will remain on foot, subject to the original terms, however the cash payment received on vesting will be determined based on the combined value of Iluka Shares and Sierra Rutile Shares at the scheduled vesting date.
EIP – 2019 award	Iluka performance units	1/03/2023	<p>The RTSR performance condition will be adjusted to capture the performance of both Iluka and Sierra Rutile for the remainder of the performance period post Demerger (which is expected to be the last four months of the four-year performance period). This reflects the decisions made by current management will have a direct impact on the initial performance of Sierra Rutile.</p> <p>Participants will also receive an additional award in the form of performance rights/units to reflect the dilution in the value of Iluka shares after Sierra Rutile is demerged. The additional award will be calculated as follows: the number of performance rights/units held before the Demerger multiplied by ((the Iluka five-day VWAP plus Sierra Rutile five-day VWAP) divided by the Iluka five-day VWAP) minus the number of performance rights/units held prior to demerger.</p> <p>The additional grants will be made shortly after the Demerger on substantially the same terms as the participant's original awards (with the adjusted relative RTSR condition).</p>
	Iluka performance cash units	1/03/2023	

Award	Award Type	Scheduled vesting date(s)	Treatment on demerger of Sierra Rutile
EIP – 2020 and 2021 awards	Iluka performance units	1/03/2025 and 1/03/2026	<p>The RTSR performance condition will be adjusted so that the combined performance of Iluka and Sierra Rutile is tracked prior to Demerger, and post Demerger only the Iluka performance is measured (i.e. excluding Sierra Rutile). This is so that the outcome will reflect the performance over which participants have reasonable control/oversight.</p> <p>Participants will also receive an additional award in the form of performance rights/units to reflect the dilution in the value of Iluka shares after Sierra Rutile is demerged. The additional award will be calculated as follows: the number of performance rights/units held before the Demerger multiplied by ((the Iluka five-day VWAP plus Sierra Rutile five-day VWAP) divided by the Iluka five-day VWAP) minus the number of performance rights/units held prior to demerger.</p> <p>The additional grants will be made shortly after the Demerger on substantially the same terms as the participant's original awards (with the adjusted relative RTSR condition).</p>
	Iluka performance cash units	1/03/2025 and 1/03/2026	
EIP – 2019, 2020 and 2021 awards	Iluka restricted rights	1/03/2023, 1/03/2024, 1/03/2025 and 1/03/2026	<p>Participants will receive an additional award in the form of restricted rights to reflect the dilution in the value of Iluka shares after Sierra Rutile is demerged. The additional award will be calculated as follows: the number of restricted rights held before the Demerger multiplied by ((the Iluka five-day VWAP plus Sierra Rutile five-day VWAP) divided by the Iluka five-day VWAP) minus the number of restricted rights held prior to the demerger. The additional grants will be made shortly after the Demerger on substantially the same terms as the participants original awards.</p>
Strategic Award Plan	Iluka restricted rights	Various	

5.7 ASX TRADING IN ILUKA AND SIERRA RUTILE SHARES

If the Demerger Resolution is passed by Iluka Shareholders and the other conditions to the Demerger are satisfied then:

- on the Business Day prior to the Record Date (expected to be Thursday, 28 July 2022):
 - Iluka Shares are expected to commence trading ex the entitlement to receive Sierra Rutile Shares; and
 - trading in Sierra Rutile Shares on the ASX on a deferred settlement basis is expected to commence for Eligible Shareholders (other than Selling Shareholders);
- on the Implementation Date, the Demerger will be implemented and Sierra Rutile Shares will be transferred as described in Section 5.4.3.

5.8 SALE FACILITY

5.8.1 SELLING SHAREHOLDERS

Eligible Shareholders who hold 2,000 Iluka Shares or less as at the Record Date may elect to have all the Sierra Rutile Shares that they would otherwise receive sold by the Sale Agent and the proceeds remitted to them as soon as practicable following the sale of those shares (which is expected to occur on or before 21 September 2022), free of any brokerage costs or stamp duty.

Small Shareholders who wish to participate in the Sale Facility should complete and return the Sale Facility Form using the enclosed reply paid envelope, or by fax on (03) 9473 2093 (within Australia) or +61 3 9473 2093 (international) or by email to corpactprocessing@computershare.com.au so that it is received by the Iluka Share Registry by 3.00pm (AWST) on Monday, 25 July 2022.

5.8.2 INELIGIBLE OVERSEAS SHAREHOLDERS

Ineligible Overseas Shareholders will continue to be entitled to hold their Iluka Shares. However, the Sierra Rutile Shares which they would otherwise have received will be transferred to the Sale Agent and sold, with the proceeds remitted to them as soon as practicable following the sale of those shares (which is expected to occur on or before 21 September 2022), free of any brokerage costs or stamp duty.

The payment of the proceeds from the sale of Sierra Rutile Shares will be in full satisfaction of the rights of Ineligible Overseas Shareholders under the Capital Reduction and Dividend.

5.8.3 OPERATION OF THE SALE FACILITY

Under the Sale Facility, the Sale Agent will sell Sierra Rutile Shares during the sale period (which is expected to be from 4 August 2022 to 5 September 2022) at the price the Sale Agent determines.

As the market price of Sierra Rutile Shares will be subject to change from time to time, the sale price of those Sierra Rutile Shares and the proceeds of that sale cannot be guaranteed. Ineligible Overseas Shareholders and Selling Shareholders will be able to obtain information on the market price of Sierra Rutile Shares on the ASX's website at www.asx.com.au.

The proceeds received by the Sale Agent will then, as soon as practicable, be distributed to Ineligible Overseas Shareholders and Selling Shareholders by making a deposit into an account with an Australian bank nominated by the Ineligible Overseas Shareholder or Selling Shareholder with the Iluka Share Registry as at the Record Date. If the Ineligible Overseas Shareholder or Selling Shareholder does not have a nominated Australian bank account with the Iluka Share Registry as at the Record Date, the Ineligible Overseas Shareholder or Selling Shareholder will be sent a cheque drawn on an Australian bank in Australian currency for the proceeds of sale. If the relevant Ineligible Overseas Shareholder's or Selling Shareholder's whereabouts are unknown as at the Record Date, the proceeds will be paid into a separate bank account and held until claimed or applied under laws dealing with unclaimed money.

The amount of money received by each Ineligible Overseas Shareholder and Selling Shareholder will be calculated on an averaged basis so that all Ineligible Overseas Shareholders and Selling Shareholders will receive the same price in Australian dollars per Sierra Rutile Share, subject to rounding to the nearest whole cent. Consequently, the amount received by Ineligible Overseas Shareholders and Selling Shareholders for each Sierra Rutile Share may be more or less than the actual price that is received by the Sale Agent for that particular Sierra Rutile Share.

5.9 DEMERGER AGREEMENTS

The key transaction documents to give effect to the Demerger are summarised below.

Not all of the transactions underlying the Corporate Restructure have been entered into or effected on the same terms as could have been obtained from third parties. In particular, agreements for the transactions underlying the Corporate Restructure have not included terms such as certain warranties that might have been obtained from third parties. This reflects the nature of the Demerger (which is unlike a sale to a third party) and the desire of the Iluka Board to appropriately allocate the risks and benefits of these arrangements between the Sierra Rutile Group and the Iluka Group.

5.9.1 RESTRUCTURE DOCUMENTS

Iluka and Sierra Rutile have entered into the Restructure Documents to procure that all steps necessary to effect the Corporate Restructure are undertaken prior to the Implementation Date.

Under the Restructure Documents, the relevant Iluka Group Member and Sierra Rutile Group Member have procured the transfer of:

- all the shares in Sierra Rutile to Iluka Resources Limited, as described in Section 5.2; and
- all the shares in Sierra Rutile International UK Limited to Sierra Rutile; and
- all the shares in Sierra Rutile International South Africa (Pty) Ltd to Sierra Rutile.

5.9.2 DEMERGER IMPLEMENTATION DEED

The Implementation Deed entered into on or about the date of this Demerger Booklet between Iluka and Sierra Rutile sets out certain steps required to be taken by each of them to give effect to the Demerger.

The key terms of the Implementation Deed are as follows:

- **(conditions)** the obligations of Iluka and Sierra Rutile under the deed are subject to the conditions summarised in Section 5.1 being satisfied or waived;
- **(joint obligations)** Iluka and Sierra Rutile have certain joint obligations in relation to the Demerger including to:
 - apply for all regulatory approvals required for the Demerger;
 - prepare the disclosure documents to be sent to Iluka Shareholders or required for the Sierra Rutile Listing, and use reasonable endeavours to ensure that those disclosure documents comply with applicable laws;
 - cause the Sierra Rutile Board to comprise only the persons named in Section 3.23.1 as directors of Sierra Rutile by the Effective Date of the Demerger; and
 - use reasonable endeavours to effect the Demerger in accordance with an agreed timetable;
- **(Iluka obligations)** Iluka must take all reasonable steps within its control to implement the Demerger, including:
 - convening the Extraordinary General Meeting and declare the Dividend;
 - procuring the transfer of Sierra Rutile Shares to Iluka Shareholders on implementation of the Demerger; and

- procuring the sale of Sierra Rutile Shares by the Sale Agent for Ineligible Overseas Shareholders and Selling Shareholders;
- **(Sierra Rutile obligations)** Sierra Rutile must take all reasonable steps within its control to implement the Demerger, including:
 - registering the Sierra Rutile Shareholders and issuing holding statements to those holders as contemplated in Section 5.4.3; and
 - applying for admission to the Official List of ASX and for quotation of the Sierra Rutile Shares on ASX; and
- **(termination)** the obligations of Iluka and Sierra Rutile under the deed will automatically terminate if the Demerger is not implemented on or before 30 September 2022 (or such later date agreed by Iluka and Sierra Rutile).

5.9.3 DEMERGER SEPARATION DEED

The Separation Deed entered into between Iluka and Sierra Rutile deals with certain issues arising in connection with the separation of Sierra Rutile from the Iluka Group.

The key terms of the Separation Deed are as follows:

- **(Demerger principle)** the fundamental underlying principle of the Demerger is that:
 - the Sierra Rutile Group will have the entire economic benefit and risk of the Sierra Rutile Business, as if the Sierra Rutile Group and not the Iluka Group had owned that business at all times; and
 - the Iluka Group will have the entire economic benefit and risk of the Iluka Business, as if the Iluka Group and not the Sierra Rutile Group had owned that business at all times;
- **(rights and obligations)** to give effect to the Demerger principle, Iluka and Sierra Rutile agree that once the Demerger is implemented, no member of the Iluka Group will have any rights against, or obligations to, any member of the Sierra Rutile Group and no member of the Sierra Rutile Group will have any rights against, or obligations to, any member of the Iluka Group other than in respect of arrangements which the parties have agreed will continue after the implementation of the Demerger;
- **(inter-company loans)** immediately prior to the Implementation Date, all inter-company loans between one or more Iluka Group Members and one or more Sierra Rutile Group Members will be settled or forgiven;
- **(assumption of liabilities)** consistent with the Demerger principle:

- Iluka will assume and be responsible for all liabilities relating to the Iluka Business and Iluka indemnifies the Sierra Rutile Group against all claims and liabilities relating to that business, except to the extent such liabilities are attributable to fraud, wilful misconduct or bad faith on the part of any Sierra Rutile Group Member; and
- Sierra Rutile will assume and be responsible for all liabilities relating to the Sierra Rutile Business and indemnifies the Iluka Group against all claims and liabilities relating to that business, except to the extent such liabilities are attributable to fraud, wilful misconduct or bad faith on the party of the Iluka Group Member;
- **(releases and indemnities)** Iluka and Sierra Rutile agree to the releases and indemnities required to give effect to the Demerger principle;
- **(assets)** if any asset which exclusively relates to:
 - the Sierra Rutile Business is identified as being owned by the Iluka Group then, subject to certain limitations and qualifications, the Separation Deed imposes obligations on Iluka to transfer, assign or grant rights over that asset to the Sierra Rutile Group for nil or nominal consideration; and
 - the Iluka Business is identified as being owned by the Sierra Rutile Group then, subject to certain limitations and qualifications, the Separation Deed imposes obligations on Sierra Rutile to transfer, assign or grant rights over that asset to the Iluka Group for nil or nominal consideration;
- **(Demerger costs)** the Separation Deed sets out responsibility for Demerger transaction costs; and
- **(records and data)** other than business records which are exclusively used by, or exclusively relate to, the business to be conducted by Sierra Rutile (which will be owned by Sierra Rutile), all business records will be owned by Iluka. Each party will be obliged to make available relevant business records and data which relate to the other party's business following the Demerger.

5.9.4 TRANSITIONAL SERVICES AGREEMENT

Sierra Rutile's business is currently supported by Iluka's Sierra Rutile corporate services infrastructure.

The master services agreement between Iluka and SRL under which Iluka and SRL provide services to each other on a cost plus margin basis and Iluka recharges certain matters to SRL will continue until implementation of the Demerger, at which time it will be terminated.

Iluka and Sierra Rutile have agreed to enter into a transitional services agreement under which Iluka has agreed to continue to provide some of these services on a transitional basis to Sierra Rutile Group for up to 12 months following implementation of the Demerger.

Sierra Rutile must reimburse Iluka for the provision of these services at cost.

Either party may terminate the transitional services agreement or a particular service for a material breach by the other party or if the other party suffers an insolvency event.

5.9.5 IMPLICATIONS IF THE DEMERGER DOES NOT PROCEED

If Iluka Shareholders do not approve the Capital Reduction or any of the other conditions of the Demerger are not satisfied or waived, the Demerger will not proceed.

In that event:

- the Capital Reduction will not proceed and the Dividend will not be declared;
- Iluka Shareholders will not receive Sierra Rutile Shares (or in the case of Selling Shareholders and Ineligible Overseas Shareholders, they will not receive the proceeds from the sale of Sierra Rutile Shares);
- Iluka Shareholders will retain their current holding of Iluka Shares (unless they otherwise sell such shares);
- Iluka will continue to own Sierra Rutile which will continue to hold the Sierra Rutile business referred to in Section 2;
- the advantages of the Demerger, as described in Section 1.3, will not be realised;
- the disadvantages and risks of the Demerger described in Sections 1.4 and 1.5 will not arise;
- Iluka will incur transaction costs of approximately A\$3.4 million; and
- Iluka will have incurred separation costs of approximately A\$0.7 million.

6. Taxation implications



6.1 INTRODUCTION

The following is a general summary of the Australian income tax, GST and stamp duty implications expected to arise for certain Iluka Shareholders under the Demerger. As this summary is necessarily general in nature, Iluka Shareholders should consult with a professional tax advisor regarding their particular circumstances.

This tax summary only addresses the position of Iluka Shareholders who:

- are registered on the Iluka Share Register as the holders of Iluka Shares at the Record Date;
- hold their Iluka Shares on capital account, i.e. not on revenue account or as trading stock;
- have not elected for the TOFA provisions in Division 230 of the *Income Tax Assessment Act 1997* to apply in respect of their Iluka Shares; and
- did not acquire their Iluka Shares under an Iluka Employee Share Plan.

This tax summary does not address any tax consequence arising under the laws of jurisdictions other than Australia.

This tax summary is based on Australian tax laws and regulations, interpretations of such laws and regulations, and administrative practice as at the date of this Demerger Booklet.

The comments in this Section are generally directed at Iluka Shareholders who are Australian tax residents (and are not tax residents in any other country), and who acquired, or are taken to have acquired, their Iluka Shares on or after 20 September 1985 (**Post-CGT Iluka Shares**).

However, where relevant, specific comments have been made regarding:

- non-resident Iluka Shareholders who (i) do not hold their Iluka Shares in carrying on business through a permanent establishment in Australia; or (ii) did not make an election to treat their Iluka Shares as taxable Australian property under section 104-165 of the *Income Tax Assessment Act 1997* when they ceased to be an Australian resident (**Residency Election**); and
- Iluka Shareholders who acquired, or are taken to have acquired, their Iluka Shares before 20 September 1985 (**Pre-CGT Iluka Shares**).

A non-resident Iluka Shareholder who, together with any tax law associates, owns, or has owned, 10% or more of the shares in Iluka should seek their own advice.

6.2 CLASS RULING

Iluka has applied to the Australian Commissioner of Taxation (**Commissioner**) for a class ruling confirming certain income tax implications of the Demerger for Iluka Shareholders.

A class ruling will only be received from the Commissioner after the Implementation Date for the Demerger. Accordingly, the information below includes the implications for Iluka Shareholders where:

- demerger tax relief under Division 125 of the *Income Tax Assessment Act 1997* applies to the Demerger (**Demerger Tax Relief**); and
- Demerger Tax Relief is not available or a s.45B determination is made.

6.3 SUMMARY OF EXPECTED OUTCOMES

On the Implementation Date:

- Iluka will undertake the Capital Reduction and will determine to pay the Dividend. The Capital Reduction and Dividend will not be paid in cash, but will be effected by a distribution of Sierra Rutile Shares.
- Each Iluka Shareholder (other than Ineligible Overseas Shareholders and Selling Shareholders) will receive one Sierra Rutile Share for every Iluka Share it is registered as holding as at the Record Date.

In the case of Ineligible Overseas Shareholders and Selling Shareholders, the Sierra Rutile Shares which those shareholders would otherwise have received under the Demerger will be transferred to the Sale Agent to be sold on the ASX. The proceeds of sale will be remitted to the Ineligible Overseas Shareholders and Selling Shareholders.

The expected Australian income tax consequences of the Demerger for Australian resident Iluka Shareholders are summarised below:

Issue	Australian income tax consequence (assuming Demerger Tax Relief applies)	Refer
Is the Dividend assessable?	You will not be assessed on the Dividend.	Section 6.4.1
Does the Capital Reduction give rise to capital gains tax (CGT) consequences?	<p>If you choose Demerger Tax Relief, you will be able to disregard any capital gain that arises from the Capital Reduction.</p> <p>If you do not choose Demerger Tax Relief, a capital gain may arise. You may be entitled to discount CGT treatment on any capital gain if you held your Iluka Shares for at least 12 months before the Implementation Date.</p>	Section 6.4.2
How do I determine the cost base of the Iluka Shares and Sierra Rutile Shares?	<p>You must apportion the tax cost base of your Iluka Shares just before the Demerger between the Iluka Shares and the Sierra Rutile Shares held just after the Demerger.</p> <p>Further information will be given to you to assist in this apportionment.</p>	Section 6.4.3
When am I taken to have acquired my Sierra Rutile Shares for CGT discount purposes?	<p>You may be entitled to the CGT discount on the subsequent disposal of the Sierra Rutile Shares if the Sierra Rutile Shares are taken to have been held for 12 months or more.</p> <p>For these purposes, you will be treated as having acquired the corresponding Sierra Rutile Shares on the same date as your Iluka Shares.</p>	Section 6.4.4
Does it make a difference if my Iluka Shares are Pre-CGT Iluka Shares?	<p>If you hold Pre-CGT Iluka Shares:</p> <ul style="list-style-type: none"> no CGT consequences should arise for you in respect of your Pre-CGT Iluka Shares; if you choose Demerger Tax Relief, you will be able to treat your corresponding Sierra Rutile Shares as pre-CGT assets; and if you do not choose Demerger Tax Relief, your tax cost base in your Sierra Rutile Shares will be equal to their market value on the Implementation Date. You will be treated as having acquired your corresponding Sierra Rutile Shares on the Implementation Date. 	Sections 6.4.2.2, 6.4.3 and 6.4.4
What happens if I sell my Sierra Rutile Shares under the Sale Facility?	<p>The Australian income tax implication of the Demerger outlined above should apply equally to you if your Sierra Rutile Shares are sold by the Sale Agent under the Sale Facility.</p> <p>You may also make a capital gain or capital loss on the disposal of the Sierra Rutile Shares under the Sale Facility.</p>	Section 6.7

The Australian income tax outcomes for Australian resident Iluka Shareholders will be different if the Commissioner rules that Demerger Tax Relief is not available or that a s.45B determination will be made – refer to Section 6.5 below for further details.

6.4 IF DEMERGER TAX RELIEF IS AVAILABLE

6.4.1 DIVIDEND

The Dividend will not be assessable to Australian resident Iluka Shareholders.

For non-resident Iluka Shareholders, the Dividend should not be assessable income in Australia nor subject to dividend withholding tax.

6.4.2 CAPITAL REDUCTION – CGT CONSEQUENCES

6.4.2.1 AUSTRALIAN RESIDENT ILUKA SHAREHOLDERS WITH POST-CGT ILUKA SHARES

Australian resident Iluka Shareholders should generally be eligible to choose Demerger Tax Relief in respect of their Iluka Shares.

An Iluka Shareholder who chooses Demerger Tax Relief will be able to disregard any capital gain that arises under CGT event G1 (capital payment for shares) from the Capital Reduction.

The way an Iluka Shareholder prepares its income tax return will be sufficient evidence of the making of a choice to obtain Demerger Tax Relief. No formal election is required.

CGT event G1 will happen on the Implementation Date for Iluka Shareholders who hold Post-CGT Iluka Shares and who do not choose Demerger Tax Relief in respect of their Sierra Rutile Shares:

- Under CGT event G1, a capital gain will arise to the extent (if any) that the Capital Reduction Amount in respect of that Iluka Share exceeds the cost base of that share.
- Australian resident Iluka Shareholders may be entitled to discount CGT treatment on any capital gain arising in respect of the Capital Reduction. Discount CGT treatment is available for an Australian resident Iluka Shareholder that is an individual, trust, or complying superannuation entity and who acquired their Iluka Shares at least 12 months before the Implementation Date. The discount factor will vary depending on the tax profile of the Iluka Shareholder. Specifically, the discount factor for resident individuals and trusts is 1/2 and for complying superannuation entities is 1/3.

6.4.2.2 PRE-CGT ILUKA SHARES

No CGT consequences should arise for Iluka Shareholders in respect of Pre-CGT Iluka Shares.

6.4.2.3 NON-RESIDENT ILUKA SHAREHOLDERS

For a non-resident Iluka Shareholder who does not hold

their Iluka Shares in carrying on a business through a permanent establishment in Australia and has not made a Residency Election, CGT consequences should arise only if:

- that Iluka Shareholder together with its tax law associates held 10% or more of the Iluka Shares at the time of disposal or for any continuous 12 month period within two years preceding the disposal (referred to as a “non-portfolio interest” in Iluka); and
- more than 50% of Iluka’s value is attributable to direct or indirect interests in “taxable Australian real property” (as defined in the *Income Tax Assessment Act 1997*).

Non-resident Iluka Shareholders who hold (or have held) a non-portfolio interest should obtain independent professional advice as to the tax implications of the Capital Reduction.

6.4.3 CGT COST BASE IN ILUKA SHARES AND SIERRA RUTILE SHARES

Irrespective of whether Demerger Tax Relief is chosen, Australian resident Iluka Shareholders who hold Post-CGT Iluka Shares must apportion the tax cost base of their Post-CGT Iluka Shares just before the Demerger between the Post-CGT Iluka Shares and Sierra Rutile Shares held just after the Demerger.

The first element of the tax cost base of each Post-CGT Iluka Share and corresponding Sierra Rutile Share held by an Australian resident Iluka Shareholder just after the Demerger will be determined as follows:

- calculate the total of the cost bases of Post-CGT Iluka Shares held (worked out just before the Demerger); and
- apportion the result of the above calculation between the Post-CGT Iluka Shares and corresponding Sierra Rutile Shares held just after the Demerger, having regard to the market values (or a reasonable approximation thereof) of the shares just after the Demerger. Iluka will provide Iluka Shareholders with information to assist them in determining the respective cost bases of their Iluka Shares and corresponding Sierra Rutile Shares on the Iluka website (www.iluka.com) following the Demerger.

The tax cost base of Sierra Rutile Shares in relation to Australian resident Iluka Shareholders that hold Pre-CGT Iluka Shares is as follows:

- if Demerger Tax Relief is chosen, Iluka Shareholders will be able to treat their Sierra Rutile Shares as pre-CGT assets (discussed further below in Section 6.4.4); and
- if Demerger Tax Relief is not chosen, Iluka Shareholders will have a first element tax cost base and reduced cost base in their Sierra Rutile Shares equal to their market value on the Implementation Date.

6.4.4 TIME OF ACQUISITION OF SIERRA RUTILE SHARES

For Iluka Shareholders who may be entitled to the CGT discount on the subsequent disposal of their Sierra Rutile Shares, irrespective of whether Demerger Tax Relief is chosen, these shareholders will be treated as having acquired the corresponding Sierra Rutile Shares on the same date as their Iluka Shares.

Iluka Shareholders that hold Pre-CGT Iluka Shares and choose Demerger Tax Relief will be treated as having acquired the corresponding Sierra Rutile Shares before 20 September 1985, i.e. the corresponding Sierra Rutile Shares will be treated as pre-CGT assets.

Iluka Shareholders that hold Pre-CGT Iluka Shares and do not choose Demerger Tax Relief will be treated as having acquired the corresponding Sierra Rutile Shares on the Implementation Date.

6.5 IF DEMERGER TAX RELIEF IS NOT AVAILABLE

If the Commissioner rules that Demerger Tax Relief is not available, Australian resident Iluka Shareholders:

- will be required to include the Dividend in their assessable income;
- will make a capital gain under CGT event G1 to the extent (if any) that the Capital Reduction Amount received by the Iluka Shareholder exceeds the cost base of their Iluka Shares;
- will have a first element tax cost base and reduced cost base in their Sierra Rutile Shares equal to their market value on the Implementation Date; and
- will be taken to have acquired their Sierra Rutile Shares on the Implementation Date for the purposes of determining eligibility for the CGT discount.

If the Commissioner does make a s.45B determination, the following consequences may apply for Iluka Shareholders:

- the Dividend may be assessable income; and/or
- the Capital Reduction may be treated as an unfranked dividend.

6.6 HOLDING SIERRA RUTILE SHARES AFTER THE DEMERGER

The Australian income tax consequences for holding Sierra Rutile Shares should generally be the same as holding Iluka Shares.

6.6.1 DIVIDENDS

Australian resident Sierra Rutile Shareholders will be required to include dividends in respect of Sierra Rutile Shares in their assessable income for the income year in which the dividends are received.

Dividends may be franked to the extent determined by Sierra Rutile.

For Australian resident Sierra Rutile Shareholders:

- subject to the “qualified person” rules, the Sierra Rutile Shareholder should include any franking credits in their assessable income and should be entitled to a tax offset equal to the franking credits received;
- a Sierra Rutile Shareholder that is an individual or complying superannuation entity may be able to receive a tax refund in a particular year if the franking credits attached to the dividend exceed the tax payable on the Sierra Rutile Shareholder’s total taxable income for that income year;
- a Sierra Rutile Shareholder that is a company will not be entitled to a tax refund of excess franking credits. Rather, the excess franking credits may be converted to a tax loss which can be carried forward to future years (subject to the Sierra Rutile Shareholder satisfying certain loss carry forward rules); and
- Sierra Rutile Shareholders that are trusts should obtain their own advice on the Australian tax treatment of dividends received from Sierra Rutile and any franking credits attached.

For non-resident Sierra Rutile Shareholders:

- to the extent a dividend is franked, no dividend withholding tax (**DWT**) should arise; and
- to the extent a dividend is unfranked, DWT of 30 per cent will arise subject to reduction under relevant double tax agreements between Australia and the country of residence of the shareholder.

6.6.2 SALE OF SIERRA RUTILE SHARES

Australian resident Sierra Rutile Shareholders will make a capital gain or capital loss depending on whether the sale proceeds from the disposal of their Sierra Rutile Shares exceed the cost base of the shares sold.

Assuming Demerger Tax Relief is available, for the purpose of determining the CGT consequences from a sale of the Sierra Rutile Shares:

- the cost base of the Sierra Rutile Shares will be as outlined in Section 6.4.3;
- for the purpose of determining whether the Sierra Rutile Shares are held for 12 months or more for the purpose of the CGT discount, shareholders will be treated as having acquired the corresponding Sierra Rutile Shares on the same date as their Iluka Shares (see Section 6.4.4); and

- any capital gain or capital loss on the disposal of Sierra Rutile Shares deemed to have been acquired before 20 September 1985 will be disregarded.

A non-resident Sierra Rutile Shareholder should not be subject to CGT unless their Sierra Rutile Shares are held via an Australian permanent establishment.

6.7 SALE FACILITY

The Australian income tax implications of the Demerger outlined in Sections 6.4 and 6.5 should apply equally to Selling Shareholders whose Sierra Rutile Shares are sold by the Sale Agent on the ASX under the Sale Facility.

Under the Sale Facility, Selling Shareholders should be regarded for CGT purposes as having disposed of their Sierra Rutile Shares under CGT event A1 (disposal of a CGT asset). The disposal proceeds will equal the proceeds received under the Sale Facility.

Assuming Demerger Tax Relief is available, for the purpose of determining whether a capital gain or capital loss arises:

- the cost base of the Sierra Rutile Shares will be as outlined in Section 6.4.3;
- for the purpose of determining whether the Sierra Rutile Shares are held for 12 months or more for the purpose of the CGT discount, shareholders will be treated as having acquired the corresponding Sierra Rutile Shares on the same date as their Iluka Shares (see Section 6.4.4); and
- any capital gain or capital loss on the disposal of Sierra Rutile Shares deemed to have been acquired before 20 September 1985 will be disregarded.

No Australian income tax consequences should arise for Selling Shareholders who are non-residents unless their Sierra Rutile Shares are held via an Australian permanent establishment.

6.8 OTHER MATTERS

6.8.1 AUSTRALIAN TAX FILE NUMBER (TFN) AND AUSTRALIAN BUSINESS NUMBER (ABN)

Following the Demerger, it is expected that Iluka Shareholders will be given the opportunity to quote their TFN, TFN exemption or their ABN in respect of Sierra Rutile Shares. These numbers will not be transferred or otherwise provided to Sierra Rutile.

Iluka Shareholders need not quote a TFN, TFN exemption or ABN in respect of their Sierra Rutile Shares. However, if they do not, then TFN withholding may be required to be deducted from any dividends paid by Sierra Rutile at the highest marginal tax rate plus the medicare levy (currently 47 per cent in total).

6.8.2 GST

No GST should be payable by Iluka Shareholders in relation to their participation in the Demerger.

However, the eligibility for Iluka Shareholders to claim full or partial input tax credits in relation to GST incurred on advisor fees and other costs relating to their participation in the Demerger will depend on the individual circumstances of each shareholder.

6.8.3 STAMP DUTY

No stamp duty should be payable in any Australian State or Territory by Iluka Shareholders in relation to their participation in the Demerger.

6.8.4 ILUKA EMPLOYEE INCENTIVE PLANS

Further information in relation to the tax treatment for employee share plan participants will be provided separately to employees.

6.8.5 FOREIGN RESIDENT CGT WITHHOLDING DECLARATION

Iluka warrants that it has at all times up to and including the Implementation Date been an Australian resident for tax purposes in accordance with the Income Tax Assessment Act 1936.

7. Independent Limited Assurance Report





The Directors
Iluka Resources Limited (**Iluka**)
Level 17, 240 St Georges Terrace
PERTH WA 6000

The Directors
Sierra Rutile Holdings Limited (**Sierra Rutile**)
Level 17, 240 St Georges Terrace
PERTH WA 6000

20 June 2022

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on the historical and pro forma historical financial information and Financial Services Guide

We have been engaged by Iluka and Sierra Rutile (together, **you**) to report on the Iluka Historical and (post Demerger) Pro Forma Historical Financial Information and the Sierra Rutile Pro Forma Historical Financial Information (as those terms are defined in the "Scope" section of this report) (together, the **Demerger Financial Information**) for inclusion in the Demerger Booklet dated on or about 20 June 2022, to be issued by Iluka in respect of the proposed demerger of Sierra Rutile from Iluka (the **Demerger**).

Expressions and terms defined in the Demerger Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to review the following historical financial information included in the Demerger Booklet, the:

Iluka Historical Financial Information

- Iluka consolidated historical balance sheet as at 31 December 2021 as set out in table 4.4 in section 4.7.8 of the Demerger Booklet;
- Iluka consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.1 in section 4.7.4 of the Demerger Booklet; and
- Iluka consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.5 in section 4.7.9 of the Demerger Booklet;

collectively the **Iluka Historical Financial Information**.

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
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The Iluka Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and Iluka's adopted accounting policies. The Iluka Historical Financial Information has been extracted from the annual financial reports of Iluka for the years ended 31 December 2019, 31 December 2020 and 31 December 2021, which were audited by PricewaterhouseCoopers in accordance with Australian Auditing Standards. PricewaterhouseCoopers issued an unmodified audit opinion on the financial reports. The Iluka Historical Financial Information is presented in the Demerger Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

You have requested PricewaterhouseCoopers Securities Ltd to review the following pro forma historical financial information included in the Demerger Booklet (in each case, which assumes completion of the Demerger), the:

Iluka (post Demerger) Pro Forma Historical Financial Information

- Iluka (post Demerger) pro forma consolidated historical balance sheet as at 31 December 2021 as set out in table 4.4 in section 4.7.8 of the Demerger Booklet;
- Iluka (post Demerger) pro forma consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.2 in section 4.7.6 of the Demerger Booklet; and
- Iluka (post Demerger) pro forma consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.6 in section 4.7.10 of the Demerger Booklet;

collectively the **Iluka (post Demerger) Pro Forma Historical Financial Information**.

Sierra Rutile Pro Forma Historical Financial Information

- Sierra Rutile pro forma consolidated historical balance sheet as at 31 December 2021 as set out in table 3.18 in section 3.24.5 of the Demerger Booklet;
- Sierra Rutile pro forma consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 3.15 in section 3.24.3 of the Demerger Booklet; and
- Sierra Rutile pro forma consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 3.19 in section 3.24.6 of the Demerger Booklet;

collectively the **Sierra Rutile Pro Forma Historical Financial Information**.

The Iluka (post Demerger) Pro Forma Historical Financial Information and Sierra Rutile Pro Forma Historical Financial Information (together, the **Pro Forma Historical Financial Information**) has been derived from the respective historical financial information of Iluka and Sierra Rutile, after adjusting for the effects of pro forma adjustments described in sections 3.24.1 and 4.7.2.2 of the Demerger Booklet. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and Iluka's and Sierra Rutile's (as applicable) adopted accounting policies applied to their historical financial information (as applicable) and the events or transactions to which the pro forma adjustments relate, as described in sections 3.24.1 and 4.7.2.2 of the Demerger Booklet, as if those events or transactions had occurred as at the date of the historical financial information (as



applicable). Due to its nature, the Iluka (post Demerger) Pro Forma Historical Financial Information or Sierra Rutile Pro Forma Historical Financial Information (as the case may be) does not represent Iluka's and Sierra Rutile's (as applicable) actual or prospective financial position, financial performance, and/or cash flows.

Directors' responsibility

The directors of Iluka are responsible for the preparation of the Demerger Financial Information, including their basis of preparation and the selection and determination of pro forma adjustments made to the historical financial information and included in the Pro Forma Historical Financial Information. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors of Iluka determine are necessary to enable the preparation of Demerger Financial Information that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Demerger Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information, comprising:

Iluka Historical Financial Information

- Iluka consolidated historical balance sheet as at 31 December 2021 as set out in table 4.4 in section 4.7.8 of the Demerger Booklet;
- Iluka consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.1 in section 4.7.4 of the Demerger Booklet; and
- Iluka consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.5 in section 4.7.9 of the Demerger Booklet;

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.7.2.1 of the Demerger Booklet being the recognition and measurement principles contained in Australian Accounting Standards and Iluka's adopted accounting policies.



Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, comprising:

Iluka (post Demerger) Pro Forma Historical Financial Information

- Iluka (post Demerger) pro forma consolidated historical balance sheet as at 31 December 2021 as set out in table 4.4 in section 4.7.8 of the Demerger Booklet;
- Iluka (post Demerger) pro forma consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.2 in section 4.7.6 of the Demerger Booklet; and
- Iluka (post Demerger) pro forma consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 4.6 in section 4.7.10 of the Demerger Booklet;

in each case, which assumes completion of the Demerger, and

Sierra Rutile Pro Forma Historical Financial Information

- Sierra Rutile pro forma consolidated historical balance sheet as at 31 December 2021 as set out in table 3.18 in section 3.24.5 of the Demerger Booklet;
- Sierra Rutile pro forma consolidated historical income statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 3.15 in section 3.24.3 of the Demerger Booklet; and
- Sierra Rutile pro forma consolidated historical free cash flow statements for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 as set out in table 3.19 in section 3.24.6 of the Demerger Booklet;

in each case, which assumes completion of the Demerger,

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 3.24.1 and 4.7.2.2 of the Demerger Booklet being the recognition and measurement principles contained in Australian Accounting Standards and Iluka's and Sierra Rutile's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 3.24.1 and 4.7.2.2 of the Demerger Booklet, as if those events or transactions had occurred as at the date of the historical financial information.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to sections 3.24.1 and 4.7.2.2 of the Demerger Booklet, which describes the purpose of the Demerger Financial Information, being for inclusion in the Demerger Booklet. As a result, the Demerger Financial Information may not be suitable for use for another purpose.

**Consent**

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Demerger Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Demerger Booklet.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this Demerger other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D. Carton', written over a light blue horizontal line.

Darren Carton
Authorised Representative of
PricewaterhouseCoopers Securities Ltd



Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 20 June 2022

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Iluka Resources Ltd ("**Iluka**") and Sierra Rutile Holdings Limited ("**Sierra Rutile**") to provide a report in the form of an Independent Accountant's Report ("**the Report**") in relation to the Demerger Financial Information (as those terms are defined in the Report) for inclusion in the Demerger Booklet to be dated on or about 20 June 2022 and relating to the proposed demerger of Sierra Rutile from Iluka.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.



4. **General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. **Fees, commissions and other benefits we may receive**

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If you do not receive a satisfactory outcome to your complaint, you have the right to contact the Australian Financial Complaints Authority ("AFCA"). AFCA provides independent financial services complaint resolution that is free to consumers.

Australian Financial Complaints Authority
GPO Box 3, Melbourne VIC 3001
Tel: 1800 931 678 (Free Call)

E-mail: info@afca.org.au
Website: www.afca.org.au

PwCS is a member of AFCA. You will not be charged for using the AFCA service.



8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Darren Carton
Authorised representative of PwC Securities
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000

8. Independent Expert's Report





Iluka Resources Limited

Independent expert's report and Financial Services Guide

16 June 2022

Financial Services Guide (FSG)

What is a Financial Services Guide?

An FSG is designed to provide information about the supply of financial services to you.

Why are we providing this FSG to you?

Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) (AFSL 241457) has been engaged by Iluka Resources Limited to prepare an independent expert's report (our IER) in connection with the proposed demerger of its Sierra Rutile business (the Proposed Demerger). Iluka Resources Limited will provide our IER to you.

Our IER provides you with general financial product advice. This FSG informs you about the use of general financial product advice, the financial services we offer, our dispute resolution process and our remuneration. Our contact details are in the document that accompanies this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice to wholesale clients in relation to derivatives, government debentures, stocks or bonds, interests in managed investment schemes, securities, and regulated emissions units (i.e. Australian carbon credit units and eligible international emissions units). We can also provide general financial product advice to retail clients in relation to the above financial products except for regulated emissions units.

We are also authorised to arrange for another person to deal in financial products in relation to:

- securities, interests in managed investment schemes, government debentures, stocks or bonds, and regulated emissions units and related derivatives to wholesale clients; and
- derivatives to retail and wholesale clients.

We are providing general financial product advice

In our IER, we provide general financial product advice as we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us. You are not responsible for our fees.

We will receive a fee of approximately A\$200,000 exclusive of GST in relation to the preparation of this IER. This fee is not contingent on the outcome of the Proposed Demerger.

Apart from these fees, we, our directors and officers, any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

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Deloitte Touche Tohmatsu has a professional relationship with Iluka Resources Limited and has previously provided unrelated advisory services to Iluka Resources Limited. Deloitte Corporate Finance has also provided a prior, unrelated independent expert's report for Iluka Resources Limited in connection with the demerger of Deterra Royalties Limited.

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If you have any concerns regarding our IER or service, please contact us.

The Complaints Officer
complaints@deloitte.com.au
 Fax: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Australian Financial Complaints Authority (AFCA). AFCA provides fair and independent financial services dispute resolution free to consumers.

www.afca.org.au
 1800 931 678 (free call)
 Australian Financial Complaints Authority Limited
 GPO Box 3 Melbourne VIC 3001

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16 June 2022

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of Level 9, Grosvenor Place 225 George Street NSW 2000

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The Directors
Iluka Resources Limited
240 St Georges Terrace
Perth
WA 6000

16 June 2022

Dear Directors

Re: Independent expert's report – Proposed Demerger of Sierra Rutile Holdings Limited by Iluka Resources Limited

Introduction

On 13 April 2022, Iluka Resources Limited (**Iluka** or the **Company**) announced to the market that it intended to demerge its rutile mining business in Sierra Leone (**Sierra Rutile**) (**the Proposed Demerger**). The Proposed Demerger is intended to be implemented by way of an in-specie capital reduction.

Iluka is an international mineral sands company that engages in exploration, project development, mining and processing operations, and marketing activities. Iluka is one of the largest producers of zircon globally and a major producer of titanium dioxide (**TiO₂**) feedstock (rutile, synthetic rutile and chloride ilmenite), with operations in Western Australia, South Australia and Sierra Leone. Iluka also has an emerging portfolio of rare earths deposits.

Sierra Rutile is a multi-mine operation encompassing two operations at Lanti and Gangama, a mineral separation plant, a dedicated port facility and the Sembehun project. The latter is a brownfield project which, if developed, will extend the life of Sierra Rutile's mining operations by over 13 years.

Refer to Section 2 for further details on each business.

Under the terms of the Proposed Demerger, Sierra Rutile will be demerged from Iluka and Sierra Rutile Holdings Limited, the entity that owns Sierra Rutile, will become a new Australian Securities Exchange (**ASX**) listed company. Iluka's shareholders¹ (the **Shareholders**) will receive one share in Sierra Rutile for each existing share held in Iluka whilst retaining their existing shareholding in Iluka. Iluka will not retain any shareholding in Sierra Rutile Holdings Limited.

The Directors of the Company (**the Directors**) have engaged Deloitte Corporate Finance Pty Limited (**Deloitte Corporate Finance**) to provide an independent expert's report (**IER**) advising whether, in our opinion, the Proposed Demerger is in the best interests of the Shareholders and whether or not the Proposed Demerger will materially prejudice Iluka's ability to pay its creditors.

Our field work was completed on 24 May 2022.

¹ Other than certain shareholders ineligible or unable to hold shares in Sierra Rutile



Purpose of the IER

The Proposed Demerger will be the subject of a vote by the Shareholders. On the basis that the Proposed Demerger will not result in a change in the underlying economic interests of security holders, a change of control or selective treatment of different security holders, there is no statutory requirement for the preparation of an IER in respect of the Proposed Demerger. Nonetheless, the Directors have requested an IER to assist the Shareholders in their consideration of the Proposed Demerger.

This IER is to be included in the booklet detailing the Proposed Demerger (**the Demerger Booklet**) to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Demerger. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Iluka, for this IER, including any errors or omissions however caused.

Basis of evaluation

We have prepared this IER having regard to Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 111 in relation to the content of expert's reports and ASIC Regulatory Guide 112 in respect of the independence of experts.

ASIC Regulatory Guide 111 specifically addresses the basis under which an expert should form an opinion in relation to demergers and demutualisations. In particular, RG 111.35 and 111.36 state that the issue of 'value' may be of secondary importance in the absence of the following effects resulting from the implementation of the demerger:

- a change in the underlying economic interests of security holders
- a change of control
- selective treatment of different security holders.

In addition, RG 111.37 states that "If the demerger or demutualisation involves a scheme of arrangement and the expert concludes that the advantages of the transaction outweigh the disadvantages, the expert should say that the scheme is in the best interests of the members." Whilst the Proposed Demerger will not be executed via a scheme of arrangement, we have adopted a basis of evaluation consistent with the wording of RG 111.37 noted above.

If the Proposed Demerger proceeds, it will not result in a change of control or selective treatment among Shareholders. In addition, Shareholders will retain the same underlying economic interest in Iluka but will hold shares in two entities (Iluka and Sierra Rutile Holdings Limited) instead of holding shares in a single entity (Iluka). Accordingly, in forming our opinion as to whether the Proposed Demerger is in the best interests of Shareholders, we have assessed the advantages and disadvantages of the Proposed Demerger and the implications for Shareholders if the Proposed Demerger does not proceed. A summary of our analysis is set out below.

Summary and conclusion

In assessing whether the Proposed Demerger is in the best interests of Shareholders, we have considered the events leading up to the Proposed Demerger, the advantages and disadvantages of the Proposed Demerger and the implications for Shareholders if the Proposed Demerger does not proceed. Our analysis is set out below.

The events leading up to the Proposed Demerger

Iluka acquired Sierra Rutile for Australian dollars (**A\$**) 455 million in 2016 with the strategic rationale of increasing Iluka's resource base and to leverage Iluka's existing operational capabilities to simplify and automate Sierra Rutile's mining processes to drive higher production, lower unit cash costs of production and realise value for Shareholders. In the five years following the acquisition, Iluka invested capital, technical expertise and time to improve Sierra Rutile's operations. This included a change in the mining method from dredge (wet) to dry (truck and shovel) mining as management determined it to be the most appropriate mining method for the orebody at the time.

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This shift in processes was largely unsuccessful and Iluka failed to realise operational improvements. Iluka also faced continuous unforeseen operational, labour and mechanical issues which collectively disrupted production from calendar year (CY) 2018 to mid-CY2021, ultimately resulting in the performance of the operations falling well short of the acquisition investment case.

Iluka's portfolio has evolved significantly since its acquisition of Sierra Rutile. Its strategic and capital allocation priorities are now focused on its Australian operations, which contribute 83% of its mineral sands revenue and 92% of its mineral sands earnings², and its evolving rare earths strategy³. As a result, in late 2020 Iluka made the decision that it would not fund the next phase of Sierra Rutile's growth (i.e. the development of the Sembehun project) on its own. In January 2021, Iluka announced that it had commenced a process to identify third parties willing to invest in the next phase of Sierra Rutile's growth. In January 2022, Iluka announced that a demerger was also being considered.

Iluka considered several alternative pathways for Sierra Rutile to maximise Shareholder value. They included:

- a sale of all or part of Sierra Rutile: this process was undertaken with the objective of allowing Iluka to either exit Sierra Rutile or take a more passive role in Sierra Rutile's operations. Various indications of interest were received but none of them reflected the value optionality inherent in the Sembehun project. Iluka therefore concluded that a sale of all or part of Sierra Rutile is not optimal at present as Shareholders are unlikely to realise its true underlying value
- an initial public offering (IPO): a successfully executed IPO would have the benefit of generating proceeds for Iluka from the sale of Sierra Rutile shares, however, it would be a longer and more costly process than a demerger and would need to be timed appropriately for when market conditions allow for a successful outcome. Given the current high level of project uncertainty surrounding the development and funding of the Sembehun project, Iluka determined that it would be difficult to determine an IPO price that adequately reflects the project's optionality and that it is therefore not suitable timing for an IPO.

An IPO would also require third party investors (including Shareholders) to invest new money, whereas a demerger can be executed with a greater level of confidence without the need for additional investment from third party investors and Shareholders at present.

In April 2022, Iluka announced that it had concluded that the Proposed Demerger represents the optimal pathway for Sierra Rutile to reach its potential and maximise value for Shareholders.

Following the Proposed Demerger, Iluka will continue to focus on its mineral sands operations in Australia and its developing rare earths operations. Sierra Rutile will focus on its mining and processing operations in Sierra Leone and extending their life by developing the Sembehun project.

In addition to the investments made since acquisition, Iluka has undertaken significant initiatives at Sierra Rutile over the past year to position it as a strong, standalone entity, including:

- putting in place a strong management team focused solely on improving Sierra Rutile's operating efficiency and stabilising operating costs, production volatility and downtime caused by mechanical problems and labour disputes and shortages. Over the past 10 months, Sierra Rutile has achieved or exceeded its budget which is its longest period of consistent performance since it was acquired by Iluka. A key factor in this turnaround is the appointment of experienced leadership, including Theuns de Bruyn, Sierra Rutile's current Chief Executive Officer (CEO), who has significant expertise in operating assets in Africa
- developing strong relationships between Sierra Rutile's management and local government, workforce and community

² Mineral sands' revenue and EBIT, Iluka's CY2021 Annual Report

³ In this regard, Iluka recently announced its final investment decision for the development of its Eneabba fully integrated rare earths refinery in Western Australia with initial and potential long-term feedstocks secured within its current portfolio. The development of the Eneabba refinery, which will require capital expenditure of c. A\$1.0 billion to A\$1.2 billion, will be funded through a risk sharing agreement with the Australian Government.



- investing into the pre-feasibility study (**PFS**) for Sembehun which will provide the foundations for Sierra Rutile's next phase of growth
- the reset of the fiscal regime which was ratified by the Sierra Leone Parliament in January 2022. This reduced royalty and revenue taxes while Area 1 operations continue, thereby improving the underlying economics of the operations.

Advantages of the Proposed Demerger

Greater Board and management focus

The Proposed Demerger will result in separate management and Boards respectively focused on the operations of Iluka in Australia and the operations of Sierra Rutile in Sierra Leone.

Senior management of Iluka estimate that they currently spend a disproportionate amount of time and effort on managing the risks and opportunities specific to Sierra Rutile relative to the value that Sierra Rutile contributes to Iluka's overall portfolio.

Iluka's management team is currently responsible for delivering Sierra Rutile's operational performance plan as well as achieving key performance indicators (**KPIs**) related to safety and sustainability, community development and fostering relationships with stakeholders. This is in addition to delivering results for the rest of the portfolio and is a significant distraction for Iluka's executives. Sierra Rutile, and in particular the development of Sembehun, will remain a distraction as long as Sierra Rutile remains in Iluka's portfolio. The progress of management's KPIs and any issues experienced at Sierra Rutile are also reported to the Board and require a disproportionate level of Board oversight despite Sierra Rutile generating less than 5% of Iluka's overall earnings⁴.

A demerger of Sierra Rutile will focus Iluka management's attention on its core, Australian opportunities, which are entering a new phase of growth, risk, capital intensity and commodity diversification into rare earths.

A demerger of Sierra Rutile will similarly allow Sierra Rutile management greater flexibility and agility to pursue the growth agenda of Sembehun, and Sierra Rutile will not have to compete with Iluka's Australian operations for access to Iluka's scarce management and financial capital in the future.

The Proposed Demerger also presents an opportunity to better align management incentive plans to the specific operations within each team's remit.

Iluka's Board and management have implemented a number of strategies to ensure Sierra Rutile is set up to be successful following the Proposed Demerger:

- a US\$45 million cash-funded trust will be established to fund Sierra Rutile's existing Area 1 rehabilitation obligations. This negates concerns of how rehabilitation will be financed in the future and mitigates Iluka's reputational risk in this regard
- in addition to the US\$45 million cash funded trust, Sierra Rutile will be well positioned with a cash balance of US\$20.7 million and no debt (at 31 May 2022)
- key management personnel instrumental to the turnaround in Area 1 operations in recent times will be retained. In particular, Theuns de Bruyn, Sierra Rutile's current CEO will remain as CEO. He has significant expertise in operating assets in Africa, an understanding of the complex West African mining landscape and strong relationships with the Government of Sierra Leone, local community, local workforce and other stakeholders
- a qualified Board has been selected, with experience operating and developing resource projects. The recent completion of the June 2022 Sembehun PFS will provide the Board with a clear path forward in terms of the development of Sembehun and how best to extract value for Shareholders.

⁴ Profit before tax, Iluka CY2021 Annual Report



Improved ability to participate in upside optionality from Sembehun

Given Iluka's capital allocation priorities and focus on Australian mineral sands and rare earths portfolio, Iluka has decided it will not fund Sierra Rutile's next phase of growth, being the development of the Sembehun project, on its own.

Sierra Rutile offers investors access to one of the largest and highest quality natural rutile deposits in the world. The Sembehun project will extend the life of Sierra Rutile's existing operations and provide investors with long-term exposure to the natural rutile market. Spot prices for natural rutile are at a 10-year high and the outlook for the titanium feedstock market is favourable, given the tight supply of high quality rutile.

However, the lack of clarity on how the development of Sembehun will be funded has created market uncertainty and significant ambiguity about the true underlying value of Sembehun and therefore of Sierra Rutile. This is demonstrated by the significant disparity in brokers' valuation estimates for Sierra Rutile, which range from A\$18.0 million to A\$1.1 billion⁵.

This suggests there is significant upside optionality associated with the Sembehun development which is less likely to be realised by Shareholders in the short to medium term if Sierra Rutile remains in the Iluka portfolio.

The Proposed Demerger removes the immediate capital constraint imposed by Iluka's internal investment priorities and effectively allows Shareholders a choice as to whether or not to participate in upside optionality that may be unlocked by any future development of Sembehun or any market re-rating of the value of Sierra Rutile.

As a separate listed entity from Iluka, Sierra Rutile will obtain direct access to investors with an appetite to invest in West Africa. Australian market appetite towards investment in West African mining assets is apparent by the number of ASX-listed companies with operations in the region. In our review of the current investor landscape, we observed a notable history of Australian investment in ASX-listed West African-focused companies. Australian Government data confirms that at least 170 ASX listed mining and resource companies operate in c. 35 African countries, with the overall value of current exploration, extraction, and processing estimated to be greater than A\$30 billion⁶.

In addition, Sierra Rutile will have the ability to secure future funding from other sources to develop Sembehun, including joint venture arrangements, cornerstone investors, debt and offtake prepayments, albeit it could be challenging to secure the required funding.

The Proposed Demerger also preserves and enhances other value creation options for Shareholders, which may include a future sale of all or part of Sierra Rutile or a takeover offer at the right time for the right value.

Greater investment flexibility for Shareholders and new investors based on their investment objectives

The Proposed Demerger will simplify Iluka's operations as it will no longer own and manage assets located in Sierra Leone.

In theory, diversification is most effectively achieved by investors tailoring their portfolio for their own individual risk appetite rather than by companies doing so on their behalf. This is broadly supported by research indicating that there are costs to corporate diversification. They include a distracted management which can result in the most attractive investment opportunity receiving inadequate focus or funding and poorly operating segments draining resources from better performing businesses⁷. Other research suggests that investors generally prefer to buy pure play companies rather than a miscellaneous assortment of operations or assets⁸.

⁵ Our review of broker reports consists of 20 reports dated from 24 January 2022 to 27 April 2022. Many of the reports during this period were issued by the same broker. In determining a range and median, we have considered the latest report from each broker noting that only four brokers provided values for Sierra Rutile on a standalone basis.

⁶ Australian Government, Department of Foreign Affairs and Trade, 21 June 2018, available from:

<https://www.dfat.gov.au/geo/africa-middle-east/africa-region-brief>

⁷ Berger, Philip, and Eli Ofek, 1995, Diversification's effect on firm value

⁸ Pratt, Shannon P, Business Valuations Discounts and Premiums (2nd edition), page 260

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A generally accepted view in favour of demergers is that share markets do not reward corporate diversification unless investors can realise material synergies. Iluka has not been successful in realising the planned efficiencies from its acquisition of Sierra Rutile, and there are no obvious benefits to geographic and risk-return profile diversification given Sierra Rutile's relative contribution to Iluka's overall earnings is currently less than 5%⁹.

Investors will have the choice to retain or exit their exposure to both Iluka, with its Australian-focused mineral sands and rare earths portfolio, and Sierra Rutile, a pure-play mineral sands operation in Sierra Leone. The separation of the operations through a demerger offers Shareholders¹⁰ the choice to retain their exposure to operations in Sierra Leone as well as the flexibility to achieve diversification themselves based on their individual risk and return investment preferences.

Iluka is expected to remain a constituent of the S&P/ASX 100 and S&P/ASX 200 indices, however Sierra Rutile is not expected to be a constituent of either and is likely to be considered a "small-cap" listed company. The exclusion of Sierra Rutile from the S&P/ASX 100 and S&P/ASX 200 indices may result in some existing institutional shareholders divesting their investment in Sierra Rutile (post-demerger); however, the standalone Sierra Rutile business may attract other shareholders and institutional investors with a preference for investing in brownfield development operations in West Africa and/or smaller companies.

Disadvantages of the Proposed Demerger

Sierra Rutile as a standalone entity may not be able to secure funding to develop Sembehun

The phased development of the Sembehun project is intended to allow Sierra Rutile to utilise cash flows generated from Area 1 to assist with funding the development of Sembehun. Despite this, the standalone Sierra Rutile business will not have the financial capacity to fully fund development of the Sembehun project without accessing external funding. The development of Sembehun is therefore dependent on Sierra Rutile's ability to secure external funding on acceptable terms, and there is no certainty that this will be possible.

Duplication of ongoing corporate costs

The Proposed Demerger will result in a duplication of certain corporate costs, predominantly the cost of a new Board of Directors for Sierra Rutile and ongoing ASX fees, of approximately A\$7.0 million per annum.

Sierra Rutile is currently supported by Iluka's corporate services infrastructure and will enter into a transitional services agreement pursuant to which Iluka will continue to provide corporate services including accounting, treasury, legal, administration, information management and human resources for a period of up to 12 months following the Proposed Demerger. The objective of the agreement is to support a smooth transition in establishing Sierra Rutile as a standalone, independent operating entity.

Transaction costs

Iluka has estimated one-off costs of approximately A\$6.7 million (pre-tax) related to the Proposed Demerger including professional adviser fees, legal fees, printing and other costs. In addition to these costs, Sierra Rutile is expected to incur one-off transaction costs (including separation costs) of approximately A\$0.8 million (pre-tax).

Of these costs, approximately A\$4.1 million is anticipated to have been incurred prior to the Shareholders' vote on the Proposed Demerger.

Total costs are estimated to be A\$7.5 million which includes transaction and separation costs. In absolute terms, the costs appear to be significant however, they represent only c. 0.18% of Iluka's current market capitalisation¹¹.

⁹ Profit before tax, Iluka CY2021 Annual Report

¹⁰ Other than certain Shareholders ineligible or unable to hold shares in Sierra Rutile

¹¹ Based on market capitalisation calculated as at 13 May 2022



Certain Shareholders will not be eligible to receive or retain Sierra Rutile shares

Certain ineligible Shareholders will not receive Sierra Rutile shares. Shareholders with registered addresses outside of the following jurisdictions will not be entitled to receive Sierra Rutile shares issued as part of the Proposed Demerger:

- Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; or
- any other jurisdiction in which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Proposed Demerger and to transfer the Sierra Rutile shares to the Shareholder.

Sierra Rutile shares that would otherwise be transferred to ineligible Shareholders will be transferred to a sales agent to be sold and the sale proceeds will be paid to the ineligible Shareholders. The treatment of the shares in Sierra Rutile in respect of these ineligible Shareholders is set out in Section 5 of the Demerger Booklet.

Tax implications of the Proposed Demerger

Iluka has sought legal and tax advice in relation to the Proposed Demerger and has also lodged an application with the Australian Taxation Office (**ATO**) for a class ruling to confirm certain Australian income taxation implications of the Proposed Demerger for Shareholders, including:

- whether demerger tax relief under Division 125 of the *Income Tax Assessment Act 1997* applies to the Proposed Demerger (**Demerger Tax Relief**); and
- confirming that no determination under section 45B of the *Income Tax Assessment Act 1936* will be made (**s.45B determination**).

A final class ruling will be received from the Commissioner only after the implementation date for the Proposed Demerger. Should the Commissioner rule that Demerger Tax Relief is not available, Shareholders may be required to pay tax on part of the proceeds of the Proposed Demerger. Details of the tax implications of the Proposed Demerger for Shareholders are available in Section 6 of the Demerger Booklet.

Other considerations

Empirical studies on demergers

Recent empirical evidence of demergers in the Australian market is limited. The evidence is mainly restricted to US and European markets. Chai, Lin and Veld (2016)¹² examined the announcement effects and the long-run share performance associated with demergers for companies listed on the ASX. They found a significant positive 2.93% demerger announcement effect over a 3-day window surrounding the announcement day and significant long-run excess returns up to 36 months after demerger announcements.

In Appendix 3, we set out a summary of recent empirical evidence for the Australian market and historical academic studies from US and European markets. The market observations, whilst mixed on an individual demerger basis, broadly support the theory that demergers create value for shareholders. However, due to the nature of the transactions and the uncertainty over how the parent entity would have performed in the absence of the demerger, it is difficult to argue conclusively that demergers create shareholder value. Rather, the success or otherwise of any demerger will always depend on the specific circumstances of each transaction.

¹² Daniel Chai, Ken Lin and Chris Veld, Value-creation through spin-offs: Australian evidence (2016)

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Implications if the Proposed Demerger does not proceed

If the Proposed Demerger does not proceed, there will be no change in Iluka and it will remain listed on the ASX in its current form. Accordingly, Shareholders will retain a single shareholding in Iluka, which will continue to own Sierra Rutile.

Iluka will continue to operate in its current form and will continue with its existing strategies, the principal of which is to pursue growth in the mineral sands and rare earths sectors.

Implications for Shareholders should the Proposed Demerger not be implemented include:

- the advantages, disadvantages and risks of the Proposed Demerger will not be realised.
- of the expected A\$7.5 million (pre-tax) transaction costs, approximately A\$3.4 million (pre-tax) relating to the Proposed Demerger may not be incurred by Iluka and Sierra Rutile. Approximately A\$4.1 million of transaction costs are expected to have been incurred prior to the Extraordinary General Meeting.

Consideration of Iluka's ability to pay its creditors

In assessing Iluka's ability to pay its creditors, we have compared certain financial ratios of Iluka prior to the Proposed Demerger with those implied by pro-forma financial statements of Iluka following the Proposed Demerger. In particular, we have considered Iluka's current ratio, net debt to capital ratio, net debt to earnings before interest, tax, depreciation and amortisation (**EBITDA**) ratio and interest coverage ratio. Refer to Section 4 for further details of this analysis.

Based on our analysis, we are of the opinion that the Proposed Demerger does not materially prejudice the ability of Iluka to pay its existing creditors.

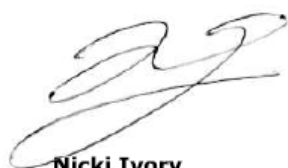
Opinion

Based on our consideration of the foregoing, the advantages of the Proposed Demerger outweigh the disadvantages of the Proposed Demerger. Consequently, we are of the opinion that the Proposed Demerger is in the best interests of the Shareholders. Furthermore, we are of the opinion that the Proposed Demerger does not materially prejudice the ability of Iluka to pay its existing creditors.

An individual Shareholder's decision in relation to the Proposed Demerger may be influenced by his or her particular circumstances. If in doubt the Shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed IER which sets out our scope and findings.

Yours faithfully



Nicki Ivory

Authorised Representative
AR Number: 461005



Stephen Reid

Authorised Representative
AR Number: 461011

Glossary

Reference	Definition
A\$	Australian dollars
A\$/t	Australian dollars per Tonne
AR	Authorised representative
ASIC	The Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BHP	BHP Group Limited
C/SW	Mining operations at Cataby and the processing of ilmenite at Capel in Western Australia
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company, the	Iluka Resources Limited
CY20XX	Calendar year ended 31 December 20XX
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Demerger Booklet, the	Demerger Booklet detailing the Proposed Demerger
Demerger Tax Relief	Demerger tax relief under Division 125 of the <i>Income Tax Assessment Act 1997</i>
Deterra	Deterra Royalties Limited
DFS	Definitive Feasibility Study
Directors, the	The Directors of Iluka
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPA	Environmental Protection Agency
FOB	Free on board
FSG	Financial Services Guide
IbisWorld	IBISWorld Pty Limited
IER	Independent expert's report
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
Iluka	Iluka Resources Limited
JA/MW	Mining operations at Jacinth-Ambrosia in South Australia and associated processing operations at the Narngulu mineral separation plant in mid-west Western Australia
Km	Kilometres
KPIs	Key performance indicators
Kronos	Kronos Worldwide Inc
kt	Kilotonnes
ktpa	Kilotonnes per annum
LOM	Life of mine
MAC	Mining Area C
MOFA	Multi Optional Facility Agreement
Mt	Million tonnes
Nasdaq	National Association of Securities Dealers Automated Quotations
NPAT	Net profit after tax
PFS	Pre-Feasibility Study
PP&E	Property, plant and equipment
QX	Quarter X
s.45B determination	A determination made under section 45B of the <i>Income Tax Assessment Act 1936</i>
SGR	Standard grade rutile
Shareholders, the	Existing holders of Iluka shares
Sierra Rutile	Iluka's rutile mining business in Sierra Leone
SR2	Second synthetic rutile kiln at Capel
TiO ₂	Titanium dioxide
TZMI	TZ Minerals International Pty Ltd

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Reference	Definition
US	United States
US\$	United States dollar
WACC	Weighted average cost of capital
ZIC	Zircon in concentrate

Contents

1	Overview of the Proposed Demerger	13
2	Profile of Iluka	14
3	Implications of the Proposed Demerger	38
4	Iluka's ability to pay its creditors following the Proposed Demerger	50
	Appendix 1: Context to the IER	54
	Appendix 2: Industry overview	56
	Appendix 3: Studies on demergers	62



1 Overview of the Proposed Demerger

1.1 Summary

On 27 January 2021, Iluka announced it had commenced a process to identify third parties willing to invest in the next phase of Sierra Rutile's growth. On 25 January 2022, Iluka announced that this process had been broadened to include consideration of a potential demerger before ultimately announcing its intention to demerge Sierra Rutile on 13 April 2022.

Under the terms of the Proposed Demerger, Iluka will demerge its rutile mining business in Sierra Leone and the demerged entity, Sierra Rutile Holdings Limited, will become a new ASX-listed company. The Proposed Demerger will be executed by a capital reduction which will involve Iluka distributing shares in Sierra Rutile to the Shareholders via an in-specie dividend. Shareholders will receive one share in Sierra Rutile for each existing share held in Iluka whilst retaining their existing shareholding in Iluka. The Company will not retain any shareholding in Sierra Rutile.

Full details of the Proposed Demerger are provided in Section 1 of the Demerger Booklet.

1.2 Rationale for the Proposed Demerger

The Directors consider that the Proposed Demerger has potential to unlock shareholder value over time as a consequence of¹³:

- empowering the Board and management of each company, Iluka and Sierra Rutile, to focus on their distinct growth strategies appropriate for each business
- the Proposed Demerger maximising the potential for the development of the Sembahun project due to the strategic focus of the demerged business on this objective
- Shareholders having greater investment choice and the ability to hold shares in one or both of Iluka and Sierra Rutile based on their individual investment objectives, risk tolerances and desired geographic exposures
- increased flexibility for each business to determine incentive plans that have closer alignment to each business' underlying strategy, performance and shareholder value creation.

¹³ Chairman's Letter, Demerger Booklet

2 Profile of Iluka

2.1 Overview

Iluka was formed through the merger of RGC Ltd and Westralian Sands in 1998 and adopted the name Iluka in 1999. Iluka is headquartered in Perth, Western Australia.

Iluka is one of the largest producers of zircon globally and a major producer of TiO₂ feedstock (rutile, synthetic rutile and chloride ilmenite). Iluka also holds an emerging portfolio of rare earth deposits.

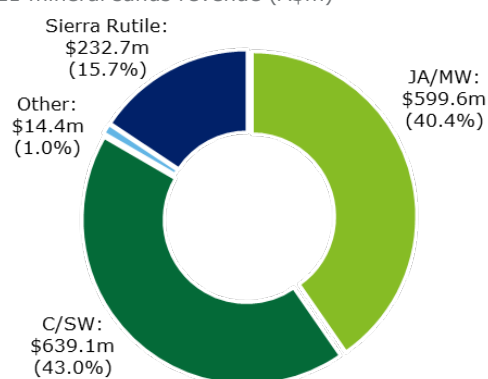
Iluka's key assets comprise:

- interests in operating mines and processing operations in Australia and Sierra Leone, principally:
 - mining operations at Jacinth-Ambrosia in South Australia and associated processing operations at the Narngulu mineral separation plant in Western Australia
 - mining operations at Cataby and the processing of ilmenite to produce synthetic rutile at Capel in Western Australia
 - integrated mineral sands operations in Sierra Leone
- its Eneabba project which involves the extraction and processing of its Eneabba high grade rare earth stockpile and will include the development of a fully integrated rare earths refinery
- exploration, pre-development and development projects across Australia (Western and South Australia, Victoria and New South Wales), the US, Canada, Sri Lanka and Sierra Leone
- a 20% stake in Deterra Royalties Limited (**Deterra**), the largest resources-focused royalty company listed on the ASX.

Iluka's operations are discussed in further detail in Sections 2.2 to 2.4.

In CY2021, Iluka reported A\$1.5 billion in revenue, the majority of which was derived from Iluka's various mining and processing operations in South and Western Australia as summarised in the chart below.

Figure 1: CY2021 mineral sands revenue (A\$m)



Source: Iluka annual reports

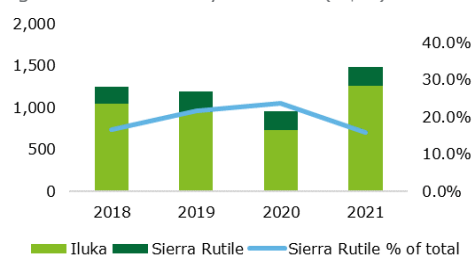
Notes:

1. JA/MW refers to mining operations at Jacinth-Ambrosia in South Australia and associated processing operations at the Narngulu mineral separation plant in mid-west Western Australia
2. C/SW refers to mining operations at Cataby and the processing of ilmenite at Capel (South West, Western Australia)
3. 'Other' includes rehabilitation obligations in the US and idle assets located at the Murray Basin in Victoria, Australia

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The figures below summarise Iluka's revenue and EBITDA reported for CY2018 to CY2021 split between Iluka and Sierra Rutile.

Figure 2: Revenue by business (A\$m)

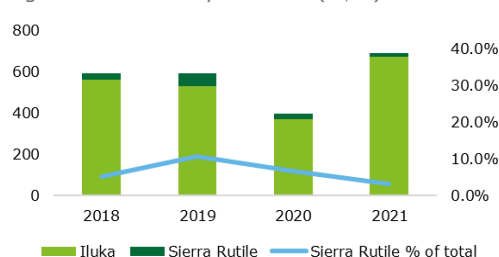


Source: Iluka annual reports

Notes:

1. Excludes Mining Area C royalty revenues

Figure 3: EBITDA by business (A\$m)



Source: Iluka annual reports

Notes:

1. Includes Mining Area C royalty revenues
2. Corporate revenue and costs wholly allocated to Iluka
3. Sierra Rutile EBITDA based on non-IFRS financial information disclosed in annual reports

2.1.2 Iluka's executive team

The table below sets out Iluka's executive team prior to the Proposed Demerger.

Table 1: Iluka's executive team

Name	Title	Description
Tom O'Leary	Managing Director and Chief Executive Officer (CEO)	Tom joined Iluka in September 2016 as its CEO
Adele Stratton	Chief Financial Officer (CFO) and Head of Development	Adele joined Iluka in May 2011 and was appointed CFO in September 2018
Matthew Blackwell	Head of Major Projects and Marketing	Matthew joined Iluka in September 2004 and was appointed Head of Major Projects, Engineering & Innovation in 2019
Rob Hattingh	Head of Climate Change Response	Rob joined Iluka in April 2008 before moving to Sierra Rutile in November 2016. Following the completion of his assignment as CEO of Sierra Rutile, Rob was appointed Head of Climate Change in 2021
Sarah Hodgson	General Manager, People and Sustainability	Sarah joined Iluka in August 2013 and was appointed to her current role in March 2018
Daniel McGrath	Chief Technology Officer and Head of Rare Earths	Daniel joined Iluka in August 1993 and has held a number of roles across Iluka
Shane Tilka	General Manager, Australian Operations	Shane joined Iluka in November 2004 and has held a number of roles across Iluka
Theuns de Bruyn	CEO, Sierra Rutile	Theuns joined Iluka in 2019 as Chief Operating Officer for Sierra Rutile and is currently the CEO of Sierra Rutile

Source: Iluka management

2.2 Operations in Australia

The map below shows the locations of Iluka's mining and processing operations and resource development projects in Australia.

Figure 4: Iluka's operations in Australia



Source: Iluka management

2.2.1 South Australia

Iluka's mining and processing operations, and resource development projects in South Australia are located in the Eucla Basin region.

Mining and processing operations

Jacinth-Ambrosia

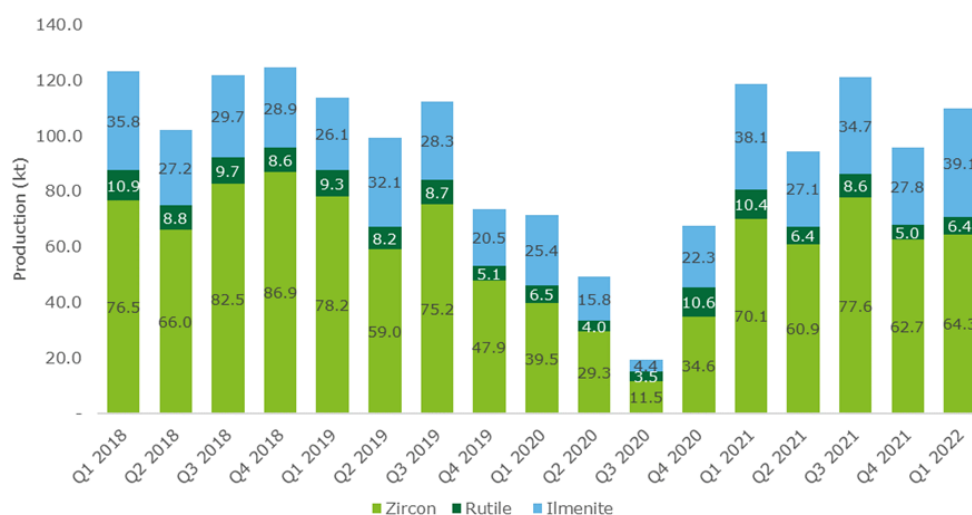
Iluka's South Australian operation refers to the Jacinth-Ambrosia mine which is the world's largest zircon mine. The Jacinth-Ambrosia deposit was discovered in 2004 with production commencing in 2009. Jacinth-Ambrosia is located 800 kilometres (**km**) from Adelaide and 270 km from the Port of Thevenard. Dry mining and concentration of ore through gravity separation occurs on site, producing heavy mineral concentrate, before the concentrate is transported to Iluka's Narngulu mineral separation plant in Western Australia for final processing.

In April 2020, production settings at the Narngulu mineral separation plant were adjusted because of demand uncertainty created by the COVID-19 pandemic, reducing global zircon supply by c. 10%. The site returned to maximum operational settings in 2021 to meet the rebounding market.

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The figure below sets out Iluka's quarterly production volumes of zircon, rutile and ilmenite from Jacinth-Ambrosia from Q1 CY2018 to Q1 CY2022.

Figure 5: Production from Jacinth-Ambrosia from Q1 CY2018 to Q1 CY2022



Source: Iluka ASX announcements

Notes:

1. Figure above subject to rounding
2. Iluka's zircon production figures include volumes of zircon attributable to external processing arrangements (i.e. zircon in concentrate)
3. Q1 CY2020 and Q2 CY2020 zircon production reflects changes to Narngulu plant settings detailed below and Q3 CY2020 zircon production reflects the adequate heavy mineral concentrate stockpiles and Iluka's decision to prioritise processing at Cataby rather than Jacinth-Ambrosia

Resource development projects

Atacama

Atacama is a satellite resource development project close to Iluka's existing operation at Jacinth-Ambrosia and is a logical extension to supplement and extend zircon production using existing plant and infrastructure. At this stage, the current technical focus with Atacama involves removing contaminants in the ilmenite fraction of the deposit. A PFS commenced in 2019 was subsequently placed on hold. It resumed in August 2021 and is focused on increasing the technical and commercial confidence in the project and advancing approvals.

2.2.2 Western Australia

Iluka's mining and processing operations, and resource development projects in Western Australia are located in the Perth Basin region.

Mining and processing operations

Iluka's Western Australian mining and processing operations are located in Narngulu, Eneabba, Cataby and Capel.

Narngulu

Narngulu hosts Iluka's mineral separation plant and is one of the largest mineral separation facilities globally with current capacity to process 750 kilotonnes per annum (**ktpa**) of heavy mineral concentrate, and produce c. 300 to 350 ktpa of zircon finished product. Narngulu receives heavy mineral concentrate from Iluka's Jacinth-Ambrosia mine and non-magnetic material (zircon and rutile) from Cataby. The mineral separation plant produces zircon, rutile and ilmenite products, which are exported from the Port of Geraldton.

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In CY2020, Narngulu adjusted its plant settings (due to current market dynamics and in response to the impact of COVID-19 on the mineral sands market), reducing zircon production by c. 110 kilotonnes (**kt**) for CY2020. The plant, however, retained flexibility to return to higher production settings within 24 hours if required.

In January 2021, Narngulu returned to full processing capacity in response to increasing market demand, processing 623 kt of material to produce 320 kt of zircon, including zircon in concentrate (**ZIC**), and 67 kt of rutile in CY2021.

Cataby

Cataby is a large, chloride ilmenite rich, deposit 150 km north of Perth. Mine development was approved in December 2017. Commissioning occurred over Q1 CY2019 and the mine formally opened in June 2019.

Cataby is a conventional mineral sands development utilising both dozer push as well as truck and excavator mining to feed two in-pit mining units. An onsite Wet High Magnetic Separation plant separates the magnetic ilmenite and non-magnetic zircon and rutile before the magnetic heavy mineral concentrate is transported to Capel and processed into c. 225 ktpa of premium grade synthetic rutile, with zircon and rutile transported to Narngulu for final processing.

At commissioning, Cataby was expected to average production of approximately 370 ktpa of chloride ilmenite, 50 ktpa of zircon and 30 ktpa of rutile over an eight and a half year mine life with the ability to access additional ore reserves which could underpin an extension to the mine life by an additional four years¹⁴. In December 2017, Iluka secured offtake agreements with various pigment producers for 85% of Cataby's synthetic rutile production for a minimum of four years. The offtake agreements account for a minimum of 175 ktpa of synthetic rutile per annum, with customers collectively having flexibility to purchase up to 190 ktpa of the production at the second synthetic rutile kiln at Capel (**SR2**).

Following the commencement of production, Cataby ramped up production in CY2019, reaching close to nameplate production (producing 240 ktpa of heavy mineral concentrate) by December 2020. In CY2020, Cataby was fully operational, producing 520 ktpa of heavy mineral concentrate, of which 345 kt of magnetic material (mainly ilmenite) was trucked to Capel for further upgrading to synthetic rutile, and a further 164 kt of non-magnetic material was transported to the Narngulu mineral separation plant for processing to final products (zircon and rutile).

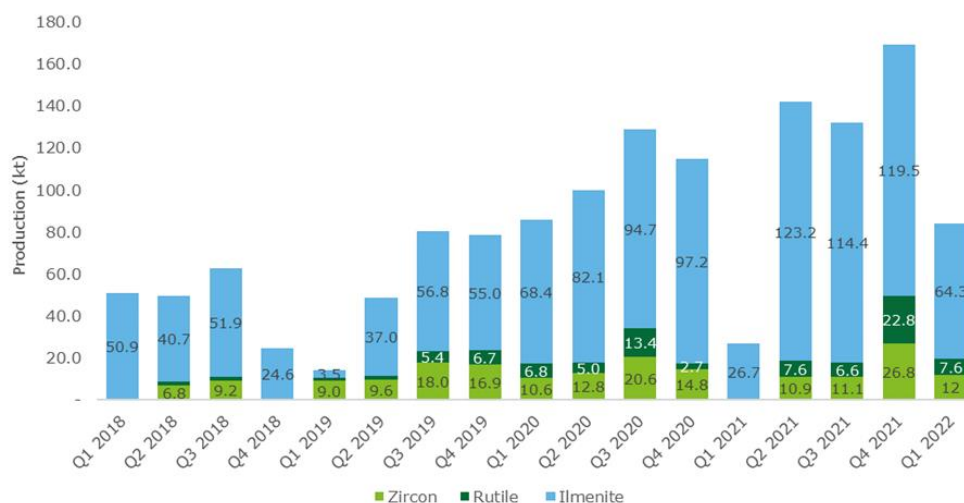
In CY2021, Cataby produced 541 kt of heavy mineral concentrate as a result of higher ore treatment volumes, ore grade and recovery. This was achieved despite tropical Cyclone Seroja shutting down production at the Narngulu mineral separation plant for three days in April 2021. Most recently, Cataby commenced a project to debottleneck its mining unit which is expected to be delivered in late CY2022.

The figure below sets out Iluka's quarterly production of zircon, rutile and ilmenite from Cataby from Q1 CY2018 to Q1 CY2022.

¹⁴ Iluka March quarterly review dated 15 April 2019

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Figure 6: Production from Cataby/South West WA from Q1 CY2018 to Q1 CY2022



Source: Iluka ASX announcements

Note:

1. Figure above subject to rounding

Capel (SR1 and SR2)

Operations at Capel include two synthetic rutile kilns, known as SR1 and SR2. The synthetic rutile process upgrades the chloride ilmenite received from Cataby to synthetic rutile product with TiO₂ content of 89% to 94%.

SR2 is currently operational with an annual production capacity of approximately 225 kt. In CY2020, SR2 delivered record annual production of 227 kt of synthetic rutile however production was suspended from February 2021 to March 2021 to optimise inventory levels and minimise costs. SR2 returned to full production in April 2021, producing a total of 199 kt of synthetic rutile in CY2021.

SR1 is located adjacent to SR2 and has an annual production capacity of 110 kt. SR1 is currently idle, however is expected to restart in Q4 2022.

Eneabba

The Eneabba project in Western Australia involves the extraction and processing of the Eneabba stockpile, the highest grade rare earths deposit globally. It will include the development of a fully integrated rare earths refinery.

Development of Eneabba has been divided into three phases:

- Phase 1 of the project (now complete) involved the extraction, processing and sale of a monazite-rich tailings stockpile¹⁵ stored in a mining void at Eneabba. It produced a mixed monazite-zircon concentrate, with the monazite fraction at c. 20%. First production was recorded in April 2020 with first sales shipped ahead of schedule in June 2020. The final shipment of Phase 1 production was completed in December 2021;
- Phase 2 of the project involves further processing of monazite concentrate to produce a c. 90% monazite concentrate product. The construction of the plant is complete and commissioning is scheduled for H1 2022; and

¹⁵ Monazite is a rare earth phosphate heavy mineral, a subset of mineral sands that contains rare earth minerals as well as thorium and uranium.

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- Phase 3 of the project involves the construction and commissioning of a fully integrated rare earths refinery at Eneabba and material produced through phase 2 will form a direct feed to phase 3. Iluka reached final investment decision for the Eneabba Rare Earths Refinery in April 2022 following completion of the definitive feasibility study (DFS) and execution of a risk sharing arrangement with the Australian Government. Under the arrangement, Iluka will contribute A\$200 million in cash and a A\$1.27 billion equity-like contribution of Eneabba's stockpile whilst the Australian Government will provide funding via a c. A\$1.05 billion non-recourse loan under the A\$2 billion Critical Minerals Facility (administered by Export Finance Australia), plus a A\$200 million cost overrun facility if required.

Construction of the refinery is expected to commence in H2 CY2022 with first production expected in CY2025. The refinery will be capable of processing rare earth feedstocks sourced from both Iluka and third-party suppliers, however will source initial feedstock from the Eneabba stockpile. Potential future feedstock sources include Iluka's Wimmera deposits. The current expected life of the Eneabba stockpile is nine years whereas the Wimmera deposit has a potential life of several decades.

The refinery, with a total rare earth oxide capacity of 17.5 ktpa, will produce high value rare earth oxides including neodymium, praseodymium, dysprosium and terbium.

2.2.3 Victoria

Iluka's mining and processing operations and resource development projects in Victoria are located in the Murray Basin.

Resource development projects

Wimmera

The Wimmera Project is Iluka's resource development project in Western Victoria. The Wimmera Project is a fine-grained deposit in the Victorian Murray Basin and is a proposed zircon and rare earth project. Iluka's focus is on refining zircon to a saleable grade, and the production of rare earth products.

The project is currently the subject of a PFS, which involves assessing geological, mining, processing, marketing, environmental and social aspects of the project. Iluka has noted that, although progress has been satisfactory, all fine-grained mineral sands deposits in Western Victoria have impurities in their zircon. Without a processing solution to remove the impurities, zircon is ineligible for sale in most end markets. Current studies are focused on validating Iluka's zircon processing solution.

In November 2021, Iluka declared a Mineral Resource at the Wimmera deposits (WIM100, WIM50 and WIM50 North) and commissioned larger scale piloting. Iluka is currently undertaking test work to inform economic feasibility. Test work is expected to continue through CY2022.

The Wimmera Project's rare earth minerals are similar to those stockpiled at Eneabba and it offers the potential to be a long-life rare earth concentrate feed source to the Eneabba refinery.

2.2.4 New South Wales

Iluka's mining and processing operations and resource development projects in New South Wales are located in the Murray Basin.

Resource development projects

Balranald

Balranald is a rutile-rich deposit located in the northern Murray Basin, New South Wales. Due to the depth of these deposits relative to traditional deposits (c. 60 metres underground), Iluka has internally developed an underground mining method to access the orebody more economically than through conventional means.

In July 2021, Iluka completed its analysis of a third trial of the underground mining method at Balranald. In August 2021, Iluka approved the DFS for Balranald and proceeded with work in accordance with the DFS. A final investment decision for Balranald is expected to occur in Q4 CY2022.

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Euston

Euston, located near Balranald in New South Wales, is a traditional mineral sands deposit. It has significant zircon and rutile assemblages, with ilmenite feedstock potentially suitable for Iluka's synthetic rutile kilns.

Euston is currently in the PFS stage and was added to Iluka's development pipeline in CY2021.

2.2.5 Interest in Deterra Royalties Limited

In November 2020, Iluka demerged its Mining Area C (**MAC**) royalty business to form Deterra. Deterra manages a portfolio of royalty assets across a range of commodities, primarily focussed on bulks, base and battery metals. Deterra's primary asset is its royalty held over MAC, which is an iron ore mine in the Pilbara region of Western Australia currently operated by BHP Group Ltd (**BHP**).

Iluka retained a 20% equity ownership interest in Deterra. In H1 CY2022, Deterra achieved NPAT of A\$61.7 million and a dividend payout of 100%. Deterra's market capitalisation as at 17 May 2022 was A\$2.4 billion.

2.3 Operations in the United States, Canada and Sri Lanka

Iluka's exploration activity in the United States (**US**) is focussed on drill testing of new mine opportunities across the west coast, central US and the eastern seaboard. Iluka has drilled a total of 107 holes for a total of 5,199 metres. Subject to a geological review, Iluka plans to drill opportunities across central US and the eastern seaboard in CY2022.

Iluka also owns exploration and inactive assets in Canada and Sri Lanka respectively, which are not considered material for the purpose of this report.

2.4 Sierra Rutile

The map below shows the location of Iluka's mining and processing operations, and development project, in Sierra Leone.

Figure 7: Iluka's Sierra Leone operations



Source: Iluka management



Sierra Rutile has an operating history of more than 50 years with a remaining mine life of at least 20 years depending on future development options. Sierra Rutile consists of a multi-mine mineral sands operation with over 2,200 employees.

The current fiscal regime is an agreement associated with Sierra Rutile and Iluka management have advised that it will endure beyond the Proposed Demerger. The latest revisions to the fiscal regime are associated with the life of mine (**LOM**) for Area 1 (discussed below).

Sierra Rutile was acquired by Iluka in December 2016 for c. US\$330 million (A\$455 million; final equity consideration of A\$375 million and A\$80 million in assumed net debt).

The deal rationale for the initial acquisition included the ability for Iluka to approximately double its rutile resource base, secure ownership of a long-standing operation with the potential to expand production from c. 130 ktpa to 240 ktpa, and the opportunity to implement operational improvements designed to lower costs and simplify the operational processes. The latter opportunities, which were identified during the due diligence phase, assumed Iluka would be able to leverage its extensive operational and technical capabilities, particularly in relation to dry mining operations, to maximise the value of Sierra Rutile's mining operations.

In June 2019, Iluka and International Finance Corporation (**IFC**) entered into a strategic partnership in relation to Sierra Rutile. IFC subscribed for new shares in Iluka Investments (BVI) Limited, the holding company of Sierra Rutile, equivalent to a 3.57% stake in Sierra Rutile for US\$20 million. This was subsequently renegotiated to a 10% stake for no further investment from IFC. IFC exited its investment for cash consideration of US\$8 million in 2022.

In December 2019, three years after acquisition, Iluka wrote down its investment by US\$290 million (A\$414 million) to c. US\$50 million after Sierra Rutile failed to perform in line with the original investment case. This was largely attributed to unfavourable changes to capital expenditure estimates to develop the Sembehun deposit causing Iluka to review its previously preferred development approach, as well as Iluka's failure to achieve synergies since the acquisition in 2016.

In January 2021, Iluka announced that it had commenced an external process to identify third parties willing to invest in the next phase of Sierra Rutile's growth. Iluka progressed discussions with a number of parties. The Board ultimately concluded that a sale or IPO of Sierra Rutile is not optimal at present as Shareholders are unlikely to realise Sembehun's full underlying value, and that a demerger offers the best potential to unlock Shareholder value over time as it maximises the opportunity to develop the globally significant Sembehun project.

Sierra Rutile's operations are discussed in further detail below.

Mining and processing operations

Area 1 (Lanti and Gangama)

Area 1 represents Sierra Rutile's primary existing operations and consists of two mining operations at Lanti and Gangama, a mineral separation plant and a dedicated port facility. Sierra Rutile's main product is natural rutile, however small quantities of ilmenite and ZIC are also produced.

Following the acquisition, Iluka began implementing improvements to modify the dry mining method, safety and risk mitigation frameworks, and a code of conduct. Iluka achieved positive performance results in CY2017 with improvements in mineral recovery and concentrate grades. However, Iluka faced challenges integrating the improvements into the operations from CY2018 to mid CY2021 which resulted in delays, unexpected costs and lower production levels than originally planned. These operational issues, which caused fluctuating performance over the CY2018 to mid-2021 period, included the following:

- mechanical issues including issues experienced in March 2018 with the dredge, and a water tank liner failure in May 2018
- labour disruption including unlawful strike action taken by the workforce in October and November 2018
- community disruption in February 2020 resulting in a temporary suspension of operations

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- property damage including a minor fire at Sierra Rutile's mineral separation plant in October 2020, which resulted in one person needing first aid treatment for minor burns
- downtime for infrastructure moves and the mines operating in lower grade mine blocks in CY2020
- the impact of COVID-19 including the closure of borders impacting the ability to maintain planned levels of production-focused expatriates and supply chain continuity. This also contributed to difficulties in sourcing specialised skillsets in-country which impeded Iluka's ability to achieve operational consistency.

Despite the above operational issues, during CY2019, Iluka successfully decommissioned the Lanti dredge and completed expansion projects at Lanti and Gangama, doubling the capacity of both Lanti and Gangama from 500 to 600 tonnes per hour, to 1,000 to 1,200 tonnes per hour. Whilst Sierra Rutile produced 137 kt in CY2019, an improvement of 13% compared to production in CY2018, operational performance was below expectations and Iluka reassessed the carrying value of the Sierra Rutile operations before ultimately recording an impairment charge of US\$290 million (A\$414 million).

There was continued underperformance in late 2020 and early 2021. In May 2021, Iluka notified the Government of Sierra Leone of its intention to temporarily suspend operations at Sierra Rutile (effective 19 November 2021). A fiscal regime reset was then negotiated with the Government of Sierra Leone and an operational reset plan was implemented.

An agreement to reset the fiscal regime for the remaining Area 1 mining operations was reached in August 2021 (and ratified by Parliament in December 2021).

The operational reset plan included the following:

- optimisation of the mine plan
- improving mining, stockpile management, processing and tailing management processes
- improving maintenance processes to increase run time and plant availability
- reducing operating costs by optimising staff rostering, port operational efficiencies and other productivity improvements.

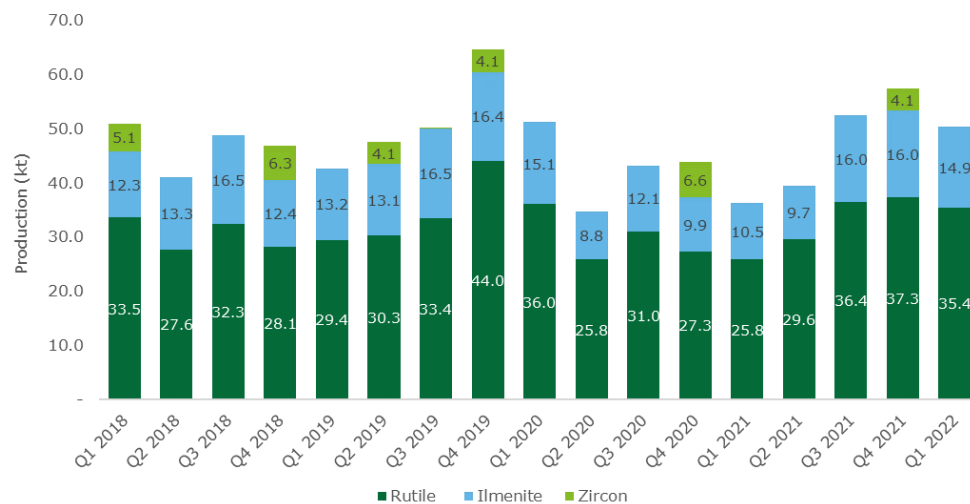
As a result of the above, Sierra Rutile has either exceeded and/or met its monthly production and earnings targets since July 2021, demonstrating its strongest consistent performance since its acquisition in 2016.

Iluka subsequently withdrew its notice to suspend operations in January 2022.

The figure below sets out the quarterly production of zircon, rutile and ilmenite from Sierra Rutile operations from Q1 CY2018 to Q1 CY2022.



Figure 8: Production from Sierra Rutile from Q1 CY2018 to Q1 CY2022

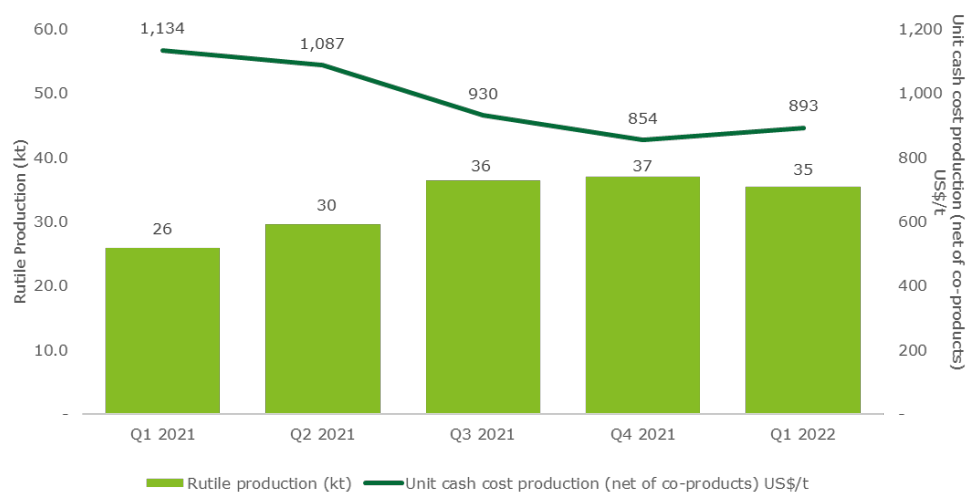


Source: Iluka ASX announcements

Note:

1. Figure above subject to rounding

Figure 9: Production and cost profile from Sierra Rutile from Q1 CY2021 to Q1 CY2022



Source: Demerger Booklet

Notes:

- Figure above subject to rounding
- Unit cash costs (net of co-products) represent the total cash costs of production less the revenue earned from co-products (ZIC and ilmenite), divided by the total tonnes of rutile produced



Management have forecast rutile production at Sierra Rutile to be c. 144 kt in CY2022¹⁶.

From January 2019 to December 2021, 75% of the standard grade rutile (**SGR**) produced from the Sierra Rutile operations (specifically, production from Lanti and Gangama) was contracted to Kronos Worldwide Inc (**Kronos**). Key contract terms included:

- offtake for 75% of SGR production each year, with a minimum of 100 kt per annum,
- a pricing mechanism that followed fluctuations in a basket of high-grade ore transactions of both Kronos and Iluka, which was subject to a floor price adjusted for inflation over the life of the contract
- usual commercial terms including force majeure and suspension of operations provisions.

Offtake agreements with Kronos have been negotiated for the first half of CY2022 and are currently being negotiated for the second half of CY2022.

Resource development

Sembehun

Sembehun is a group of rutile deposits approximately 30 km North West of the existing Sierra Rutile operations and is one of the largest and highest quality rutile deposits in the world.

Sembehun's Stage 1 (early works) DFS and value optimisation studies, which investigated options around timing, capacity and sequencing of mining and concentrating options, was expected to complete in CY2019. However, in June 2019, Iluka announced that early works at Sierra Rutile would be delayed beyond CY2019 as it was evident that additional capital would be required to develop Sembehun.

As a result, Iluka determined that it would need to revisit its previously preferred approach to develop Sembehun as well as revisit and broaden the value optimisation studies. As a consequence, certain design elements of earlier studies were reverted to scoping and PFS levels.

Iluka subsequently wrote down its investment in Sierra Rutile in CY2019 (discussed above) stating that, without a defined development approach, it would be difficult to determine a meaningful value for the Sembehun deposit.

The Concept Study (initiated in CY2019) was completed in CY2020, and identified four potential mining methods, including hydraulic mining and truck and shovel. Truck and shovel was identified as the highest confidence mining method and was chosen as the basis on which the Sembehun June 2022 PFS has been completed.

The Sembehun June 2022 PFS, announced in conjunction with the Demerger Booklet, sets out a pathway to develop Sembehun by leveraging the infrastructure in place at Area 1. The PFS¹⁷ includes the following highlights:

- mine life of 13 years (minimum) with steady state annual production of 176 kt of natural rutile
- net present value (8%, real, post-tax) of US\$318 million and an internal rate of return (real, post-tax) of 24%
- pre-production capital cost of US\$337 million consisting of:
 - US\$284 million (real) for Phase 1
 - US\$52 million (real) for Phase 2
- steady state unit cash costs (free on board (**FOB**) per tonne of natural rutile) of US\$535/t (net of co-product credits).

¹⁶ Iluka 2021 Full Year results presentation update dated 24 February 2022

¹⁷ Based on information provided in the Demerger Booklet.

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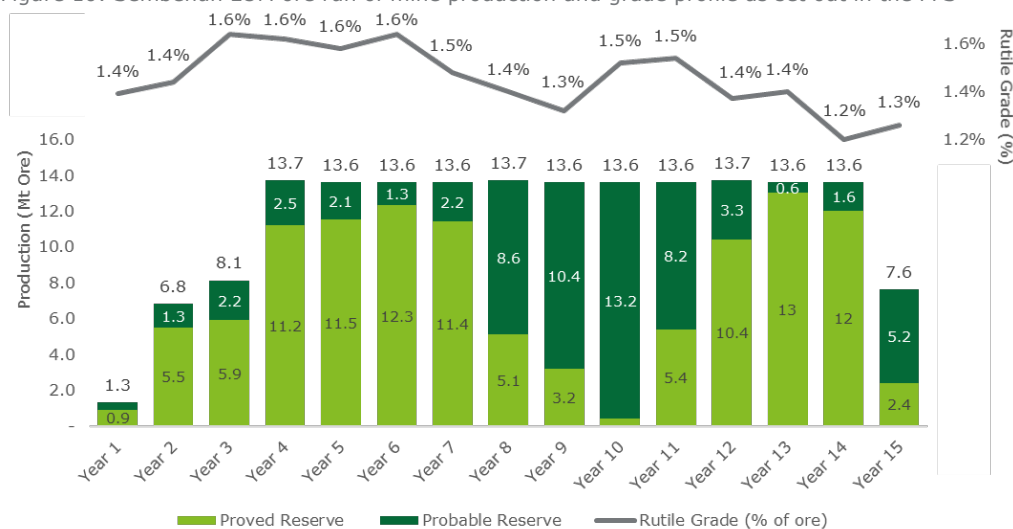
The PFS assumes a phased development of Sembehun based on leveraging the existing infrastructure in place for Area 1 and integrating the development of Sembehun with the remainder of the operations at Area 1. This phased approach allows the pre-production capital expenditure for Sembehun to be minimised whilst maximising Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun. Specifically, it is expected that the project will be executed in two phases as detailed below:

- Phase 1 will see construction of a complete operating facility with commissioning aimed to be completed within 24 months from final investment decision
- Phase 2 will include development of the second run of mine tip with scrubber, a second concentrator and the second stacker/storage area, with commissioning aimed to be complete within 24 months from Phase 1 commissioning.

Sierra Rutile plans to commence a DFS by Q3 CY2022. The DFS is expected to take 12 months to complete which would enable Sierra Rutile to reach a final investment decision for the Sembehun project during CY2023. In the PFS, an allowance of 24 months has been assumed between final investment decision and production commencement at Sembehun.

The figures below sets out Sembehun's production profile based on current Ore Reserves and according to the PFS.

Figure 10: Sembehun LOM ore run of mine production and grade profile as set out in the PFS



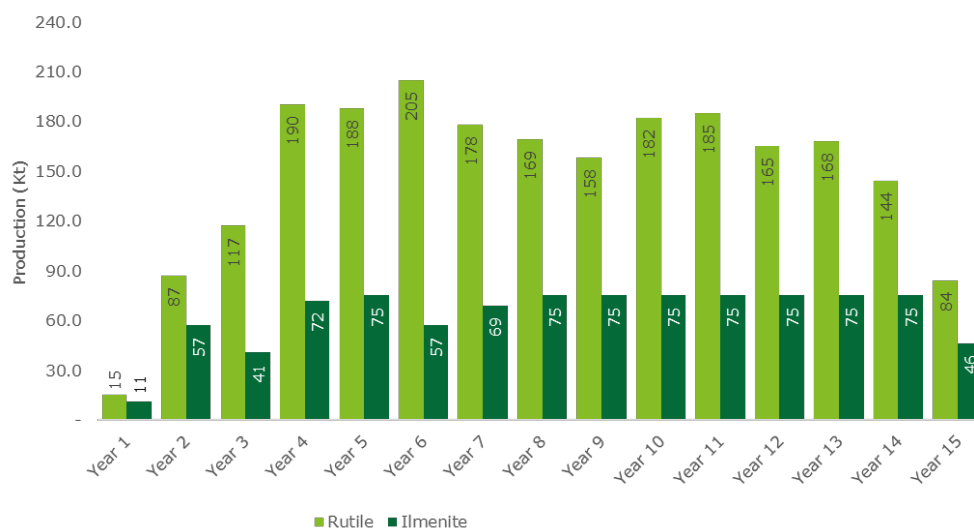
Source: Demerger Booklet

Note:

1. Figure above subject to rounding

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Figure 11: Sembehun LOM rutile and ilmenite production profile as set out in the PFS



Source: Demerger Booklet

Note:

1. Figure above subject to rounding

2.5 Reserves and resources

The following tables summarise the total attributable reserves and resources of Iluka as at 31 December 2021¹⁸.

Table 2: Summary of Iluka's heavy mineral ore reserves as at 31 December 2021

Region	Ore Reserve Category	Ore Tonnes Millions ²	In Situ HM Tonnes Millions	HM Grade (%)	HM Assemblage			
					Ilmenite Grade (%)	Zircon Grade (%)	Rutile Grade (%)	(M+X) ⁴ Grade (%)
Australia								
Eucla Basin	Proved	51	1.6	3.2	25	50	5	0
	Probable	3	0.1	2.2	21	54	3	1
Eucla Basin		54	1.7	3.2	24	50	5	1
Perth Basin ³	Proved	84	5.5	6.5	57	11	4	3
	Probable	44	3.4	7.6	68	11	2	2
Perth Basin		128	8.9	6.9	61	11	3	2
Proved – Total		136	7.2	5.3	50	20	4	2
Probable – Total		46	3.4	7.3	67	11	2	2
Grand Total		182	10.6	5.8	55	17	3	2

Source: Iluka 2021 Annual Report

Notes:

1. Table above subject to rounding
2. Ore Reserves are a sub-set of Mineral Resources.
3. Rutile component in Perth Basin South West operations is sold as a leucoxene product.
4. M+X comprise rare earth element bearing minerals monazite + xenotime.

Table 3: Summary of Iluka's rutile ore reserve for Sierra Rutile as at 31 December 2021

Table 3: Summary of Rutile Ore Reserves for Sierra Rutile as at 31 December 2022						
Region	Ore Reserve Category	Ore Tonnes Millions ²	In Situ Mineral Content			In Situ Rutile Tonnes Millions
			Rutile Grade (%)	Ilmenite Grade (%)	Zircon Grade (%)	
Sierra Leone						
Area 1	Proved	24	1.4	0.7	0.1	26
	Probable	14	1.4	0.5	0.1	10
Area 1		38	1.4	0.6	0.1	36
Sembehun	Proved	111	1.5	0.9	0.1	127
	Probable	63	1.4	0.9	0.1	56
Sembehun		174	1.5	0.9	0.1	183
Total	Proved	134	1.5	0.9	0.1	153
	Probable	78	1.4	0.8	0.1	66
Sierra Rutile - Total		212	1.5	0.9	0.1	219

Source: Iluka 2021 Annual Report, Demerger Booklet

Notes:

1. Table above subject to rounding
2. Ore Reserves are a sub-set of Mineral Resources.
3. The ilmenite and zircon grades are included for tabulation purposes under the Proved and Probable Reserve category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Probable where rutile is Proved. Otherwise, the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
4. Ore reserves for Sierra Leone are stated on a gross (100%) basis. As of 31 December 2021, International Finance Corporation (IFC) held a 10% equity stake in Iluka Investments (BVI) Limited, the holding company of Sierra Rutile Limited. IFC subsequently sold its stake to Iluka in 2022.

¹⁸ These statements conform with the 2012 Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (2012 JORC Code), other than the Ore Reserves for the South West deposits, which have not materially changed and were estimated in accordance with the JORC Code (2004 Edition). Iluka Resources is undertaking further work in order to report these estimates in accordance with the JORC Code (2012 Edition).

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Table 4: Summary of Iluka's heavy mineral resources as at 31 December 2021

Region	Mineral Resource Category	Material Tonnes Millions ²	In Situ HM Tonnes Millions ²	In Situ HM Grade (%)	HM Assemblage			
					Ilmenite Grade (%)	Zircon Grade (%)	Rutile Grade (%)	(M+X) ⁶ Grade (%)
Australia								
Eucla Basin	Measured	199	5	2.6	33	41	4	0.3
	Indicated	91	8	9.1	68	18	2	0.4
	Inferred	52	3	5.8	62	19	2	0.3
Eucla Basin		342	16	4.8	56	25	3	0.3
Murray Basin	Measured	16	4	27.6	62	11	11	1.1
	Indicated	427	34	8.1	45	14	10	1.7
	Inferred	1,127	62	5.5	35	14	7	2.0
Murray Basin		1,570	101	6.4	40	14	8	1.8
Perth Basin ³	Measured	474	28	5.9	58	11	5	1.1
	Indicated	300	16	5.3	53	10	5	0.8
	Inferred	193	9	4.9	55	9	5	0.8
Perth Basin		967	54	5.5	56	10	5	1.0
The United States								
Atlantic Seaboard ⁴	Measured	27	1	4.9	67	9	-	-
	Indicated	47	3	5.3	64	11	-	-
	Inferred	16	1	5.1	60	11	-	-
Atlantic Seaboard		90	4	4.8	64	10	-	-
Sri Lanka								
Sri Lanka ⁵	Inferred	136	10	7.0	65	4	5	0.4
Sri Lanka		136	10	7.0	65	4	5	0.4
Measured – Total		716	39	5.5	55	15	5	1.0
Indicated – Total		865	61	7.1	51	13	7	1.2
Inferred – Total		1,524	84	5.5	42	13	6	1.6
Grand Total		3,105	185	5.9	48	13	6	1.3

Source: Iluka 2021 Annual Report

Notes:

1. Table above subject to rounding
2. Mineral Resources are inclusive of Ore Reserves.
3. Rutile component in Perth Basin South West operations is sold as a leucoxene product.
4. Rutile is included in Ilmenite for the Atlantic Seaboard region.
5. As at 31 December 2021, the total Mineral Resource for Coco was 340 Mt. The Mineral Resource attributable to Iluka (reflecting Iluka's 40% ownership) was 136 Mt.
6. M+X comprise the rare earth element bearing minerals monazite + xenotime.

Table 5: Summary of Iluka's rutile mineral resources as at 31 December 2021

Table 3: Summary of Iluka's Rutile Mineral Resources as at 31 December 2021								
Region	Ore Reserve Category	Material Tonnes ² Millions	In Situ Mineral Content			In Situ Rutile Tonnes Millions	In Situ Ilmenite Tonnes Millions ³	In Situ Zircon Tonnes Millions ³
			Rutile Grade (%)	Ilmenite Grade (%)	Zircon Grade (%)			
Sierra Leone ⁴								
Area 1	Measured	44	1.2	0.5	0.1	535	223	37
	Indicated	143	1.0	0.5	0.1	1,402	745	174
	Inferred	19	1.0	0.5	0.1	190	97	17
Area 1		205	1.0	0.5	0.1	2,128	1,065	229
Sembehun	Measured	134	1.4	0.9	0.1	1,871	1,187	146
	Indicated	167	1.0	0.7	0.1	1,713	1,233	117
	Inferred	207	0.9	0.6	0.1	1,945	1,310	148
Sembehun		508	1.1	0.7	0.1	5,529	3,730	411
Other	Measured	-	-	-	-	-	-	-
	Indicated	-	-	-	-	-	-	-
	Inferred	39	1.2	-	-	0	-	-
Other		39	1.2	-	-	0	-	-
Total	Measured	178	1.4	0.8	0.1	2,406	1,410	183
	Indicated	309	1.0	0.6	0.1	3,116	1,978	292
	Inferred	265	0.9	0.6	0.1	2,135	1,407	165
Total		752	1.1	0.7	0.1	7,657	4,795	640

Source: Iluka management, Demerger booklet

Notes:

1. Table above subject to rounding
2. Mineral Resources are inclusive of Ore Reserves.
3. The ilmenite and zircon grades are included for tabulation purposes under the Measured, Indicated and Inferred Resource category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Indicated where rutile is Measured. Otherwise, the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
4. Ore Reserves for Sierra Leone are stated on a gross (100%) basis. As of 31 December 2021, International Finance Corporation (IFC) held a 10% equity stake in Iluka Investments (BVI) Limited, the holding company of Sierra Rutile Limited. IFC subsequently sold its stake to Iluka in 2022.

2.6 Project pipeline

The figure below outlines Iluka's current project pipeline. Iluka's pipeline includes its Sierra Rutile operations and reflects the recent announcement of Iluka's final investment decision for the development of the Eneabba fully integrated rare earths refinery in Western Australia.

Figure 12: Current project pipeline

Region Mineral Resource	Eucla Basin 342Mt @ 4.8% HM for 16Mt in Situ HM	Murry Basin 1,570Mt @ 6.4% HM for 101Mt in Situ HM	Perth Basin 967Mt @ 5.5% HM for 54Mt in Situ HM	Sierra Rutile 752Mt @ 1.1% Rutile for 8.1Mt in Situ Rutile	Estimated Accuracy Range (at end of phase)
Preliminary Feasibility Study	Atacama	Euston Wimmera	South West Deposits	Sembehun	-15% to +30%
Definitive Feasibility Study		Balranald			-10% to +15%
Project Execution			Eneabba Refinery SR1 Kiln Restart		N/A
Producing	Jacinth Ambrosia		SR2 Kiln Cataby	Lanti Gangama	N/A

Key:

Reserve Estimate
Resource Estimate
Other

Source: Iluka management, Iluka ASX Announcement (2022 Bank of America Global Metals, Mining and Steel Conference presentation dated 17 May 2022)

Note: Mineral Resource as at 31 December 2021 (see Section 2.5)

2.7 Capital structure

2.7.1 Shareholdings

Iluka's substantial shareholders (shareholders with holdings greater than 5%) as at 8 April 2022 are summarised in the table below.

Table 6: Iluka's substantial shareholders

No	Shareholder	No ordinary shares held (millions)	Percentage of issued shares (%)
1	Perpetual Limited	36.1	8.5
2	Tyndall Asset Management	22.9	5.4
Total substantial shareholders		59.1	13.9
Other shareholders		365.1	86.1
Total shares outstanding		424.2	100

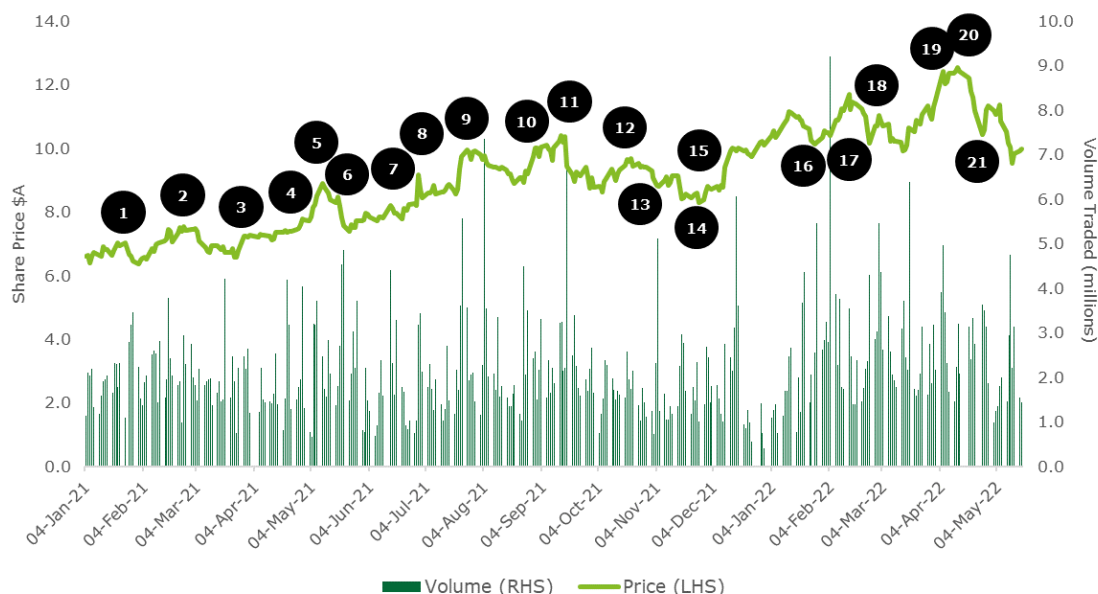
Source: National Association of Securities Dealers Automated Quotations (Nasdaq) advisory report

Note: Table above subject to rounding

2.8 Recent share trading

The figure below illustrates Iluka's share trading from 4 January 2021 to 17 May 2022.

Figure 13: Iluka's share trading



Source: S&P Capital IQ, ASX announcements, Deloitte Corporate Finance analysis

Over the 12 months ended 17 May 2022, 568.8 million Iluka shares were traded on the ASX, representing 135% of the average shares outstanding for the period. Key market-sensitive announcements, with a focus on Sierra Rutile, are summarised in the following table.

Table 7: Key announcements

Ref	Date	Commentary
1	27-Jan-21	Iluka announced its quarterly review to 31 December 2020. The review highlighted a decline in rutile production quarterly mineral sands revenue. Iluka also announced it had commenced a process to identify third parties willing to invest in the next phase of Sierra Rutile's growth
2	25-Feb-21	Iluka announced its full year results to 31 December 2020. The results reflected strong financial performance and the delivery of underlying NPAT of A\$151 million and a 2 cents per share dividend. Iluka also announced higher planned capital expenditure of A\$100 million in 2021
3	29-Mar-21	Iluka provided an update on dividends to be paid on 8 April 2021
4	23-Apr-21	Iluka announced its quarterly review to 31 March 2021 advising rutile production was down 11% from Q4 2020. The review noted challenges in achieving operational consistency at Sierra Rutile, which included difficulties in sourcing specialised skillsets in-country
5	11-May-21	Iluka announced it had received promising news from the Australian Government in relation to its Eneabba Rare Earth Refinery, supporting the possibility of financial support
6	20-May-21	Iluka announced that it had provided the Sierra Leone Government with six months' notice to suspend operations at Sierra Rutile
7	21-Jun-21	Iluka announced that there have been no further developments in relation to the third-party investment process regarding the Sierra Rutile project despite media speculation

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Ref	Date	Commentary
8	30-Jun-21	Rio Tinto Limited announced force majeure on customer contracts at its Richards Bay Minerals Project in South Africa; shares in mineral sands-producing companies increased in response ¹⁹ . JP Morgan also added Iluka to its Global Natural Resources investment fund
9	22-Jul-21	Iluka announced its quarterly results to 30 June 2021 highlighting strong performance in the production of rutile for the June quarter
10	25-Aug-21	Iluka announced its half year results for the six months ended 30 June 2021, which saw gains in the share price due to increased product pricing and higher sales volume. NPAT increased 14% from prior year to A\$129 million and a 12 cents per share interim dividend was declared. Iluka also announced that the Sierra Leone Government agreed to alter Sierra Rutile's fiscal regime while Area 1 continues to operate. In response, Iluka announced that it had deferred the potential suspension until January 2022
11	13-Sep-21	Apollo Global Management approached by Tronox Holdings with a US\$4.2 billion all-cash acquisition offer. Tronox is a TiO ₂ pigment and chemical manufacturing company and this signaled to Shareholders that Iluka may be considered a takeover target by private equity firms ²⁰
12	21-Oct-21	Iluka announced its quarterly review to 30 September 2021, noting increased combined quarterly production due to SR2 and Narngulu operating at full capacity and operational improvements at Sierra Rutile
13	26-Oct-21	Astro Resources NL acquired Iluka's 80% interest in the Jack Track tenement
14	16-Nov-21	Iluka presented an update on global operations, market conditions and project pipelines, describing stronger pricing momentum for rutile from increased demand for high grade rutile (natural and synthetic) as supply chains are challenged
15	30-Nov-21	Iluka announced estimates for the Wimmera WIN100 & WIM50 deposits.
16	25-Jan-22	Iluka announced its quarterly results to 31 December 2021, noting that it is considering a potential demerger of the Sierra Rutile operations, and is also continuing to progress work on a feasibility study for Sembehun. Iluka also advised that previously announced adjustments to Sierra Rutile's fiscal regime for Area 1 were ratified by the Parliament of Sierra Leone in December and therefore it had withdrawn its notice to suspend operations
17	7-Feb-22	Shareholder class action dismissed by the Federal Court of Australia. The action against Iluka was in respect of alleged breaches of Iluka's continuous disclosure obligations and misleading or deceptive conduct in 2012
18	24-Feb-22	Iluka released its 2021 annual report, noting underlying NPAT of A\$315 million, return to maximum production settings, supply tightening, commodity price increases and improvements in the Sierra Rutile projects. Iluka also provided an update for minerals at Sembehun, highlighting increased mineral ore resources for the in situ rutile deposits, with 34% of the resources now classified as measured, as well as increased confidence in the ore reserve
19	4-Apr-22	Iluka announced final investment decision for the Eneabba Rare Earths Refinery (Phase 3) following completion of the DFS and execution of a risk sharing arrangement with the Australian Government
20	13-Apr-22	Iluka announced its intention to demerge Sierra Rutile as an ASX-listed entity with the objective of allowing Iluka to focus its capital allocation priorities and management attention to its Australian assets and development opportunities
21	27-Apr-22	Iluka announced its quarterly results to 31 March 2022 noting, overall production declining 17.7% from the December 2021 quarter, with Sierra Rutile's production down 5.15% for the quarter. The review noted that spot rutile and synthetic rutile prices were both at 10 year highs

Source: S&P Capital IQ, Iluka ASX announcements, Deloitte Corporate Finance analysis

¹⁹ Thomson Reuters

²⁰ The Australian, Bridget Carter, 2021, *Apollo's Tronox bid lifts hopes for Iluka Resources investors* (<https://www.theaustralian.com.au/business/dataroom/apollos-tronox-bid-lifts-hopes-for-iluka-resources-investors/news-story/87a6322f92caffa8f9b268a023ac3531>)



2.9 Financial performance

2.9.1 Consolidated financial performance

The profit and loss statements of Iluka for CY2018 to CY2021 are summarised below.

Table 8: Consolidated Statement of Profit or Loss

	Unit	Audited Actual CY2018	Audited Actual CY2019	Audited Actual CY2020	Audited Actual CY2021
Operating Revenue ^{1,2}	A\$m	1,350.9	1,318.0	990.6	1,559.4
Revenue growth	A\$m	25.3%	(2.4%)	(24.8%)	57.4%
Other income	A\$m	3.1	2.4	21.2	9.8
Expenses	A\$m	(870.3)	(854.1)	(799.3)	(1,067.5)
Write-down of Sierra Rutile Limited	A\$m	-	(414.3)	-	-
Equity accounted share of profit - Deterra	A\$m	-	-	0.1	18.4
Interest and finance charges	A\$m	(15.0)	(15.0)	(7.7)	(6.2)
Rehabilitation and mine closure provision discount unwind	A\$m	(16.7)	(38.0)	(26.6)	(8.9)
Total finance cost	A\$m	(31.7)	(53.0)	(34.3)	(15.1)
Profit before income tax	A\$m	452.0	(1.0)	178.3	505.0
Income tax expense	A\$m	(148.1)	(298.7)	(74.8)	(139.1)
Profit after income tax from continuing operations	A\$m	303.9	(299.7)	103.5	365.9
Profit after tax from discontinued operations	A\$m	-	-	2,306.5	-
Profit for the period	A\$m	303.9	(299.7)	2,410.0	365.9
Key Performance Indicators (KPIs)					
Financials					
Mineral sands revenue	A\$m	1,244.1	1,193.1	947.0	1,485.8
Cash costs of production	A\$m	455.1	539.6	558.7	579.2
Underlying mineral sands EBITDA ³	A\$m	544.5	530.9	342.0	633.9
Underlying group EBITDA ³	A\$m	600.1	616.0	423.1	652.3
Group Earnings before interest and tax (EBIT)	A\$m	482.8	50.8	2,539.2	519.6
Production					
Total Z/R/SR production	kt	731.7	702.4	585.2	719.5
Ilmenite production	kt	395.1	318.6	455.9	563.7
Monazite concentrate production	kt	-	-	44.4	57.7
Total saleable production	kt	1,126.8	1,021.0	1,085.5	1,340.9

Source: Iluka CY2018, CY2019, CY2020 and CY2021 annual reports, Deloitte Corporate Finance analysis

Notes:

- Operating revenue consists of mineral sands revenue (see KPIs) and freight revenue
- Iluka demerged Deterra on 2 November 2020. Operating revenue from CY2020 onwards no longer includes revenue generated from MAC royalties
- Underlying mineral sands EBITDA excludes revenue and expenses related to the MAC royalty operations and/or Iluka's share in Deterra. This is included in the underlying overall EBITDA
- Table subject to rounding

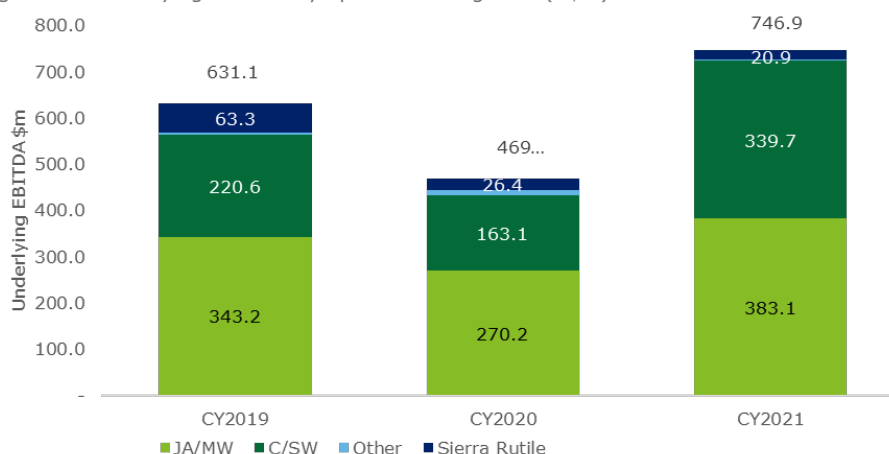
We note the following in relation to the financial performance of Iluka:

- operational revenue increased by 57.4% to A\$1,559 million for CY2021, driven by a strong rebound in operational performance, with a similar outcome at the EBITDA level. Zircon sales volumes increased 48% to 355 kt following a return to pre-COVID-19 demand levels in the ceramics market. Further, rutile prices increased 4% since 2020 in response to increasing market demand
- in CY19, Iluka wrote down its investment in Sierra Rutile by A\$414 million (US\$290 million) after Sierra Rutile failed to perform in line with the original investment case (discussed in Section 2.4)
- profits after tax from discontinued operations resulted from the demerger of Deterra in November 2020. They include a A\$2.2 billion gain on demerger and the reclassification of MAC royalty income of A\$81 million as discontinued operations
- A\$18 million in equity-accounted profit reflects the 20% stake in Deterra Royalties Limited that Iluka currently holds.

2.9.2 Financial performance by operational segments

The figure below illustrates Iluka's underlying EBITDA reported for CY2019 to CY2021 split between its mining operations at Jacinth Ambrosia (**JA/MW**), Cataby and Capel (**C/SW**) and Sierra Rutile. Underlying EBITDA of Sierra Rutile as a percentage of Iluka's total underlying EBITDA²¹ has declined from 10.0% in CY2019 to 5.6% in CY2020 and subsequently to 2.8% in CY2021.

Figure 14: Underlying EBITDA by operational segment (A\$m)



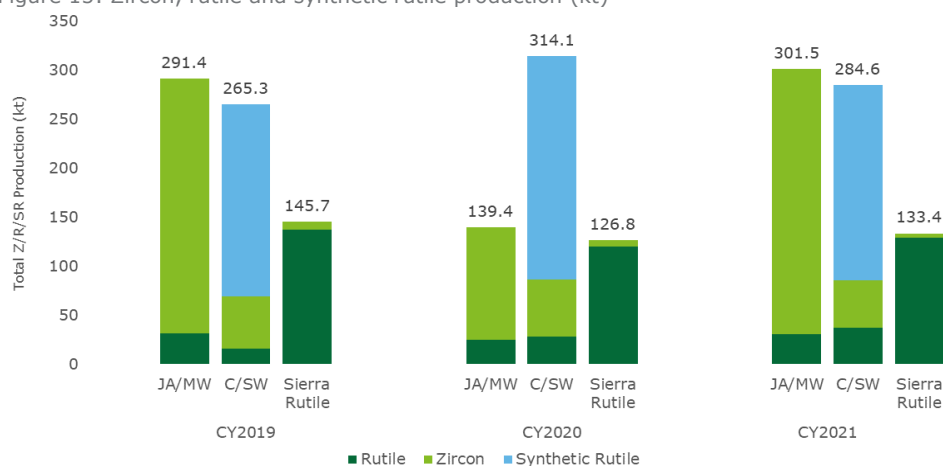
Source: Iluka annual reports, Deloitte Corporate Finance analysis

Notes:

1. JA/MW refers to mining operations at Jacinth-Ambrosia in South Australia and associated processing operations at the Narngulu mineral separation plant in mid-west Western Australia
2. C/SW refers to mining operations at Cataby and the processing of ilmenite at Capel in Western Australia
3. 'Other' includes rehabilitation obligations in the US and idle assets located at the Murray Basin in Victoria, Australia

The figure below illustrates the zircon, rutile and synthetic rutile production reported for Iluka's JA/MW, C/SW and Sierra Rutile operating segments for the period CY2019 to CY2021.

Figure 15: Zircon, rutile and synthetic rutile production (kt)



Source: Iluka annual reports, Deloitte Corporate Finance analysis

Notes:

1. JA/MW refers to mining operations at Jacinth-Ambrosia in South Australia and associated processing operations at the Narngulu mineral separation plant in mid-west Western Australia
2. C/SW refers to mining operations at Cataby and the processing of ilmenite at Capel in Western Australia
3. 'Other' includes rehabilitation obligations in the US and idle assets located at the Murray Basin in Victoria, Australia

²¹ Excluding support and corporate costs



As shown above, Sierra Rutile's production accounts for c. 20% of overall production. CY2020 production of JA/MW declined to similar levels as production was disrupted whilst mining operations were transitioned from Jacinth to Ambrosia.

2.10 Financial position

The balance sheet of Iluka for CY2018 to CY2021 is summarised below.

Table 9: Consolidated Balance Sheet

A\$m	Audited Actual 31-Dec-2018	Audited Actual 31-Dec-2019	Audited Actual 31-Dec-2020	Audited Actual 31-Dec-2021
Assets				
Current Assets				
Cash and cash equivalents	51.3	97.3	87.1	294.8
Receivables	162.6	196.3	95.5	253.7
Inventories	387.1	341.1	504.1	489.7
Current tax receivables	7.7	3.3	-	-
Derivative financial instruments	-	-	1.9	-
Total current assets	608.7	638.0	688.6	1,038.2
Non-current assets				
Investments accounted for using the equity method	-	-	452.1	455.7
Derivative financial instruments	-	-	0.6	-
Property, plant and equipment	1,379.1	1,126.2	1,066.8	1,009.5
Deferred tax assets	215.6	22.1	28.4	39.1
Intangible asset - MAC Royalty	3.9	3.5		
Inventories	4.6	84.1	112.0	65.0
Right of use assets	-	20.5	15.4	28.7
Total non-current assets	1,603.2	1,256.4	1,675.3	1,598.0
Total assets	2,211.9	1,894.4	2,363.9	2,636.2
Liabilities				
Current liabilities				
Payables	153.2	140.8	129.4	174.8
Derivative financial instruments	4.4	3.7	-	0.5
Current tax payable	143.6	96.1	29.3	28.5
Provisions	105.6	112.6	95.0	100.1
Lease liabilities	-	9.2	7.5	8.7
Total current liabilities	406.8	362.4	261.2	312.6
Non-current liabilities				
Interest-bearing liabilities	49.5	54.0	36.9	-
Derivative financial instruments	7.3	1.6	-	-
Provisions	638.3	715.6	750.5	690.8
Financial liabilities at fair value through profit or loss	-	28.4	7.2	11.0
Lease liabilities	-	20.8	15.8	27.2
Total non-current liabilities	695.1	820.4	810.4	729.0
Total liabilities	1,101.9	1,182.8	1,071.6	1,041.6
Net assets	1,110.0	711.6	1,292.3	1,594.6

Source: Iluka CY2018, CY2019, CY2020 and CY2021 annual reports

1. Figure above subject to rounding



We note the following in relation to the financial position of Iluka:

- cash on hand of A\$295 million as at 31 December 2021 includes deposits on call of A\$202 million. The increase in cash and receivables in CY2021 was the result of Iluka's strong performance through CY2021
- provisions predominantly refer to the cost of performing land rehabilitation, mine closure and restoration obligations
- interest bearing liabilities largely relate to a Multi Optional Facility Agreement (**MOFA**) which consists of a series of five-year unsecured committed bilateral revolving credit facilities totaling A\$512 million as at 31 December 2021. The drawn balance of A\$37 million as at 31 December 2020 was repaid in CY2021. These facilities are due to expire in July 2024; the Proposed Demerger will not trigger a renegotiation of terms
- property, plant and equipment (**PP&E**) decreased from A\$1,379 million as at 31 December 2018 to A\$1,126 million as at 31 December 2019, largely due to the impairment of Sierra Rutile in CY2019 (discussed in Section 2.4).

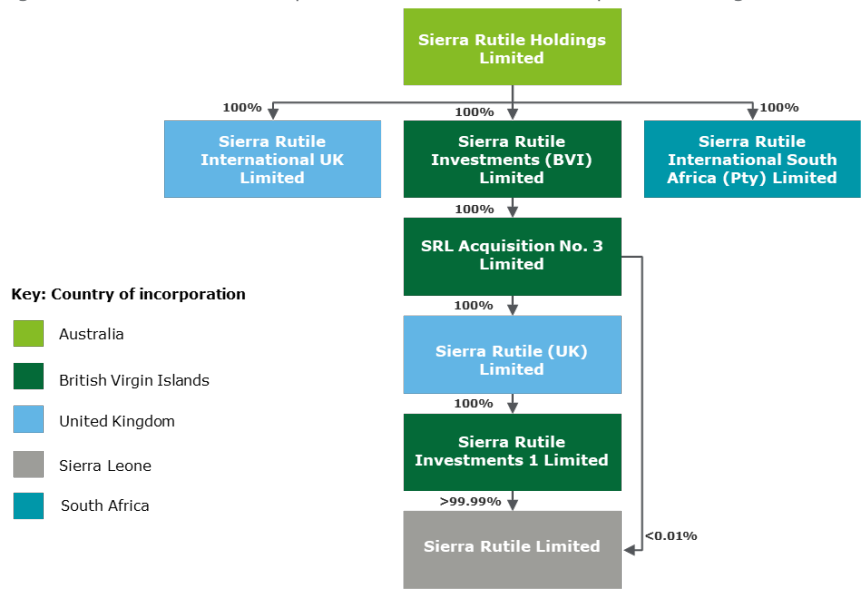


3 Implications of the Proposed Demerger

3.1 Operating and ownership structure

The operating and ownership structure of Sierra Rutile following the Proposed Demerger is depicted in the figure below.

Figure 16: Sierra Rutile’s corporate structure after the Proposed Demerger



Source: Demerger Booklet

We note the following in relation to the post-demerger operations of Iluka and Sierra Rutile:

- after the Proposed Demerger, Iluka will continue to be an ASX-listed mineral sands and rare earths company focused on its core Australian assets and development opportunities. It will not retain an ownership interest in Sierra Rutile. The current Iluka business plan will remain unchanged
- following the Proposed Demerger, Sierra Rutile will be an ASX-listed, West African-focused mineral sands company.

This is discussed in further detail below.



3.2 Strategy post the Proposed Demerger

3.2.1 Iluka

Following the Proposed Demerger of Sierra Rutile, Iluka will be an international critical minerals company and will continue to produce zircon, high grade TiO₂ feedstocks (rutile and synthetic rutile) and rare earths. Iluka's current business plan and objective to deliver sustainable value will remain unchanged following the Proposed Demerger.

The Proposed Demerger will enable Iluka to focus its capital and management attention on its core Australian assets and development opportunities:

- Iluka is currently pursuing technical development opportunities in Australia to address depleting supply across the mineral sands industry, as well as mining and processing solutions which could transform both Iluka and the industry. These solutions include innovative underground mining technology under development for the Balranald project in New South Wales, and the zircon processing solution under development for the Wimmera deposits in Victoria
- Iluka recently took the final investment decision for its Eneabba Phase 3 project to develop a fully integrated, multi-decade rare earths refinery, pursuant to which Iluka targets to be a leading global supplier of critical minerals. As discussed in Section 2.2.2, Eneabba Phase 3 will initially be fed from the Eneabba high-grade rare earth stockpile in Western Australia which has an indicative life of nine years.

3.2.2 Sierra Rutile

Post-demerging from Iluka, Sierra Rutile will be an ASX-listed company focused on its mineral sands' operations in Sierra Leone. It will offer investors an opportunity to be exposed to operating and development assets in West Africa, including its Sembehun project and future opportunities where Sierra Rutile can leverage its unique access to the largest natural rutile deposit in the world to provide high quality rutile in a tight supply market.

Sierra Rutile has been established with the following initial objectives:

- maximising the value from its remaining deposits at Area 1: this includes focusing on maximising cash flows from existing production and advancing potential LOM extension opportunities; and
- bringing the Sembehun project into production: this includes progressing the required studies to reach a final investment decision for the Sembehun project in 2023.

Sierra Rutile may consider future growth opportunities where it can demonstrate its competitive advantage to deliver sustainable value for shareholders.

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3.3 Financial statements

We note that the Iluka pro-formas are presented in Australian dollars (A\$) and the Sierra Rutile pro-formas are presented in United States Dollars (US\$).

3.3.1 Pro-forma financial performance

The historical and pro-forma (post Proposed Demerger) historical income statements of the Iluka and Sierra Rutile entities are presented below.

Table 10: Iluka historical and pro-forma historical income statements

A\$m	Historical		Pro-forma historical		
	CY2019	CY2020	CY2019	CY2020	CY2021
Revenue	1,231.7	990.0	1,558.9	759.1	1,316.0
Other income	(1.7)	(0.8)	9.6	(1.7)	6.0
Expenses	(699.1)	(647.2)	(934.6)	(441.8)	(709.0)
Share of gains/(losses) of investments accounted for using the equity method ²	-	0.1	18.4	0.1	18.4
EBITDA from discontinued operations ²	85.1	81.0	-	85.1	-
Underlying EBITDA	616.0	423.1	652.3	396.7	631.4
<i>Underlying EBITDA margin (%)</i>	<i>50.0%</i>	<i>42.7%</i>	<i>41.8%</i>	<i>52.3%</i>	<i>48.0%</i>
Depreciation and amortisation	(163.2)	(184.8)	(171.2)	(88.6)	(112.6)
Write-down of Sierra Rutile Limited	(414.3)	-	-	-	-
Inventory movement – non-cash	15.5	39.9	(12.6)	17.5	38.0
Changes in rehabilitation provision recognised in profit and loss	(3.2)	7.2	60.8	(3.2)	4.1
Gain/(loss) on re-measurement of Sierra Rutile IFC put option	-	19.4	(3.4)	-	-
Impairment of exploration assets	-	(12.4)	(6.3)	-	(6.3)
Net gain on demerger of discontinued operations ²	-	2,246.8	-	2,246.8	-
EBIT	50.8	2,539.2	519.6	478.4	505.9
Interest and finance charges	(13.8)	(7.1)	(5.7)	(13.7)	(5.6)
Rehabilitation and mine closure provision discount unwind	(38.0)	(26.6)	(8.9)	(35.7)	(8.0)
Total finance costs	(51.8)	(33.7)	(14.6)	(49.4)	(13.6)
Profit/(loss) before income tax	(1.0)	2,505.5	505.0	429.0	492.3
Income tax expense	(298.7)	(95.5)	(139.1)	(87.4)	(134.5)
Profit/(loss) for the period attributable to owners	(299.7)	2,410.0	365.9	304.7	357.8

Source: Demerger Booklet, Independent Limited Assurance Report (prepared by PricewaterhouseCoopers)

Note:

1. Table above subject to rounding
2. In November 2020, Iluka demerged its MAC royalty business to form Deterra. In 2020, a gain on demerger of \$2,247 million was recognised. From November 2020, the "share of gains/(losses) of investments accounted for using the equity method" reflects Iluka's 20% interest in Deterra's results for the respective period.



Table 11: Sierra Rutile pro-forma historical income statements

US\$m	CY2019	Pro-forma historical CY2020	CY2021
Revenue	183.1	157.7	184.2
Other income	1.4	-	2.1
Expenses	(141.3)	(145.9)	(165.8)
Underlying EBITDA	43.2	11.8	20.5
<i>Underlying EBITDA margin (%)</i>	<i>23.6%</i>	<i>7.5%</i>	<i>11.1%</i>
Depreciation and amortisation	(46.0)	(52.1)	(32.1)
Write-down of non-current assets	(290.0)	-	(5.7)
Inventory movement – non-cash	(1.4)	1.3	(0.8)
Changes in rehabilitation provision recognised in profit & loss	(6.3)	2.3	28.9
EBIT	(300.5)	(36.6)	10.9
Interest and finance charges	(0.3)	0.1	(0.5)
Rehabilitation and mine closure provision discount unwind	(1.6)	(7.5)	(0.8)
Total finance costs	(2.0)	(7.4)	(1.3)
Profit/(loss) before income tax	(302.5)	(44.1)	9.5
Income tax expense	(121.2)	(5.6)	(3.4)
Profit/(loss) for the period attributable to owners	(423.7)	(49.7)	6.1

Source: Demerger Booklet, Independent Limited Assurance Report (prepared by PricewaterhouseCoopers)

Note:

1. Table above subject to rounding

We note the following in relation to the differences between the historical and pro-forma historical financial performance of Iluka and Sierra Rutile:

- pro-forma revenue for Iluka increased in CY2021 as a result of increased rutile prices and strong demand as the market returned to pre-COVID-19 levels. This is also somewhat reflected in the pro-forma revenue growth of Sierra Rutile. The removal of Sierra Rutile's revenue from Iluka's historical pro-forma figures results in a total revenue reduction of A\$231 million and A\$243 million in CY2020 and CY2021, respectively
- pro-forma historical EBITDA margins compared with historical EBITDA margins for Iluka in CY2019, CY2020 and CY2021 increased from 50%, 42.7% and 41.8% respectively to 57.2%, 52.3% and 48.0% respectively. This increase is due to the exclusion of Sierra Rutile's pro-forma EBITDA which reflected EBITDA margins of 23.6%, 7.5% and 11.1% respectively
- the write-down of Iluka's investment in Sierra Rutile by A\$414 million in CY2019 has been excluded in Iluka's pro-forma performance. This largely accounts for the increase in Iluka's CY2019 pro-forma performance.

Refer to Section 2.9 for a discussion on the historical financial performance of Iluka. A reconciliation of the historical and pro-forma historical income statements of Iluka is set out in the Demerger Booklet (Section 4.7.7 of the Demerger Booklet).

Iluka Resources Limited - Independent expert's report and Financial Services Guide

41

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3.3.2 Pro-forma financial position

The historical and pro-forma (post Proposed Demerger) historical financial positions of the Iluka and Sierra Rutile entities are presented below.

Table 11: Iluka pro-forma financial position

A\$m	31-Dec-2021 Pre-dividend	Dividend	31-Dec-2021 Post-dividend	Settlement of IFC put option	Impairment reversal	Establishment of the rehabilitation trust	Demerger of Sierra Rutile	Transaction costs	Post Demerger pro-forma historical as at 31- Dec-2021
Cash and cash equivalents	294.8	(47.4)	247.4	(11.0)	-	(62.1)	(13.8)	(6.7)	153.8
Receivables	253.7	-	253.7	-	-	-	(59.9)	-	193.8
Inventories	489.7	-	489.7	-	-	-	(55.8)	-	433.9
Total current assets	1,038.2	(47.4)	990.8	(11.0)	-	(62.1)	(129.5)	(6.7)	781.5
Property, plant and equipment	1,009.5	-	1,009.5	-	32.3	-	(37.1)	-	1,004.7
Deferred tax assets	39.1	-	39.1	-	-	-	-	-	39.1
Investments in accounted for using the equity method	455.7	-	455.7	-	-	-	-	-	455.7
Inventories	65.0	-	65.0	-	-	-	-	-	65.0
Right of use assets	28.7	-	28.7	-	-	-	(0.1)	-	28.6
Total non-current assets	1,598.0	-	1,598.0	-	32.3	-	(37.2)	-	1,593.1
Total assets	2,636.2	(47.4)	2,588.8	(11.0)	32.3	(62.1)	(166.7)	(6.7)	2,374.6
Payables	174.8	-	174.8	-	-	-	(32.9)	-	141.9
Derivative financial instruments	0.5	-	0.5	-	-	-	-	-	0.5
Current tax payable	28.5	-	28.5	-	-	-	(0.9)	-	27.6
Provisions	100.1	-	100.1	-	-	-	(8.5)	-	91.6
Lease liabilities	8.7	-	8.7	-	-	-	(0.1)	-	8.6
Total current liabilities	312.6	-	312.6	-	-	-	(42.5)	-	270.1
Provisions	690.8	-	690.8	-	-	-	(74.4)	-	616.4
Financial liabilities at fair value through profit and loss	11.0	-	11.0	(11.0)	-	-	-	-	-
Lease liabilities	27.2	-	27.2	-	-	-	-	-	27.2
Total non-current liabilities	729.0	-	729.0	(11.0)	-	-	(74.4)	-	643.6
Total liabilities	1,041.6	-	1,041.6	(11.0)	-	-	(116.9)	-	913.8
Net assets	1,594.6	(47.4)	1,547.2	-	32.3	(62.1)	(49.9)	(6.7)	1,460.8

Source: Demerger Booklet, Independent Limited Assurance Report (prepared by PricewaterhouseCoopers)

Note:

1. Table above subject to rounding

Iluka Resources Limited - Independent expert's report and Financial Services Guide

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Table 13: Sierra Rutile pro-forma financial position

US\$m	Year ended 31 December 2021	Settlement of IFC put option	Rehabilitation Trust	Settlement of borrowings	Impairment reversal	Demerger transaction costs	Pro forma Sierra Rutile as at 31 December 2021
Cash and cash equivalents	26.0	-	-	(16.0)	-	(0.6)	9.4
Rehabilitation trust deposit	-	-	0.7	-	-	-	0.7
Receivables	43.4	-	-	-	-	-	43.4
Inventories	40.5	-	-	-	-	-	40.5
Total current assets	109.9	-	0.7	(16.0)	-	(0.6)	94.0
Rehabilitation trust deposit	-	-	44.3	-	-	-	44.3
Property, plant and equipment	3.5	-	-	-	23.4	-	26.9
Right of use assets	0.1	-	-	-	-	-	0.1
Total non-current assets	3.6	-	44.3	-	23.4	-	71.3
Total assets	113.5	-	45.0	(16.0)	23.4	(0.6)	165.3
Trade and other payables	22.8	-	-	-	-	-	22.8
Borrowings	16.0	-	-	(16.0)	-	-	-
Lease liabilities	0.1	-	-	-	-	-	0.1
Current tax liabilities	0.7	-	-	-	-	-	0.7
Provisions	6.2	-	-	-	-	-	6.2
Other current liabilities	1.1	-	-	-	-	-	1.1
Total current liabilities	46.8	-	-	(16.0)	-	-	30.8
Employee benefit obligations	9.6	-	-	-	-	-	9.6
Provisions	44.3	-	-	-	-	-	44.3
Other financial liabilities	8.0	(8.0)	-	-	-	-	-
Total non-current liabilities	61.9	(8.0)	-	-	-	-	53.9
Total liabilities	108.7	(8.0)	-	(16.0)	-	-	84.7
Net assets	4.8	8.0	45.0	-	23.4	(0.6)	80.6

Source: Demerger Booklet, Independent Limited Assurance Report (prepared by PricewaterhouseCoopers)

Note:

1. Table above subject to rounding

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We note the following in relation to the pro-forma financial position of Iluka and Sierra Rutile:

- on 7 April 2022, Iluka paid a A\$47.4 million cash dividend to Shareholders. This has been raised as a pro forma adjustment in the Demerger Booklet to align to the latest equity position of Iluka. We have considered Iluka's 31 December 2021 historical balance sheet adjusted on a post-dividend basis for comparison purposes only
- a US\$45 million cash funded trust will be established to fund Sierra Rutile's existing Area 1 rehabilitation obligations
- Sierra Rutile is expected to have nil debt post the Proposed Demerger as US\$16 million in borrowings from Iluka will be settled as part of the Proposed Demerger
- Sierra Rutile has reversed US\$23 million in previous impairments to the Sembahun project. This impairment reversal was recognised on completion of the Sembahun June 2022 PFS (discussed in Section 2.4)
- the demerger of Sierra Rutile from Iluka is expected to decrease Iluka's net asset position by c. A\$86 million, mainly due to the deconsolidation of Sierra Rutile's net assets, payment of transaction costs and the establishment of the cash funded rehabilitation trust
- Sierra Rutile's pro-forma net asset position is expected to be US\$80.6 million (c. A\$111 million²²) post the Proposed Demerger. This includes the establishment of the rehabilitation trust discussed above.

A detailed description of the movements between the Iluka and Sierra Rutile historical and pro-forma historical balance sheets is set out in Section 4.7.8 and Section 3.24.5 respectively, of the Demerger Booklet.

3.4 Capital Structure

3.4.1 Iluka

To implement the Proposed Demerger, Iluka will undertake a capital reduction and distribute an in-specie dividend. The capital reduction will involve Iluka reducing its share capital via an in-specie distribution of Sierra Rutile shares to eligible Shareholders.

Iluka's current conservative approach to its capital structure is not expected to change following the Proposed Demerger. Iluka is expected to have a net cash position of A\$154 million as at 31 December 2021, post pro forma adjustments and unsecured committed debt facilities of c. A\$512 million (the MOFA discussed in Section 2.10). These facilities are due to expire in July 2024; the Proposed Demerger will not trigger a renegotiation of terms and they will remain in place. Iluka intends to maintain adequate liquidity facilities to manage periods of heightened capital investment and provide operational flexibility.

As discussed in Section 2.2.2, Iluka executed a risk sharing arrangement with the Australian Government in relation to the construction and commissioning of Phase 3 Eneabba. Under the arrangement, Iluka will contribute A\$200 million in cash and a A\$1.27 billion equity-like contribution of Eneabba's stockpile while the Australian Government will provide funding via a c. A\$1.05 billion non-recourse loan under the A\$2 billion Critical Minerals Facility (administered by Export Finance Australia), plus a A\$200 million cost overrun facility if required. The terms of the risk sharing arrangement include interest charged at BBSY + 3% and a facility term of up to 16 years.

3.4.2 Sierra Rutile

The Proposed Demerger will establish a standalone capital structure for Sierra Rutile. Accordingly, all intercompany loans between Sierra Rutile and Iluka will be repaid, eliminated or discharged prior to the Proposed Demerger.

²² Converted from US\$ to A\$ using the spot AUD:USD foreign exchange rate of 0.7256 as at 31 December 2021



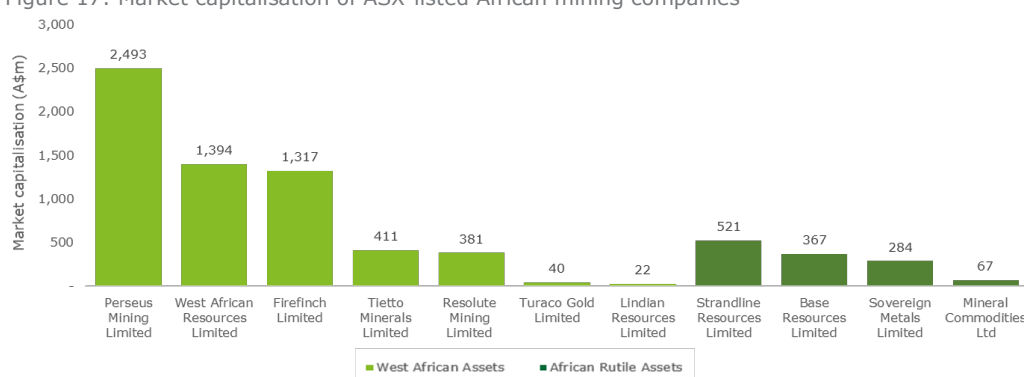
Sierra Rutile is therefore expected to have no debt and a cash balance of US\$20.7 million as at 31 May 2022. In addition to the cash balance, Iluka will establish a US\$45 million rehabilitation trust that will be cash funded on a one-off basis to support Sierra Rutile's estimated rehabilitation obligations. The rehabilitation trust amount of US\$45 million is consistent with Sierra Rutile's rehabilitation estimate for Area 1 as at 31 December 2021 which is reviewed annually in accordance with International Financial Reporting Standards (**IFRS**).

The rehabilitation obligation is aligned with the regulatory requirements of the Environmental Protection Agency (**EPA**) of Sierra Leone. The trust will be established to provide certainty of commitment to the rehabilitation obligations. The trust, which will be discretionary in nature, will be externally managed by Perpetual Trustee Company Limited, which will, as trustee, distribute capital and income from the trust fund from time to time to satisfy the objectives of the rehabilitation trust. The objectives of the trust are centred on rehabilitation funding and mine closure activities at Area 1. The key features of the trust are detailed in Section 9.3 of the Demerger Booklet.

The June 2022 Sembehun PFS sets out a phased development of Sembehun which would minimise pre-production capital expenditure required to develop the project by leveraging operating cash flows generated from Area 1. Nevertheless, Sierra Rutile will require further funding to develop its Sembehun project. Sierra Rutile will consider a number of external funding options for the development of Sembehun, including in the form of debt, an offtake agreement, a joint venture and/or equity. The preferred form of funding will be determined prior to reaching final investment decision on the development of Sembehun. There is no guarantee that it will be successful in sourcing the required funding.

In the chart below we have shown the market capitalisation of selected ASX-listed companies with West African mining assets and ASX-listed companies with African rutile assets.

Figure 17: Market capitalisation of ASX-listed African mining companies



Source: S&P Capital IQ, Deloitte Corporate Finance analysis

Notes:

1. Chart is not a complete list of all ASX-listed African mining companies
2. Market capitalisation as at 5 May 2022

The market capitalisation of these companies totals A\$7.3 billion. This indicates that there is a reasonable pool of investors with appetite to invest in mining projects, including rutile projects, located throughout Africa.

3.5 Index inclusion

Iluka is a constituent of the S&P/ASX 100 and S&P/ASX 200 indices. Management expect Iluka to remain a constituent of both indices following the Proposed Demerger. Sierra Rutile is not expected to be a constituent of either index and is likely to be considered a "small-cap" listed company.

The exclusion of Sierra Rutile from the S&P/ASX 100 and S&P/ASX 200 indices may cause some existing institutional shareholders to divest their investment in Sierra Rutile (post-demerger), however, the standalone Sierra Rutile business may attract other institutional investors with a preference for investing in early-stage development assets, operations in West Africa and/or smaller companies.

3.6 Dividend policy

Following the Proposed Demerger, Iluka intends to maintain its current dividend policy to pay dividends equal to 100% of dividends received from Deterra and a minimum of 40% of free cash flow not required for investing or balance sheet activity. Iluka will seek to distribute the maximum franking credits available.

Given Sierra Rutile's focus on developing the Sembehun project and the pre-production capital required to develop Sembehun, Sierra Rutile does not have a dividend policy nor will it have an active dividend policy immediately post-demerging.

Iluka and Sierra Rutile's dividend policies will be determined by the Iluka and Sierra Rutile Boards, respectively, at their discretion and may change over time.

3.7 Board and management

The Board and management structure of Sierra Rutile following the Proposed Demerger is depicted in the figure below.

Figure 18: Sierra Rutile's organisation structure after the Proposed Demerger

Sierra Rutile Board:



Source: Demerger Booklet
Note: NED = non-executive director

3.7.1 Board of Directors

Greg Martin, the outgoing Independent Chair of Iluka, will transition to be Sierra Rutile's Independent Chair. Martin Alciaturi has been appointed to the executive Board position of Finance Director of Sierra Rutile.

The table below sets out the composition of Iluka and Sierra Rutile's Boards following the Proposed Demerger:

Table 12: Iluka and Sierra Rutile Boards post the Proposed Demerger

Name	Title
Iluka	
Rob Cole	Independent Chair
Tom O'Leary	Managing Director
Marcelo Bastos	Independent Non-Executive Director
Susie Corlett	Independent Non-Executive Director
Lynne Saint	Independent Non-Executive Director
Andrea Sutton	Independent Non-Executive Director
Sierra Rutile	



Name	Title
Greg Martin	Independent Chair
Theuns de Bruyn	Managing Director and CEO
Martin Alciaturi	Finance Director
Graham Davidson	Independent Non-Executive Director
Joanne Palmer	Independent Non-Executive Director

Source: Demerger Booklet, Iluka Annual Report

3.7.2 Senior leadership team

As a result of the Proposed Demerger, Sierra Rutile's current CEO, Theuns de Bruyn, will retire from Iluka's senior management team and continue his role as CEO.

The table below sets out the composition of Iluka and Sierra Rutile's senior leadership teams following the Proposed Demerger.

Table 13: Iluka and Sierra Rutile senior leadership teams post the Proposed Demerger

Name	Title
Iluka	
Tom O'Leary	Managing Director and CEO
Adele Stratton	CFO and Head of Development
Matthew Blackwell	Head of Major Projects and Sales & Marketing
Daniel McGrath	Chief Technology Officer and Head of Rare Earths
Shane Tilka	General Manager, Australian Operations
Sarah Hodgson	General Manager, People and Sustainability
Rob Hattingh	Head of Climate Change Response
Ben Martin	General Counsel and Company Secretary
Sierra Rutile	
Theuns de Bruyn	Managing Director and CEO
Martin Alciaturi	Finance Director
Eben Lombard	Chief Operating Officer
Maurice Cole	CFO
Derek Folmer	General Manager Marketing
Sue Wilson	General Counsel and Company Secretary

Source: Demerger Booklet, Iluka Annual Report

Detailed biographies of the Board and senior leadership teams can be found in the Demerger Booklet.



3.8 The potential impact on market value

Over the medium term, demergers tend to reduce complexity and result in a higher level of transparency of financial performance and growth prospects for the separated entities. The Proposed Demerger should therefore ultimately result in a more informed valuation of each business (Iluka and Sierra Rutile) which could support a market re-rating of the combined value of the companies.

In considering the outcome of a potential market re-rating, we have considered:

- academic research and empirical research on recent demerger transactions
- corporate diversification theory in the context of Iluka and Sierra Rutile's operations (post demerger)
- broker perspectives including their response to Iluka's portfolio reprioritisation and the Proposed Demerger
- the market capitalisation of companies with assets and/or operations similar to those of Sierra Rutile.

3.8.1 Studies on demergers

We have reviewed academic research and performed empirical research on recent demerger transactions in the international and Australian / New Zealand markets, respectively. Our analysis, which is detailed in Appendix 3, concludes that whilst market observations can be mixed on an individual demerger basis, it broadly supports the theory that demergers create value for shareholders. However, due to the nature of the transactions and the uncertainty over what the performance of the parent entity would have been if the demerger had not been completed, it is difficult to argue conclusively that demergers create shareholder value. Rather, the success or otherwise of any demerger will always depend on the specific circumstances of each transaction.

3.8.2 Corporate diversification

Following the Proposed Demerger, Iluka will be an ASX-listed mid-tier mining company (by market capitalisation) and its key assets will be located in Australia with an increasing focus on rare earths. Sierra Rutile (post-demerger) will be an ASX-listed "small-cap" and its assets will be located in Sierra Leone, West Africa, with a focus on the production of high quality natural rutile. However, both companies are entering a period of high capital intensity.

Sierra Rutile offers investors access to one of the largest and highest quality natural rutile deposits in the world. However, Sierra Rutile's operations in Sierra Leone are likely to be viewed as higher risk principally because of the significantly greater sovereign risks that Sierra Rutile is exposed to, given its location in Sierra Leone (a CCC²³ rated country according to the Economist Intelligence Unit), compared with Iluka's operations in Australia (AA²⁴ rated country).

Following the Proposed Demerger, therefore, there is likely to be a degree of share register realignment as Iluka and Sierra Rutile attract investors with different objectives. The Proposed Demerger, given the likely market capitalisation of Sierra Rutile, may also result in Sierra Rutile having relatively low institutional investor interest, low trading volumes and reduced liquidity compared to the current Iluka.

Nonetheless, assuming execution of the Proposed Demerger, Shareholders will be given a choice to retain or divest their interests in the companies based on their personal investment preferences.

²³ Economist Intelligence Unit, March 2022, Sierra Leone – Country Risk Service

²⁴ Economist Intelligence Unit, March 2022, Australia – Country Risk Service



Academic theory suggests portfolio diversification is best achieved where investors can tailor their own portfolio based on their personal risk appetite instead of companies attempting to do so on their behalf. For example:

- Dittmar and Shivdasani found that entities divesting or demerging businesses unrelated to their primary business realised a significant reduction in a "diversification discount". A diversification discount refers to evidence that conglomerates' share prices often trade at a discount compared to a standalone firm more focused on their primary business²⁵
- Pratt found that investing in a pure play company (i.e. a company focused solely in a particular area) is generally preferred by investors. Often, companies with a miscellaneous assortment of operations/assets sell at a discount from the aggregate amount that those operations and/or assets would sell for individually²⁶
- Berger and Ofek found that investors believe that diversification may cause management to have difficulties understanding the businesses and may result in the most attractive investment opportunity failing to receive focus and/or funding, whilst poorly operating business segments can drain resources from better performing businesses²⁷.

3.8.3 Broker perspectives²⁸

Following the announcement of the Proposed Demerger, brokers have expressed the following sentiments:

- Sierra Rutile has been a challenging asset for Iluka
- given Area 1's remaining life, Sierra Rutile's potential lies in the undeveloped Sembehun
- the Proposed Demerger of Sierra Rutile is expected to substantially improve and simplify Iluka's portfolio
- Sierra Rutile, as a demerged entity, will be able to focus on securing a development partner and additional capital required to develop Sembehun
- one analyst commented that whilst they currently ascribe little value to Sierra Rutile (c. A\$40 million), there is potential to unlock value given peer multiples. This attribution of "little value" to the Sierra Rutile business is also referenced by a second analyst.

As Iluka's operations are clearly segmented, brokers tend to provide a view on Iluka's value with a detailed breakdown of value by its various operations including its Sierra Rutile business. We have reviewed broker evidence to infer the potential value of Sierra Rutile on a standalone basis once demerged. The values ascribed by brokers to the Sierra Rutile business range from A\$18.0 million to A\$1.1 billion with a median of A\$189 million²⁹.

Given the capital constraint and uncertainty of Sembehun's development while Sierra Rutile remains a subsidiary of Iluka, some brokers do not include Sembehun's production forecasts in their income-based valuation of Sierra Rutile which is the likely cause of the disparity between brokers' valuations. By removing the capital constraint imposed by Iluka, the Proposed Demerger will provide increased likelihood that Sembehun will be developed and may provide clarity for brokers on how to incorporate Sembehun in their analysis. The large variability in brokers' estimates of the value of Sierra Rutile also indicates the optionality associated with Sierra Rutile's potential future performance from rising commodity prices for natural rutile and successful execution of Sembehun.

²⁵ Dittmar, A and Shivdasani, A, Divestitures and Divisional Investment Policies (December 2003), The Journal of Finance (Vol. 58, No. 6)

²⁶ Pratt, Shannon P, Business Valuations Discounts and Premiums (2nd edition), page 260

²⁷ Berger, Philip, and Eli Ofek, 1995, Diversification's effect on firm value

²⁸ Our review of broker coverage of Iluka is limited to those broker reports available to Deloitte under license with Refinitiv

²⁹ Our review of broker reports consists of 20 reports dated from 24 January 2022 to 27 April 2022. Many of the reports during this period were issued by the same broker. In determining a range and median, we have considered the latest report from each broker noting that only four brokers provided values for Sierra Rutile on a standalone basis.



4 Iluka's ability to pay its creditors following the Proposed Demerger

4.1 Basis of evaluation

In assessing Iluka's ability to pay its creditors, we have compared certain financial ratios of Iluka prior to the Proposed Demerger to those implied by the pro-forma financial statements for Iluka following the Proposed Demerger. The sections below detail our analysis of the following ratios:

- current ratio
- net debt to capital ratio
- net debt to EBITDA
- interest coverage ratio.

We have used the 31 December 2021 historical and pro forma balance sheet and income statement for Iluka in our ratio analysis below. In analysing Iluka's ability to pay its creditors following the Proposed Demerger, we have considered Iluka's historical position pre and post demerger following the pro forma adjustment for the cash dividend of A\$47.4 million paid to Shareholders on 7 April 2022.

Refer to Section 4.7 of the Demerger Booklet for further details on the source data.

The pro-forma income statement for Iluka set out in Section 3.3.1 shows that adjusting CY2021 EBITDA for the Proposed Demerger decreases EBITDA by 3.2%, however EBITDA margins improve from 41.8% to 48.0%.

The pro-forma balance sheet for Iluka set out in Section 3.3.2 shows that adjusting Iluka's net asset position (post-dividend) for the Proposed Demerger decreases net assets by A\$86 million. This is driven by A\$112 million of deconsolidation adjustments (including the establishment of the US\$45 million rehabilitation trust), a reversal of A\$32 million in previous impairments to the Sembehun project and the costs of the Proposed Demerger.

Following the Proposed Demerger, Iluka will continue to have access to unsecured committed debt facilities of c. A\$523 million (the MOFA discussed in Sections 2.10 and 3.4.1). Iluka will also continue to have access to the A\$1.05 billion non-recourse loan provided by the Australian Government in relation to the development of the Eneabba Rare Earths Refinery (discussed in Sections 2.2.2 and 3.4.1).

4.2 Analysis of financial ratios

In addition to analysing ratios for Iluka, we have also analysed the same ratios for a selected group of mineral sands, rare earths and base metal mining companies for comparison purposes. Where possible, the ratios of the peer companies have been adjusted for one-off/unusual expenses.

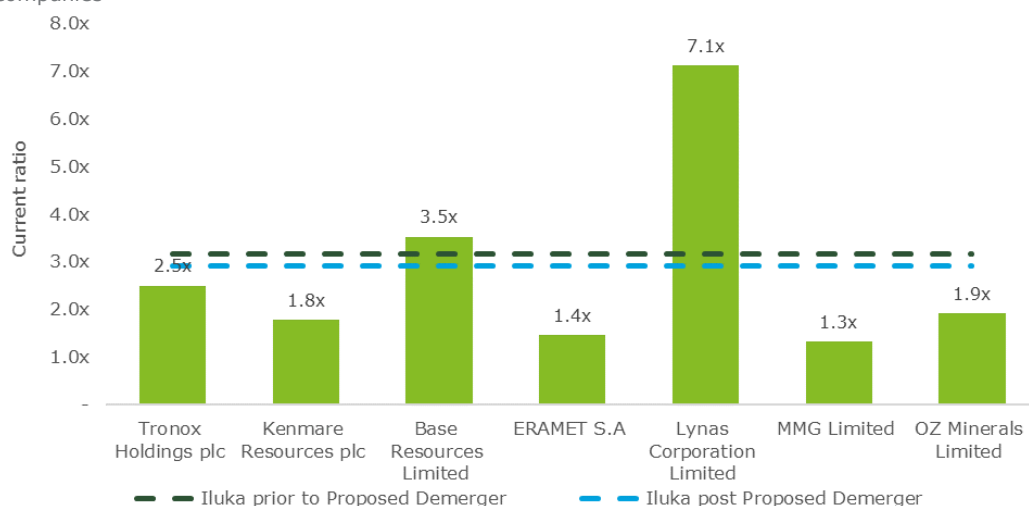
4.2.1 Current ratio

The current ratio is a measure of a company's ability to meet its short-term obligations that fall due within one year. It is calculated as the ratio of current assets to current liabilities.

The current ratio for Iluka before and after the Proposed Demerger is 3.2x and 2.9x, respectively. The slight decrease in Iluka's current ratio post the Proposed Demerger is due to the outflow of cash from establishing the rehabilitation trust, as well as the outflow of receivables and inventory associated with Sierra Rutile. The Proposed Demerger slightly reduces Iluka's ratio but the ratio remains within the range observed for the comparable companies.

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Figure 19: The current ratio of Iluka pre and post the Proposed Demerger compared to peer companies



Source: S&P Capital IQ, Demerger Booklet, Deloitte Corporate Finance analysis

Notes:

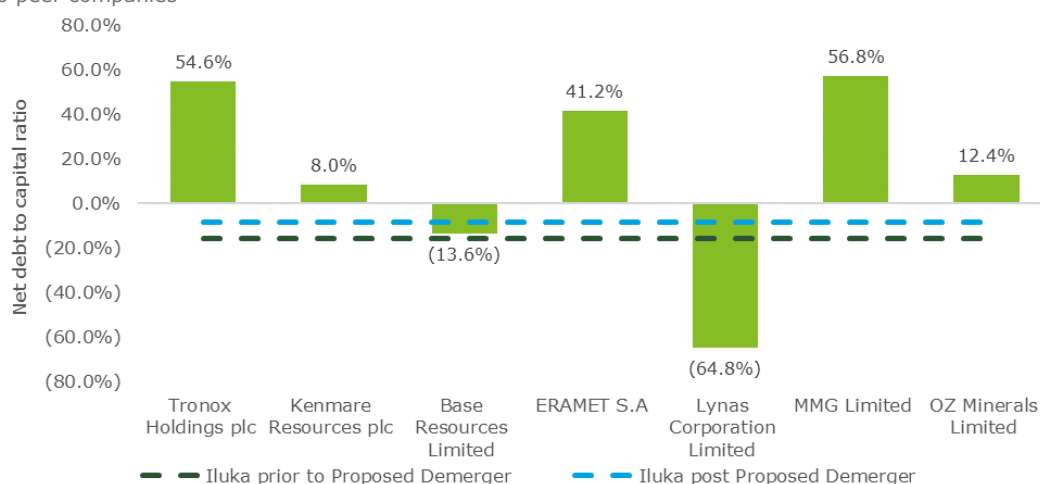
1. Data based on 31 December 2021 reporting period. Peer entities included for comparison purposes only.
2. Figure above subject to rounding

4.2.2 Net debt to capital

The net debt to capital ratio measures the level of leverage of a company. It is calculated as net debt divided by capital (net debt plus book value of equity).

The current net debt to capital ratio for Iluka before and after the Proposed Demerger is -15.8% and -8.8% respectively (the ratios are negative due to Iluka's net cash position). The reduction in Iluka's net cash position resulting from the Proposed Demerger, results in a slight decrease in its net debt to capital ratio. However, a negative net debt to capital ratio is inherently conservative and it remains within the range observed for the comparable companies.

Figure 20: The net debt to capital ratio of Iluka before and after the Proposed Demerger compared to peer companies



Source: S&P Capital IQ, Demerger Booklet, Deloitte Corporate Finance analysis

Notes:

1. Data based on 31 December 2021 reporting period. Peer entities included for comparison purposes only.
2. Figure above subject to rounding

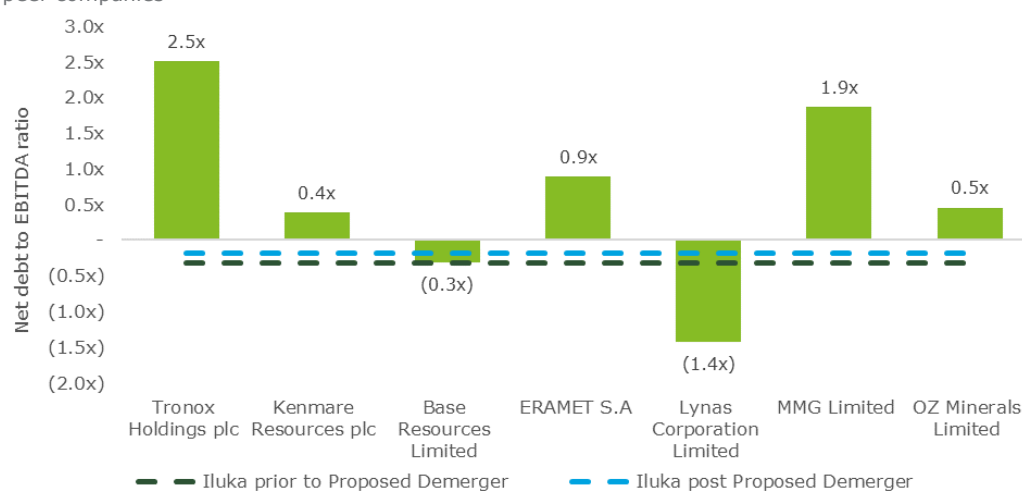


4.2.3 Net debt to EBITDA

Net debt to EBITDA is a measure of a company's debt capacity. It is calculated using interest bearing liabilities less cash or cash equivalents divided by EBITDA. It provides an indication of how long a company would have to operate at its current level to pay off all outstanding debt.

The current net debt to EBITDA for Iluka before and after the Proposed Demerger is -0.3x and -0.2x, respectively (the ratios are negative due to its net cash position). This is inherently conservative and remains within the range observed for the comparable companies.

Figure 21: The total leverage ratio of Iluka before and after the Proposed Demerger compared to peer companies



Source: S&P Capital IQ, Demerger Booklet, Deloitte Corporate Finance analysis

Notes:

1. Data based on 31 December 2021 reporting period. Peer entities included for comparison purposes only.
2. Figure above subject to rounding

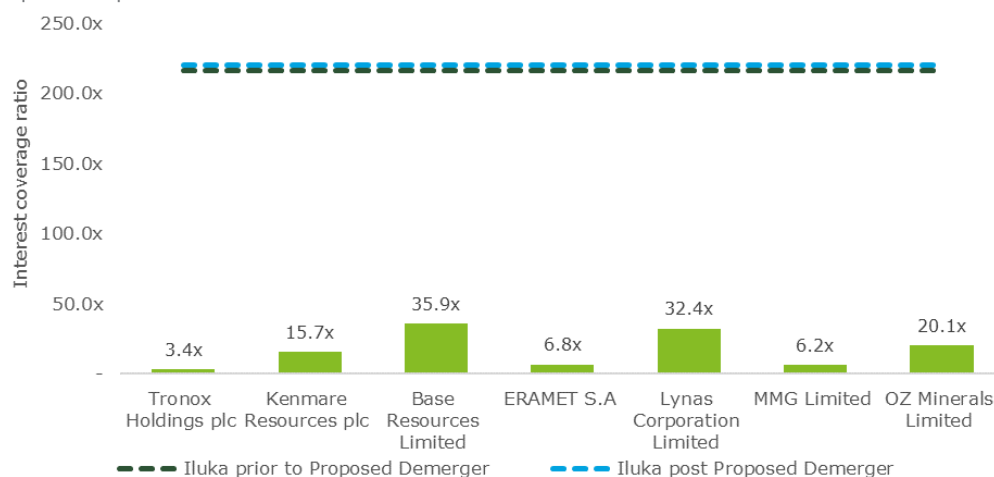
4.2.4 Interest coverage

The interest coverage ratio is used to determine how easily a company is able to pay its interest obligations on outstanding debt. We have calculated it as EBIT divided by net interest expense.

The interest coverage ratio for Iluka before and after the Proposed Demerger is 216.5x and 220.0x, respectively. The Proposed Demerger slightly improves Iluka's interest coverage ratio. The ratio after the Proposed Demerger remains high and above the range observed for comparable companies.



Figure 22: The interest coverage ratio of Iluka before and after the Proposed Demerger compared to peer companies



Source: S&P Capital IQ, Demerger Booklet, Deloitte Corporate Finance analysis

Notes:

1. Data based on 31 December 2021 reporting period. Peer entities included for comparison purposes only.
2. Figure above subject to rounding

4.3 Conclusion

We note the following regarding the analysis above:

- Sierra Rutile is a lower margin business compared to Iluka on a pro forma basis. Iluka's pro forma EBITDA margin will therefore increase from 41.8% to 48.0% after the Proposed Demerger. On an absolute basis, Iluka's FY2021 pro forma EBITDA shows a decrease of A\$21 million (3.2%) after the Proposed Demerger
- Iluka's pro forma net assets position will decrease by c. A\$86 million after the Proposed Demerger, mainly due to the deconsolidation of Sierra Rutile's net assets, payments for transaction costs and the establishment of the cash funded rehabilitation trust for Sierra Rutile
- Iluka's pro forma current ratio will reduce slightly from 3.2x to 2.9x after the Proposed Demerger. However, the ratio remains within the range observed for the comparable companies
- Iluka's pro forma net debt to capital ratio will decrease after the Proposed Demerger, moving from -15.8% to -8.8% as a result of the reduction in Iluka's net cash position. However, a negative net debt to capital ratio is inherently conservative and it remains within the range observed for the comparable companies
- Iluka's pro forma current net debt to EBITDA ratio will not change materially after the Proposed Demerger. The net debt to EBITDA ratio remains inherently conservative and within the range observed for the comparable companies
- Iluka maintains a high interest coverage ratio, and it will remain high on a pro forma basis after the Proposed Demerger and above the range observed for the comparable companies.

Based on the above, we are of the opinion that the Proposed Demerger does not materially prejudice the ability of Iluka to pay its existing creditors.



Appendix 1: Context to the IER

Individual circumstances

We have evaluated the Proposed Demerger for the Shareholders as a whole and have not considered the effect of the Proposed Demerger on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Demerger from those adopted in this IER. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Demerger is in the best interests of the Shareholders. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

Limitations, qualifications, declarations and consents

Our opinion is based on the prevailing economic, market and other conditions as at the date of this IER. Such conditions can change significantly over relatively short periods of time.

The IER has been prepared at the request of the Directors of Iluka and is to be included in the Demerger Booklet to be given to the Shareholders to assist in their consideration of the Proposed Demerger. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Demerger Booklet in their assessment of the Proposed Demerger outlined in the IER and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Shareholders and Iluka, in respect of this IER, including any errors or omissions however caused. Further, recipients of this IER should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Demerger. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

This IER represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Demerger is in the best interests of the Shareholders as a whole. Deloitte Corporate Finance consents to this IER being included in the Demerger Booklet in the form and context in which it is to be included in the Demerger Booklet.

Statements and opinions contained in this IER are given in good faith but, in the preparation of this IER, Deloitte Corporate Finance has relied upon the completeness of the information provided by Iluka and its officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our IER were issued to Iluka management for confirmation of factual accuracy.

In recognition that Deloitte Corporate Finance may rely on information provided by Iluka and its officers, employees, agents or advisors, Iluka has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Iluka may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Iluka and its officers, employees, agents or advisors or the failure by Iluka and its officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Demerger.

Deloitte Corporate Finance holds the appropriate Australian Financial Services Licence to issue this IER and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this IER are as follows:

- Nicki Ivory, B.Com (Hons), CA, CFA
- Stephen James Reid, M App. Fin. Inv, B.Ec, CA.

Each have many years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert's reports.



Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of Tower 2, Brookfield Place, 123 St Georges Terrace, Perth, WA 6000, acknowledges that:

- Iluka proposes to issue the Demerger Booklet to be provided to Shareholders in relation to the Proposed Demerger
- the Demerger Booklet will be issued electronically and in hard copy by request
- it has previously received a copy of the draft Demerger Booklet for review
- it is named in the Demerger Booklet as the 'independent expert' and the Demerger Booklet includes its independent expert's report as an Annexure.

On the basis that the Demerger Booklet is consistent in all material respects with the draft Demerger Booklet received, Deloitte Corporate Finance consents to it being named in the Demerger Booklet in the form and context in which it is so named, to the inclusion of its independent expert's report as an Annexure to the Demerger Booklet and to all references to its independent expert's report in the form and context in which they are included, whether the Demerger Booklet is issued in hard copy or electronic format or both.

Deloitte Corporate Finance has not authorised or caused the issue of the Demerger Booklet and takes no responsibility for any part of the Demerger Booklet, other than any references to its name and the independent expert's report as included as an Annexure.

Sources of information

In preparing this IER we have had access to the following principal sources of information:

- Project Lane – Independent Expert Briefing Presentation dated March 2022
- Draft Demerger Booklet in relation to the Proposed Demerger
- audited financial statements and annual reports for Iluka for the years ending 31 December 2017, 2018, 2019, 2020 and 2021
- Iluka's company website and ASX announcements
- publicly available information on comparable companies and market transactions published by Refinitiv and Mergermarket
- industry reports for mineral sands prepared by TZ Minerals International Pty Ltd (**TZMI**)
- other publicly available information, media releases and reports on Iluka, Sierra Rutile and the mining industry.

In addition, we have had discussions and correspondence with certain directors and executives in relation to the above information and to current operations and projects, including the following:

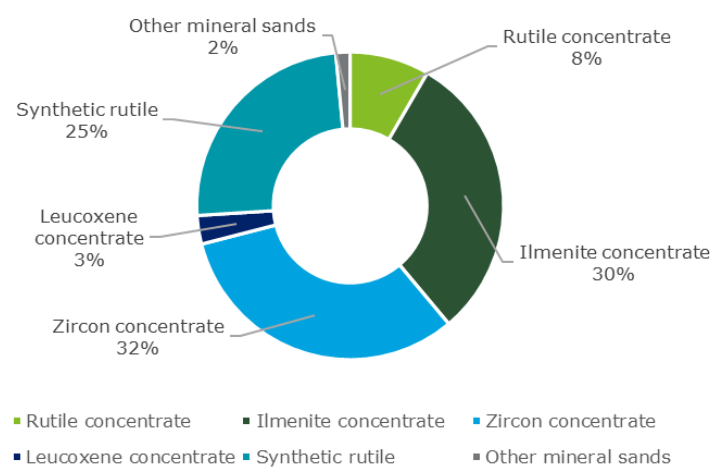
- Rob Cole – Independent Chair, Iluka
- Adele Stratton, CFO and Head of Development, Iluka
- Dan Calder, Business Development Manager, Iluka
- Theuns de Bruyn – Managing Director and CEO, Sierra Rutile
- Martin Alciaturi, Finance Director, Sierra Rutile
- Derek Bideshi, Group Finance and Treasury Manager, Iluka.

Appendix 2: Industry overview

Mineral sands market

The mineral sands industry involves the mining and processing of zircon, TiO₂ products and upgraded TiO₂ products.

Figure 8: Mineral sands market segmentation (based on revenue) – 2022



Source: IbisWorld Mineral Sand Mining in Australia

Zircon

Overview

Zircon, is an opaque, hard-wearing mineral with unique chemical resistance and thermal stability.

Around half of all zircon is used in the production of ceramics where it provides whiteness, strength and corrosion resistance. Due to its hardness, high melting point and resistance to corrosion, it is also used in the steel industry to line furnaces. Zircon has several derivatives which are created by modifying zircon chemically.

Zircon can be processed to create zirconia by melting the sand at very high temperatures (typically above 2,600 degrees Celsius) in an electric furnace to form molten zirconia³⁰. The cooled and crushed zirconia has many applications such as advanced ceramics and biomedical implants.

Zirconium is another derivative of zircon and takes the form of a silvery grey metal. Zirconium is mainly used as an alloy in the nuclear power industry and is also added to aluminium alloys and steel to improve mechanical properties and corrosion resistance. Zirconium chemicals have a vast array of applications including catalysts, paper coatings and cosmetics.

The table below summarises the uses of zircon and zircon products.

Table 14: Uses of zircon and zircon products

Product	Industry
Ceramics	Tiles, sanitary ware, table ware
Chemicals and fused zirconia	Electronics, catalytic converters, fiber optics, nuclear fuel rods
Refractory and foundry	Investment casting, glass, steel, and cement industries

Source: Iluka management

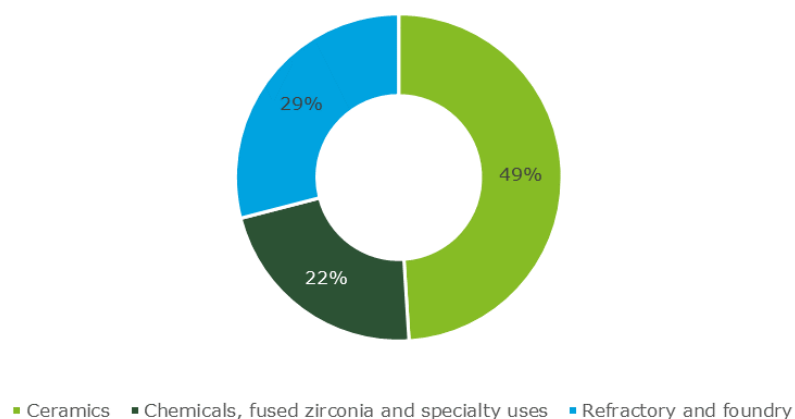
³⁰ Zircon Association - <https://www.zircon-association.org/difference-between-zircon-zirconia,zirconium.html>

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Demand

From 2018 to 2021, 49% of global demand for zircon was derived from ceramics, 29% from refractory and foundry demand and 22% from chemicals, fused zirconia and specialty uses.

Figure 23: Average 2018 to 2021 global zircon demand



Source: TZMI

Supply disruptions have led to current demand outweighing current supply of zircon. Despite previous forecasts of lower economic growth in 2022³¹, zircon demand has increased over the past year and this is expected to continue in the future. Improving economic conditions, the reopening of the Chinese economy and the push for economic stimulus across global economies through construction, is anticipated to sustain this demand.

Approximately 50% of the world's zircon is consumed in China, but other significant markets include Europe, India, Southeast Asia and the Middle East. Chinese tile production remained steady over 2021 and key tile and ceramic producers in the country demonstrated a strong return to pre-pandemic production levels. In 2021, tile production rates in India recovered despite exports being negatively impacted by container shortages and subdued domestic demand. European production continued to outperform and demand from South America and Turkey has since returned to pre-COVID-19 levels³².

Growth drivers for zircon include urbanisation, construction, and industrial production. Emerging and specialty applications of zircon based on its derivatives, zirconia and zirconium chemicals, are a key growing market for zircon in the future.

Supply

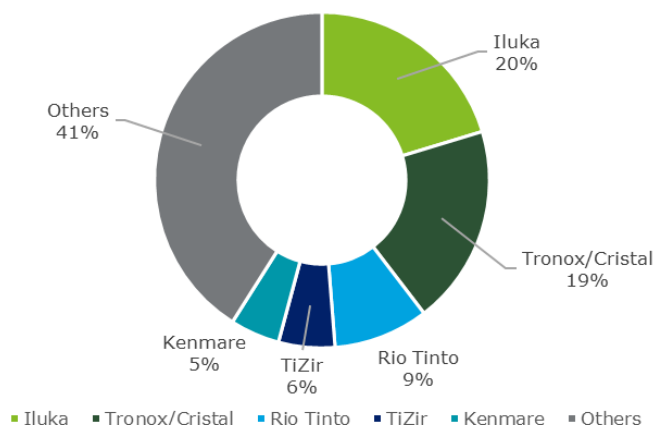
In 2021, 1.18 million tonnes (**Mt**) of zircon was produced, a sizeable increase from 2020 when global zircon demand contracted to 1.02 Mt due to the negative impacts of COVID-19³³. Supply is concentrated between three large players (Iluka, Tronox and Rio Tinto), with a number of small-scale producers accounting for the remaining market share.

³¹ <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

³² Iluka TZMI Virtual Congress 2021, ASX announcement

³³ TZMI

Figure 24: Global zircon producers in 2021



Source: TZMI

Note: Iluka's zircon production for 2021 was calculated by TZMI to be 239 kt. Iluka's management team have advised that Iluka's zircon production for 2021 was 324 kt (including ZIC and SRL production) and it is their view that Iluka's market share is higher than reflected in the above figure.

Supply for zircon increased to 1.2 Mt in 2021 with growth driven by increased output from Australia (increasing 42% in 2021) and China (increasing 33% in 2021) whereas supply from regions such as Africa contracted (decreasing 8% in 2021) due to cutbacks at Rio Tinto's Richards Bay minerals operations in South Africa³⁴.

Pricing

There is no exchange traded market for zircon and zircon derivatives. Mineral sands products were traditionally sold via long-term contracts, often referred to as legacy contracts. This historical contractual setting resulted in an extended period of relative price stability and only modest price growth.

Consensus Economics' current pricing forecast for Zircon in 2022 is c. US\$1,800 /t³⁵. Brokers and TZMI expects prices to increase in the long term due to inflationary pressures across various commodities and tightness between market supply and end product demand³⁶.

Titanium minerals

Overview

Natural rutile is a naturally occurring mineral with a high TiO₂ content (92% to 95%). Ilmenite is a lower grade iron and TiO₂ bearing mineral that can be sold as a raw material or upgraded to synthetic rutile in a rotary kiln. TiO₂ feedstocks are graded based on their TiO₂ content which ranges from 58% to 62% for ilmenite and 88% to 95% for Synthetic rutile³⁷.

TiO₂ is a dark coloured mineral which becomes a white, opaque powder with further processing. Approximately 90% of TiO₂ globally is used in the manufacture of titanium pigment to manufacture paint, plastic and paper as it is a non-toxic whitener. It also provides ultraviolet and chemical resistance and is used in plastic pipes, packaging, clothing, sunscreen, toothpaste and cosmetics. Higher grade titanium feedstocks sell at a premium as they produce more pigment and also generate less waste from the production process, making them increasingly attractive to Chinese pigment producers responding to tightening environmental regulations.

³⁴ TZMI

³⁵ Consensus economics

³⁶ Iluka

³⁷ Iluka

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TiO₂ feedstocks are also used to produce titanium metal, which has the highest strength to weight ratio of all metals. Titanium metal is chemically resistant, has a high melting point and low conductivity. As a result, titanium metal is used across a wide range of industries including aeronautics, medical implants, defence, sporting goods, mining and petroleum. Rutile and synthetic rutile, which exhibit the highest titanium grade, are becoming increasingly more important and preferred to pigment producers as they boost head grades and support increased output and decreased waste³⁸.

The table below provides a summary of the uses of TiO₂.

Table 15: Uses of TiO₂

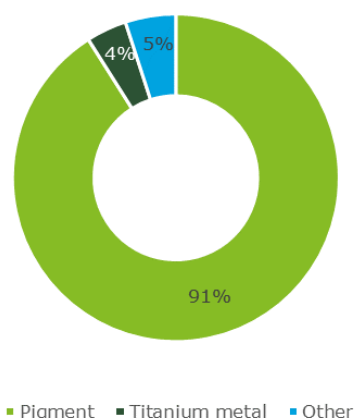
Product	Industry
Pigment	Paint, plastics, inks and specialty coatings
Titanium metal	Aircraft frames and engines, medical items, sporting goods and defence armament
Welding	Steel fabrication and ship building

Source: Iluka management

Demand

The majority of global demand for TiO₂ in 2021 was derived from pigment (91%), 5% from "other" (which includes welding) and 4% from titanium metal.

Figure 25: 2021 global TiO₂ demand



Source: TZMI

Zircon and TiO₂ demand are driven by the same factors: urbanisation, construction and industrial production. Expansion in the global pigment market is expected to be driven by the following:

- growth from Chinese manufacturers
- increased final demand for downstream manufactured goods such as paints, paper plastics and inks
- the rapidly growing paint and coating industry in Asia-Pacific due to a rise in automotive and construction industries
- increasing environmental awareness as regulations on pigment use in food packaging and printing across the globe become stringent due to the toxic elements in some pigments.

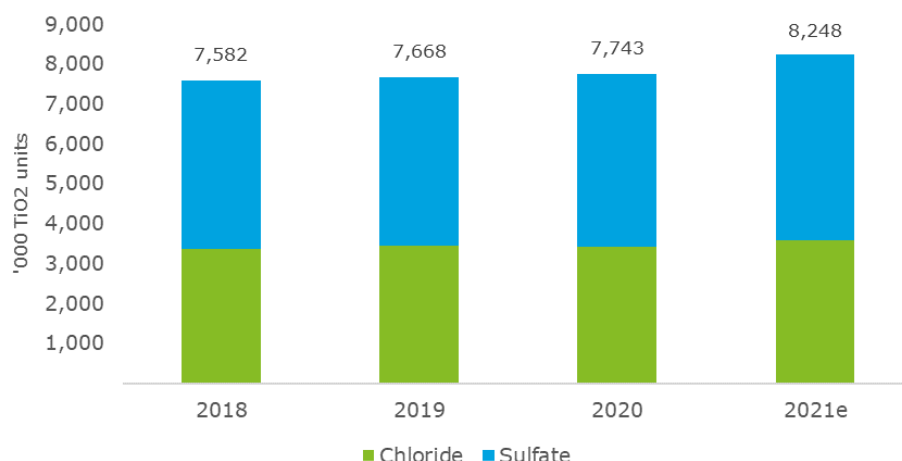
With the improvement in global economic conditions, it is expected that these markets will continue to grow in line with demand for broader mineral sands at a compound annual growth rate (CAGR) of approximately 4.4% from 2022 to 2023³⁹.

³⁸ Iluka, TZMI

³⁹ IBISWorld

Supply

In 2021, 8.25 Mt of TiO_2 was produced. Titanium feedstocks are either chloride or sulphate, with a 50/50 split globally. In 2021, supply rose 6.5% and TZMI expects global supply of titanium feedstocks to increase during the next two years⁴⁰.

Figure 26: Total TiO_2 Global Supply 2018 to 2021

Source: TZMI

Whilst supply for rutile is expected to increase in the future following Iluka's withdrawal of a suspension notice for the Sierra Rutile operation, the market is expected to encounter supply constraints precipitated by Russia's invasion of Ukraine. Synthetic rutile can be produced by processing ilmenite and Ukraine's ilmenite output accounted for almost 5.5% of global gross ilmenite supply in 2021. It is unclear how long these supply constraints will continue.

Pricing

Similar to zircon, there are limited traded market for rutile and synthetic rutile. Rutile and synthetic rutile are generally sold to major pigment and titanium metal customers on a bilateral contracted basis, on terms of typically less than 12 months.

TZMI forecasts provide a guide on the pricing of rutile and suggest a relatively strong increase in prices can be expected over the foreseeable future.

Rare earths market*Overview*

Rare earths refer to a group of 17 elements used in a wide variety of applications utilising their unique metallurgical, nuclear, electrical, magnetic and luminescent properties⁴¹. Despite their name, rare earth are generally abundant in nature but are rarely found in economic concentrations⁴².

The high value rare earths neodymium, praseodymium, dysprosium and terbium are critical inputs in the manufacturing of permanent magnets, a crucial component in the production of electric vehicles renewable energy technologies (wind turbines) and different defence applications.

Demand

In 2019, permanent magnets accounted for c. 40% of global consumption of rare earths. As production and demand for electric vehicles increase, it is expected that there will be stronger demand for rare earths in the future. Likewise, as permanent magnets are a key input in wind turbines, the acceleration towards cleaner energy sources is expected to fuel growth in demand for rare earths⁴³.

⁴⁰ TZMI⁴¹ <https://www.ga.gov.au/scientific-topics/minerals/mineral-resources-and-advice/australian-resource-reviews/rare-earth-elements>⁴² United States Geological Survey Van Gosen, "Rare Earth Elements" paper, B.S. Verplanck, P.L., Seal II, R.R. Long, K.R. and Gambogi, J.⁴³ <https://www.iea.org/reports/renewable-energy-market-update-2021>

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The market for rare earths was valued at US\$5.3 billion in 2021 and is expected to grow at a CAGR of 12.3% from 2020 to 2026⁴⁴. Asia Pacific region is the fastest growing market for rare earths due to the increased consumption in China.

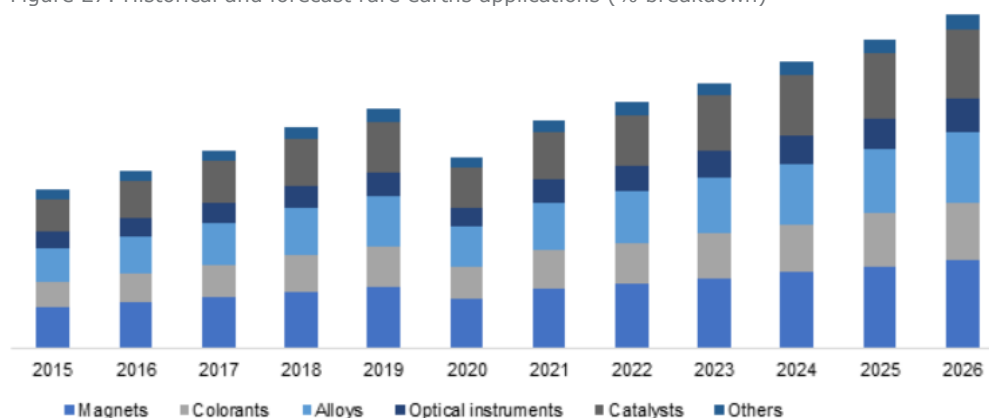
Supply

China is estimated to hold c. 80% to 90% of the world's rare earth separation capacity. Western nations are increasingly looking to diversify their supply networks by targeted investment in greenfield capacity outside of China⁴⁵.

In 2022 the Australian Federal Budget included A\$2 billion for an infrastructure accelerator program with a heavy focus on critical rare earths. The funding is anticipated to help secure supply chain contracts between allied countries for rare earths, in particular neodymium and praseodymium due to their use in military defense applications⁴⁶.

The figure below indicates the historical and forecast rare earths applications from 2015 to 2026.

Figure 27: Historical and forecast rare earths applications (% breakdown)



Source: Global Market Insights

Pricing

There is no exchange traded market for neodymium, praseodymium, dysprosium and terbium products, rather the majority of sales are made via long term contracts⁴⁷. Rare earth contract pricing depends on the purity and concentration of the elements in the ore as well as the type of rare earth element being traded, therefore it is difficult to provide an accurate overview of current prices.

⁴⁴ <https://www.marketsandmarkets.com/Market-Reports/rare-earth-metals-market-121495310.html> accessed 8 April 2022

⁴⁵ <https://www.mining-technology.com/analysis/is-china-using-rare-earth-metals-as-a-geopolitical-weapon/>

⁴⁶ <https://www.afr.com/companies/mining/taxpayers-lend-1b-for-wa-rare-earths-refinery-20220404-p5aak0>

⁴⁷ <https://qz.com/2129098/are-high-rare-earth-prices-good-for-china/>



Appendix 3: Studies on demergers

Market evidence

Over time, there have been varying trends in the structure and focus of large corporations. Up until the 1970s, corporate focus was characterised by companies looking to build and form large, diversified conglomerates. Risk diversification and economies of scale were the primary drivers of this trend. This contrasts to the latter part of the twentieth and early twenty-first centuries, when companies trended away from diversification toward operational and industry focus. This shift was driven by the increasing recognition that capital markets are more efficient in allocating resources to businesses with attractive investment opportunities. It is not uncommon for the market to allocate a 'diversification discount' to large conglomerates⁴⁸.

Demergers also allow existing shareholders to retain control over the demerged entity. As a smaller and more focused company could be more attractive to potential buyers, the company's pool of potential buyers increases and therefore shareholders may have an increased likelihood of receiving a takeover premium for one or more of their demerged investments. This argument is further supported by the theory that investors do not reward corporate diversification as they can achieve diversification within their investment portfolio themselves. In addition, a demerger also provides the investor with the choice to invest in the parent or the subsidiary, or both.

As a result of this trend away from diversification, demerger activity has progressively grown, especially in the US, where regulatory and tax treatment is relatively favourable for this type of divestiture. Australia and the United Kingdom are also considered favourable jurisdictions for demergers.

On the following page, we list demergers in Australia and New Zealand since 2010, including the rationale for the relevant demerger.

⁴⁸ Berger and Ofek (1995) found, based on a sample from 1986 to 1995, that the sum of the stand-alone values to the firm's actual value implies on average a 13% to 15% value loss from diversification.



Table 16: Demergers in Australia and New Zealand since 2010

Demerger Completion Date	Parent	Demerged Entity	Parent's activities post demerger	Rationale for demerger
24-Jun-21	Woolworths Group Limited	Endeavour Group Limited	Diversified operations	Spin-off retail drinks and hospitality business
23-Oct-20	Iluka Resources Limited	Deterra Royalties Limited	Mining	Spin-off royalty business
30-Jul-20	Alkane Resources Limited	Australian Strategic Materials Limited	Mining	Spin-off critical materials business
30-Jun-20	TPG Telecom Limited	Tuas Limited	Telecommunications	Spin-off Tuas Ltd, TPG's Singaporean business
24-Mar-20	GrainCorp Limited	United Malt Group Limited	Agricultural products	Spin-off its international malt business
31-Oct-19	Cardno Limited	Intega Group Limited	Environmental and facilities consulting	Spin-off the quality, testing and measurement business from the consulting business
21-Nov-18	Wesfarmers Limited	Coles Group Limited	Diversified operations	Spin-off the supermarket business and focus on businesses with higher future earnings growth prospects
31-May-18	Westfield Corporation	OneMarket Limited	Property management	Spin-off the retail technology platform
16-Nov-17	Fairfax Media Limited	Domain Holdings Australia Limited	Media and entertainment	Spin-off the real estate business and focus on distinct growth strategies of the respective business
5-Jul-17	Reckon Limited	GetBusy Plc	Financial management software	Spin-off the document management software business
09-Feb-17	Heron Resources Limited	Ardea Resources Limited	Mining	Spin-off certain assets not located in New South Wales
06-Dec-16	Metals X Limited	Westgold Resources Limited	Mining	Spin-off the gold exploration unit
27-Jun-16	HT&E Ltd ¹	NZME Ltd	Media and entertainment	Spin-off certain international assets
1-Jun-16	TrustPower Limited	Tilt Renewables Limited	Electricity producer	Spin-off wind assets
3-Feb-16	National Australia Bank Limited	CYB Investments Limited	Banking and financial services	Spin-off certain international assets
18-May-15	BHP Billiton Ltd	South32 Limited	Mining	Spin-off certain international and non-core assets
10-Dec-13	Brambles Limited	Recall Holdings Limited	Cleaning and industrial support services	Spin-off the information management business and focus on growth opportunities in core business
18-Dec-13	Amcor Limited	Orora Limited	Packaging solutions	Spin off Australasia and Packaging Distribution business
26-Nov-12	Woolworths Group Limited	Shopping Centres Australasia Property Group	Retail supermarket operator	Spin-off sub-regional shopping centres and freestanding retail assets
01-Dec-11	Spark New Zealand Limited	Chorus Limited	Telecommunications	Separation of retail and network operations
06-Jun-11	Tabcorp Holdings Limited	The Star Entertainment Group Limited	Media and entertainment	Spin-off the casinos business
10-May-11	Foster's Group Limited	Treasury Wine Estates Limited	Brewing	Spin-off the company's wine business



Demerger Completion Date	Parent	Demerged Entity	Parent's activities post demerger	Rationale for demerger
13-Dec-10	Westfield Group	Westfield Retail Trust	Property management	Spin-off the shopping centre business
22-Jul-10	Arrow Energy Limited	Dart Energy Ltd	Production of coal seam gas	Spin-off certain international assets
12-Jul-10	Orica Limited	DuluxGroup Limited	Explosive and blasting systems	Spin-off the paint and home improvement business
22-Jan-10	Macquarie Infrastructure Group	Macquarie Atlas Roads	Infrastructure projects	Spin-off the Atlas roads business

Source: Mergermarket, company websites, Deloitte Corporate Finance analysis

Notes:

1. Formerly APN News & Media
2. For our empirical analysis in this section, we have considered only demergers where both the parent and the demerged entity were listed on the Australian and New Zealand securities exchanges

The stated rationale for undertaking these demergers can be summarised into two key reasons:

- increasing corporate focus that includes: spinning off business units that operated in jurisdictions with different growth prospects; regulatory regimes; and risk outlook. Generally, the demerger was consequently expected to allow the parent firm to focus on the core business, increasing operational and management efficiency
- spinning off subsidiaries with business operations in areas not falling directly under the core business of the parent company.

Analysis of value creation

Academic studies

There is little objective evidence as to whether or not demergers have actually enhanced shareholder value, principally because it is not possible to observe or reliably measure what returns would have been achieved had the demerger not occurred.

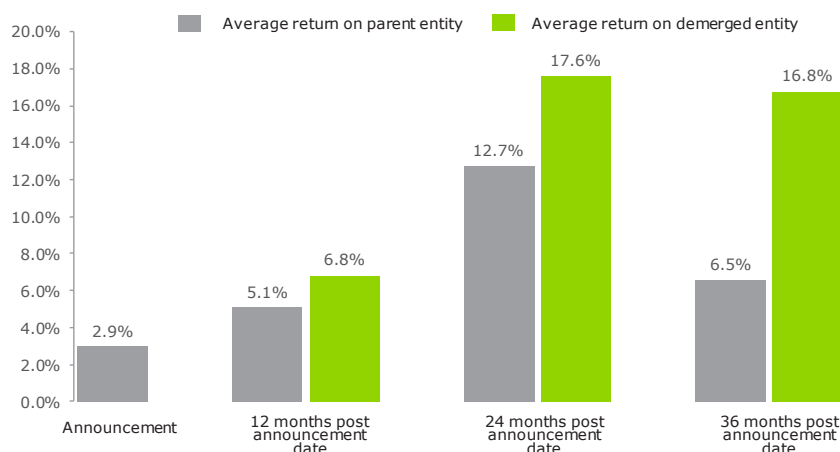
There are many documented studies on the impact of demergers on shareholder value. The majority of these studies assess value creation by observing abnormal returns of listed companies attributed to the demerger event. Abnormal return is usually measured as excess rate of return for a security compared to the rate of return of a market index of listed companies considered comparable to the original business.

The studies mostly focus on the analysis of abnormal returns observed soon after the announcement date of the transaction. However, more recently there has been an increasing focus on observing long term returns over a period of up to three years after the effective date of the demerger. Conceptually, a better long-term abnormal return compared with a return over the short term may be explained by the ability of management to deliver returns in excess of market participants' expectations at the announcement date.

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The academic studies⁴⁹ focus on US and European markets where there is an extensive observable history of demergers; however, given the variety of calculation methodologies applied, not all studies are directly comparable. The results collated and summarised in the figure below generally indicate that demergers generate, on average, positive abnormal returns.

Figure 28: Average abnormal returns observed in academic studies



Source: Refer to footnotes detailed at the end of this page, Deloitte Corporate Finance analysis

We note the following regarding the above:

- the studies almost unanimously⁵⁰ observed that the initial announcement of a demerger to the marketplace resulted in a positive movement in the company's share price in the range of 0.5% to 5.6%, with an average return of 2.9%
- the studies⁵¹ observed that the parent company's abnormal returns ranged from -3.9% to 13.5% (average of 5.1%) over a twelve-month period following the demerger and the demerged entity's returns ranged from -6.4% to 15.7% (average of 6.8%) over the same period. Over a two-year period following the demerger, parent returns ranged from 0.7% to 26.7% (average of 12.7%) whilst demerged entity returns ranged from 5.8% to 36.2% (average of 17.6%). Over a three-year period, parent returns ranged from -5.9% to 18.1% (average of 6.5%) whilst demerged entity returns ranged from -20.9% to 33.6% (average of 16.8%).

Other hypotheses tested in the US and European studies observed the following:

- subsidiary firms' returns over the long term are greater than that of their parent firms over the same period post demerger

⁴⁹Roger Rüdüsili, Value Creation of Spin-offs and Carve-outs (2005); Chris Veld and Yulia V. Veld-Merkoulova, Value Creation Through Spin-offs: a Review of the Empirical Evidence (2008) Miles and Rosenfeld (1983); Schipper and Smith (1983); Hite and Owens (1983); Vijh (1994); Allen et al (1995); Michalek and Shaw (1995); Daley, Mehrotra and Sivakumar (1997); Desai and Jain (1999); Krishnaswami and Subramaniam (1999); Gertner, Powers, and Scharfstein (2000); Blanton, Perrett, and Taino (2000); Mulherin and Boone (2000); Chemmanur and Paeglis (2000); Rosenfeld (1984); Copeland, Lemgruber and Mayers (1987); Denning (1988); Seifert and Rubin (1989); Ball, Rutherford, and Shaw (1993); Slovin, Sushka, and Ferraro (1995); Seward and Walsh (1996); Johnson, Klein, and Thibodeaux (1996); Maxwell and Rao (2003); Veld and Veld-Merkoulova (2008); Buhner (1998); Buhner (2000); Janssens de Vroom and Van Frederikslust (2000); Veld and Veld-Merkoulova (2004); Kirchmaier (2003); Sudarsanam and Qian (2007); Murray (2000); Schauten, Steenbeek, and Wycisk (2001); Sin and Ariff (2006); Cusatis, Miles and Woolridge (1993 and 1994); McConnell, Ozbilgin, and Wahal (2001); Powers (2001); Anslinger, Klepper, and Subramaniam (1999); Anslinger, Bonini, and Patsalos-Fox (2000); McConnell, Ozbilgin, and Wahal (2001).

⁵⁰ The only exception is the study of Murray (2000) for the United Kingdom, which reports a non-significant abnormal return of -0.19% for the event window from day -1 to day 1. However, the study of Schauten, Steenbeek, and Wycisk (2001) for the same country and for the same event window shows an abnormal return of 2.13%

⁵¹ The studies were mainly focused in the US market. Only two studies in our analysis were based on the European market: Veld and Veld-Merkoulova (2004) and Kirchmaier (2003)

- parent firms generally undertake spin-offs in bull markets. This is based on the theory that management prefer a positive market environment in which to demerge subsidiaries
- spin-off firms (both parent and subsidiary) do not experience a significant decline (if any) in returns in the period post demerger
- size, operational diversification and geography do not have a significant impact in assessing the long-term value created by a demerger.

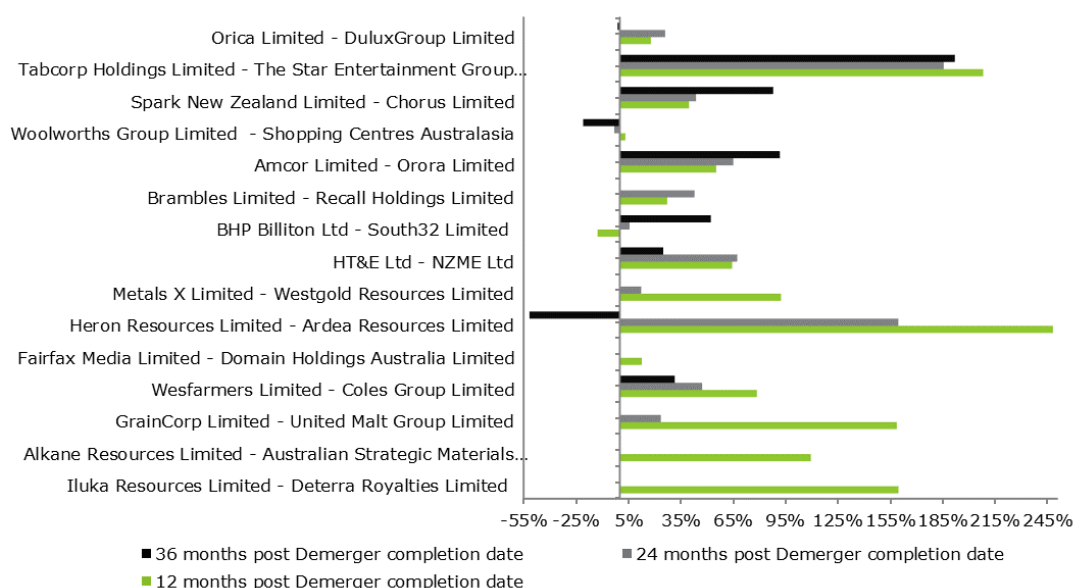
Empirical analysis

We have attempted to estimate the abnormal/excess returns from selected demergers in the Australian and New Zealand markets. This is a high-level analysis which incorporates significant limitations, not least the statistical significance of the results.

The figure below depicts the observed excess return of the hypothetical combined security on a market capitalisation basis of both the parent and the subsidiary over a period of one, two and three years after the demerger was completed⁵². We have considered only demergers where the parent and the demerged entity were listed on the Australian or New Zealand securities exchanges, and only those where share price information for both the parent and demerged entity was available for at least one year.

To estimate the excess returns, we have compared the return of the hypothetical combined security with the return of the S&P/ASX All Ordinaries Index or the S&P/NZX 50 Index, depending on the location of the parent company.

Figure 29: Excess returns of demergers in Australia and New Zealand since 2010



Source: S&P Capital IQ, Mergermarket, Company announcements, Deloitte Corporate Finance analysis
Notes:

1. Iluka and Alkane Resources Limited demergers completed in October 2020 and July 2020 respectively, therefore returns over a 24 and 36-month period are not available.
2. Fairfax Media Limited delisted in December 2018 therefore returns over a 24 and 36 month period are not available.
3. Intega Group Limited was acquired by Kiwa N.V. in December 2021 and market capitalisation data is no longer publicly available.

The above analysis indicates that the majority of demergers which occurred created value on a market capitalisation basis. In our total sample of 37 excess returns for the different time periods only 5

⁵² The return of the hypothetical combined security on a market capitalisation basis has been calculated by adding together the market capitalisation of the subsidiary (on a pro-rata basis as per the demerger terms) and the parent over one, two and three years after the demerger was completed, and then comparing each of these combined market capitalisations against the market capitalisation of the parent on the day of the demerger announcement.



exhibited returns below the market index.

In particular, we note that excess returns for the 12 months from the demerger were in the range of -13% and 248%, with an average excess return of 84%. When considered over a period of 24 months from the demerger, exhibited returns were in the range of -3% and 185%, with an average of 56%; while for the period of 36 months after the demerger, exhibited returns were in the range of -52% and 192%, with an average of 41%.

Conclusion

The evidence from the numerous academic studies presented above generally indicates that market observations broadly support the theory that demergers create value for shareholders, although the range of outcomes and the rationale behind the demergers indicate that there is no ideal business structure that all companies should target. The success of demergers, in their ability to create shareholder value, depends on the specific circumstances of each case.

The results of our analysis of recent demergers in the Australian and New Zealand markets generally support the conclusion of the academic studies.

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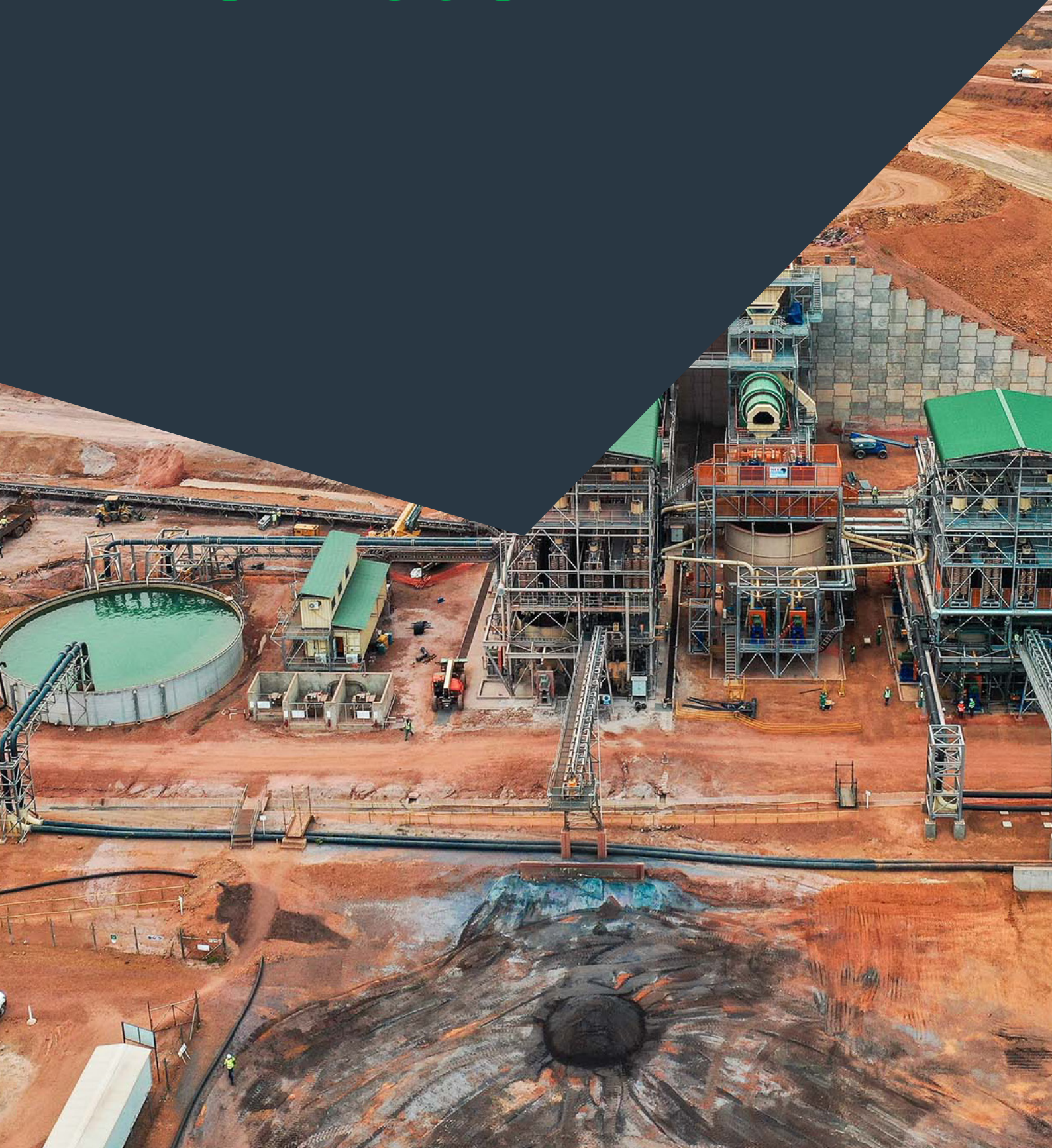
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9. Additional information



9.1 INTERESTS OF ILUKA DIRECTORS AND SIERRA RUTILE DIRECTORS

9.1.1 INTERESTS

No marketable securities of Iluka are held by or on behalf of Iluka Directors or Sierra Rutile Directors as at the date of this Demerger Booklet other than the following interests:

Iluka Director	Direct holdings of Iluka Shares	Indirect holdings of Iluka Shares
Marcelo Bastos	-	23,083
Andrea Jane Sutton	22,000	-
Thomas O'Leary	584,458	-
Lynne Diane Saint	-	18,441
Robert James Cole	-	22,000
Susan Jane Corlett	-	16,040
Sierra Rutile Director	Direct holdings of Iluka Shares	Indirect holdings of Iluka Shares
Gregory John Walton Martin	-	30,000
Theuns de Bruyn	-	-
Martin Alciaturi	-	352
Graham Davidson	-	-
Joanne Palmer	-	-

No Iluka Director or Sierra Rutile Director holds any options over Iluka Shares as at the date of this Demerger Booklet, other than Thomas O'Leary.

As at the date of this Demerger Booklet, Thomas O'Leary holds 587,076 performance rights under Iluka employee incentive plans:

- 164,807 performance rights granted pursuant to Iluka's 2016 Long Term Incentive Plan;
- 195,592 performance rights granted pursuant to Iluka's 2017 Long Term Incentive Plan;
- 78,088 performance rights granted pursuant to Iluka's 2019 Executive Incentive Plan;
- 47,218 performance rights granted pursuant to Iluka's 2020 Executive Incentive Plan; and
- 101,371 performance rights granted pursuant to Iluka's 2021 Executive Incentive Plan.

Each performance right is a right to acquire one Iluka Share, subject to satisfaction of the performance conditions. Refer to Section 5.6 for the treatment of Iluka incentive arrangements, including each award of performance rights held by Thomas O'Leary.

No marketable securities of Sierra Rutile are held by or on behalf of Iluka Directors or Sierra Rutile Directors as at the date of this Demerger Booklet.

Iluka Directors or Sierra Rutile Directors who hold Iluka Shares will be entitled to vote at the Extraordinary General Meeting and receive Sierra Rutile Shares under the Demerger on the same terms as all other Iluka Shareholders.

9.1.2 AGREEMENTS OR ARRANGEMENTS WITH ILUKA DIRECTORS IN CONNECTION WITH THE DEMERGER

Other than:

- the fee arrangements with the Managing Director and Chief Executive Officer, Finance Director and Non-Executive Directors referred to in Sections 3.25.1.1, 3.25.1.2 and 3.25.2 respectively; and
- the Sierra Rutile Directors' indemnity arrangements referred to in Section 3.25.4,

there are no agreements or arrangements made between any Iluka Director and any other person in connection with or conditional upon the outcome of the Demerger.

Other than as set out above or elsewhere in this Demerger Booklet, no director or proposed director of Sierra Rutile holds, or held at any time during the last two years before the date of this Demerger Booklet, any interest in:

- the formation or promotion of Sierra Rutile;
- any property acquired or proposed to be acquired by Sierra Rutile in connection with its formation or promotion or the Demerger; or
- the Demerger,

and no amounts (whether in cash or securities or otherwise) have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any director or proposed director of Sierra Rutile either to induce them to become, or to qualify them as, a director of Sierra Rutile, or otherwise for services rendered by them in connection with the formation or promotion of Sierra Rutile or the Demerger.

9.1.3 CONSULTING ARRANGEMENTS

Mr Alciaturi provided consulting services in relation to the Demerger to Iluka between 24 January 2022 and 29 April 2022 pursuant to an agreement between Iluka and a private company controlled by Mr Alciaturi. Mr Alciaturi's private company was paid a daily rate of \$1,800 (excluding GST) totalling \$88,200 (excluding GST) for provision of the services, and may also be paid, at Iluka's absolute discretion, a one-off payment up to a maximum amount equal to the total fees paid during the term of the agreement.

9.2 RIGHTS AND LIABILITIES ATTACHING TO SIERRA RUTILE SHARES AND OTHER MATERIAL PROVISIONS OF THE SIERRA RUTILE CONSTITUTION

9.2.1 INTRODUCTION

The rights and liabilities attaching to ownership of Sierra Rutile Shares arise from a combination of the Sierra Rutile Constitution, statute, the ASX listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Sierra Rutile Shares and a description of other material provisions of the Sierra Rutile Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Sierra Rutile Shareholders. This summary assumes that Sierra Rutile is admitted to the official list of the ASX.

9.2.2 ISSUE OF SIERRA RUTILE SHARES AND OPTIONS

Sierra Rutile may, subject to the Corporations Act and any rights and restrictions attached to a class of Sierra Rutile Shares, issue, allot or grant options for, Sierra Rutile Shares on such terms as the Sierra Rutile Directors resolve.

9.2.3 PREFERENCE SHARES

Sierra Rutile may issue preference shares which are liable to be redeemed in a manner permitted by the Corporations Act. The rights attaching to preference shares are those set out in the Sierra Rutile Constitution.

9.2.4 SHARE CAPITAL

On implementation of the Demerger, the only class of security on issue by Sierra Rutile will be fully paid ordinary shares (noting that the employee incentive instruments referred to in Section 3.25.6.5 will be issued shortly after implementation of the Demerger).

9.2.5 VARIATION OF CLASS RIGHTS

Subject to the Corporations Act and the terms of issue of shares in a particular class, Sierra Rutile may vary or cancel rights attached to shares in that class or convert shares from one class to another, by either:

- a special resolution passed at a meeting of Sierra Rutile Shareholders holding shares in that class; or
- with the written consent of Sierra Rutile Shareholders who are entitled to at least 75 per cent of the votes that may be cast in respect of shares in that class.

9.2.6 REDUCTIONS OF CAPITAL AND CAPITAL BUY BACKS

Subject to the Corporations Act, Sierra Rutile may reduce its share capital and buy back Sierra Rutile Shares on any terms and at any time.

The method of distribution of a reduction of the share capital of Sierra Rutile may include any or all of the payment of cash, the issue of shares or other securities, the grant of options and the transfer of assets.

9.2.7 TRANSFER OF SIERRA RUTILE SHARES

Subject to the Sierra Rutile Constitution and to any restrictions attached to a Sierra Rutile Share, Sierra Rutile Shares may be transferred by proper ASTC transfer effected in accordance with the ASX Settlement Operating Rules, Corporations Act and ASX Listing Rules or by a written transfer in any usual form or in any other form approved by the Sierra Rutile Directors and permitted by the relevant laws and ASX requirements.

The Sierra Rutile Board may decline to register a transfer of Sierra Rutile Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

9.2.8 MEETING OF MEMBERS

Each Sierra Rutile Shareholder is entitled to receive notice of, attend, and vote at, general meetings of Sierra Rutile and to receive all notices, accounts and other documents required to be sent to Sierra Rutile Shareholders under the Sierra Rutile Constitution, Corporations Act and ASX Listing Rules. Sierra Rutile must give at least 28 days' written notice of a general meeting. Meetings of members may be held as virtual only, hybrid or physical meetings.

9.2.9 VOTING AT A GENERAL MEETING

At a general meeting of Sierra Rutile, every Sierra Rutile Shareholder present in person or by proxy, representative or attorney and entitled to vote is entitled to one vote on a show of hands and, on a poll, one vote for each Sierra Rutile Share held by the Sierra Rutile Shareholder (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chair of the meeting is entitled to an additional casting vote.

9.2.10 DIRECTORS – APPOINTMENT AND RETIREMENT

Under the Sierra Rutile Constitution, the number of directors shall be a minimum of four directors and a maximum of eight directors, unless Sierra Rutile resolves otherwise at a general meeting. Directors are elected or re-elected at general meetings of Sierra Rutile.

Subject to the Sierra Rutile Constitution, the Sierra Rutile Directors may appoint any person as a Sierra Rutile Director. Sierra Rutile in general meeting may by ordinary resolution appoint any person as a Director.

9.2.11 DIRECTORS – REMUNERATION

Under the Sierra Rutile Constitution, the total remuneration to which each Sierra Rutile Director is entitled for their services as a director may be determined by Sierra Rutile in general meeting, or until so determined, as the Sierra Rutile Directors resolve. The total remuneration will be divided between the Sierra Rutile Directors equally until otherwise determined by the Sierra Rutile Directors.

If a Sierra Rutile Director, at the request of the Sierra Rutile Directors, performs additional or special duties for Sierra Rutile, Sierra Rutile may remunerate that Sierra Rutile Director as determined by the Sierra Rutile Directors.

The remuneration of the Sierra Rutile Executive Directors must, subject to the provisions of any contract between each of them and Sierra Rutile, be fixed by the Sierra Rutile Directors.

Sierra Rutile must pay all reasonable travelling, accommodation and other expenses that a Sierra Rutile Director properly incurs in attending director, committee and shareholder meetings, and in connection with the business of Sierra Rutile.

Subject to the Corporations Act, Sierra Rutile may give a person a benefit in connection with that person's retirement from a board or managerial office in Sierra Rutile or a related body corporate.

Sierra Rutile Directors' remuneration is discussed further in Section 3.25.

9.2.12 DIRECTORS – INDEMNITIES

To the extent permitted by law, Sierra Rutile must indemnify each officer against a liability and legal costs incurred by that person as an officer of Sierra Rutile or of a related body corporate.

Sierra Rutile may, to the extent permitted by law, pay or agree to pay a premium for a contract insuring an officer against any liability and cost incurred by that person as an officer of Sierra Rutile or of a related body corporate.

9.2.13 DIRECTORS – POWERS

The business of Sierra Rutile is managed by or under the direction of the Sierra Rutile Directors. The Sierra Rutile Directors may exercise all the powers of Sierra Rutile except any powers in the Corporations Act or the Sierra Rutile Constitution requires Sierra Rutile to exercise in general meeting.

The Sierra Rutile Directors may delegate any of their powers to a committee of Sierra Rutile Directors, a Sierra Rutile Director, an employee of Sierra Rutile or any other person.

9.2.14 DIRECTORS – VOTING

Questions arising at a meeting of the Sierra Rutile Board must be decided by a majority of votes of the Sierra Rutile Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chair of the meeting has a casting vote in addition to their deliberative vote.

A written resolution of the Sierra Rutile Board may be passed without holding a meeting of the Sierra Rutile Board, if at least 75% of the Sierra Rutile Directors entitled to vote on the resolution sign or consent to the resolution.

9.2.15 ACCESS TO RECORDS

Sierra Rutile Shareholders do not have a right to inspect any document of Sierra Rutile except as provided by law, authorised by the Sierra Rutile Directors, or by Sierra Rutile in general meeting.

9.2.16 DIVIDENDS

Sierra Rutile may pay dividends on Sierra Rutile Shares as the Sierra Rutile Directors resolve but only to the extent that the financial position of Sierra Rutile justifies, and is fair and reasonable to Sierra Rutile's Shareholders as a whole. The Sierra Rutile Directors may determine the amount, the record date for payment, timing for payment and method of payment.

9.2.17 WINDING UP

If Sierra Rutile is wound up, then subject to the Constitution, the Corporations Act and any rights or restrictions attached to a class of Sierra Rutile Shares, Sierra Rutile Shareholders will be entitled to a share in any surplus property of Sierra Rutile in proportion to the number of shares held by them.

If Sierra Rutile is wound up, the liquidator may, with the sanction of a special resolution, divide among the Sierra Rutile Shareholders the whole or part of Sierra Rutile property and decide how the division is to be carried out as between Sierra Rutile Shareholders or different classes of Sierra Rutile Shareholders.

9.3 MATERIAL CONTRACTS

This Section 9.3 contains a general summary of the material contracts involving a Sierra Rutile Group Member and their substantive terms which are not otherwise disclosed elsewhere in this Demerger Booklet.

9.3.1 SIERRA RUTILE REHABILITATION DISCRETIONARY TRUST

As noted in Section 3.8, Iluka will establish a US\$45 million rehabilitation trust, cash funded on a one-off basis to support the estimate as at 31 December 2021 of the existing rehabilitation and mine closure obligations in

respect of the Mining Lease and associated operations that apply to Sierra Rutile's wholly-owned subsidiary SRL (**Rehabilitation Trust**). A summary of the Rehabilitation Trust structure and relevant documents is set out below.

The Rehabilitation Trust will be established under the "Sierra Rutile Rehabilitation Discretionary Trust Deed" (**Trust Deed**). Subject to final agreement between the parties, Iluka intends to appoint Perpetual Trustee Company Limited to perform the role of the inaugural trustee (the **Trustee**), who will act in the capacity as an independent, discretionary trustee with discretion to administer the US\$45 million provided to the Rehabilitation Trust by Iluka (**Trust Fund**). The Trustee will distribute capital and income from the Trust Fund from time to time to satisfy the objects of the Rehabilitation Trust (**Trust Objects**).

The Trust Objects will be centred on the funding of rehabilitation and mine closure activities prescribed by Sierra Leonean laws and regulations concerning the environment that apply to SRL – for example, to rehabilitate and remediate areas of disturbance that relate to historical mining activities at Area 1.

Since SRL is the entity obliged to carry out rehabilitation, remediation and mine closure activities under relevant Sierra Leonean laws and regulations (e.g. the Sierra Rutile Agreement, MMA and EPA Act), the primary beneficiaries under the Rehabilitation Trust are intended to be Sierra Rutile and SRL.

The key features of the Rehabilitation Trust are as follows:

- **Discretionary in nature:** The rehabilitation, remediation and mine closure activities to be conducted in respect of the Mining Lease will not be uniform during the term of the Rehabilitation Trust. For that reason, the Rehabilitation Trust has been structured as a discretionary trust to afford the Trustee discretion in accordance with the Trust Deed to administer the Rehabilitation Trust in order to satisfy the Trust Objects.
- **Work programmes and budgets:** The rehabilitation and remediation activities to be funded from the Rehabilitation Trust are to be planned pursuant to annual work programmes and budgets prepared by SRL. Prior to the end of each Financial Year, SRL will submit these draft work programmes and budgets to the Trustee for their approval to fund rehabilitation, remediation and mine closure activities (as applicable) for the next Financial Year.
- **Technical Advisor:** Once the Trustee receives the draft work programmes prepared by SRL, the Trustee will engage an independent technical advisor to provide services to the Trustee to determine whether the draft work programme and budget is in a form capable of approval by the Trustee in accordance with the requirements of the Trust Deed (**Technical Advisor**). The Technical Advisor will be engaged under

a standard technical services agreement in line with general requirements applying to service providers to the Rehabilitation Trust. The Technical Advisor will be remunerated in accordance with that agreement out of the Trust Fund. It is proposed that SRK South Africa (Pty) Ltd will be appointed as the inaugural Technical Advisor under an agreement to be entered into following the date of this Demerger Booklet.

- **Technical Committee:** The Trustee will also establish a forum to be initially comprised of representatives from each of the Trustee, the Technical Advisor and SRL (**Technical Committee**). The primary function of the Technical Committee is to consider rehabilitation, remediation and mine closure activities in respect of the Mining Lease and to provide the Trustee with advice or recommendations to assist with the conduct of those activities.
- **Trustee Investments and Liabilities:** The Trustee will be required to implement a conservative investment policy as prescribed by the Trust Deed so that the purchasing power of the Trust Fund remains consistent with inflationary effects. The Trustee is entitled to a fee for its services, structured as a percentage of capital in the Trust Fund. The Trustee is also entitled to an indemnity from the Trust Fund for liabilities related to the Rehabilitation Trust which is customary for arrangements of this nature.
- **Audit and other assurance:** The Trust will be subject to customary audit procedures and certification process, including for the Trustee to satisfy itself that rehabilitation, remediation and mine closure activities have been conducted in a manner consistent with approved work programmes and budgets.
- **Appointor role:** Sierra Rutile or one of its wholly-owned subsidiaries is intended to act as the appointor of the Rehabilitation Trust (**Appointor**). As is customary for discretionary trusts, the Appointor will have general oversight over the activities of the Trustee, and the Trust Deed will require the Trust to consult with the Appointor before certain prescribed actions are taken (e.g. amending the Trust Deed).
- **Winding Up of Trust:** The Trust will wind up once all residual income and capital has been distributed to a beneficiary, or earlier upon the happening of certain events or circumstances prescribed under the Trust Deed.

9.3.2 FUEL SUPPLY CONTRACT

In 2021, SRL entered into a contract with National Petroleum Sierra Leone Limited for the supply of fuel (which is used to generate power) at its mining operations. The term of the contract continues until 31 January 2023.

9.3.3 MEMORANDUM OF UNDERSTANDING WITH THE SIERRA LEONE POLICE

In 2020, SRL and the Sierra Leone Police (**SLP**) entered into a memorandum of understanding to enhance the security regime within SRL's mining concessions for the benefit of SRL and the communities in its areas of operation. Pursuant to the memorandum of understanding, SRL may make contributions to the SLP on an agreed schedule of rates basis in return for certain services, including proactive, reactive and standby support from SLP personnel.

9.4 LEGAL PROCEEDINGS

Sierra Rutile and its subsidiaries are, from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As at the date of this Demerger Booklet, except as set out below, there is no current, pending or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or governmental prosecution of a material nature in which Sierra Rutile or its subsidiaries are directly or indirectly concerned, which is likely to have a material adverse impact on the business or financial position of the Sierra Rutile Group.

9.4.1 SIERRA LEONE ENVIRONMENTAL CLASS ACTION

On 22 January 2019, SRL was served with a writ and statement of claim in respect of an action filed in the High Court of Sierra Leone and Admiralty Division against both SRL and the EPA-SL.

The proceedings have been brought by a group of landowner representatives who allege that they suffered loss as a result of SRL's mining operations. The claims primarily relate to environmental matters that arose prior to the Iluka Group acquiring its interest in SRL. The landowner representatives allege, in part, that SRL engaged in improper mining practices resulting in environmental degradation and contamination, did not meet certain rehabilitation obligations and violated local mining laws. SRL denies liability in respect of the allegations and intends to defend the claims. SRL filed its defence in March 2019 and also applied to the Court for an order requiring the landowner representatives to provide further detail on their claims.

As at the date of this Demerger Booklet, SRL has not been issued with a notice of hearing and the status of the proceedings has still not reached a stage where Sierra Rutile is able to reliably estimate the quantum of liability, if any, that SRL may incur in respect of the class action.

9.4.2 TRANSCEND PROCEEDINGS

On 3 April 2018, Transcend initiated proceedings in the High Court of Sierra Leone against Sierra Rutile. Transcend alleged that Sierra Rutile had handled its equipment illegally or wrongfully and damaged the equipment.

On 19 August 2021, the High Court of Sierra Leone delivered judgment in favour of Transcend for approximately US\$3.2 million plus interest at the rate of 25% until full payment.

Sierra Rutile's initial application for a stay of execution of the judgment pending appeal was initially rejected by the High Court of Sierra Leone. However, Sierra Rutile has applied for and has been granted an interim stay of execution by the Court of Appeal of Sierra Leone. The Court of Appeal has reserved the file for ruling.

Separately, on 17 April 2018, Transcend initiated proceedings in the High Court of Sierra Leone against Sierra Rutile. Transcend's claim is for US\$816,500 in relation to the supply and delivery of zircon middling to Transcend, plus general damages, interest and costs. Sierra Rutile denies that it is liable. Trial of the matter has ended and the judge has reserved the matter for judgment.

9.5 REGULATORY WAIVERS AND CONSENTS

9.5.1 ASIC

ASIC has granted relief from:

- the prospectus provisions in the Corporations Act, in relation to their application to the invitation for Iluka Shareholders to vote on the Demerger Resolution to effect the Demerger pursuant to this Demerger Booklet and to secondary trading in Sierra Rutile Shares following the Demerger; and
- various provisions in the Corporations Act (including the provisions relating to managed investment schemes and financial services licensing) that may otherwise apply to the Sale Facility.

9.5.2 ASX

ASX has provided in-principle confirmation that Sierra Rutile has a structure and operations appropriate for a listed entity and that there are no material issues that ASX expects will prevent Sierra Rutile from being admitted to the official list of ASX under ASX Listing Rule 1.1 condition 1 and ASX Listing Rule 1.19.

Additionally, in relation to Iluka, the ASX has:

- provided in-principle confirmation that ASX Listing Rule 11.1 and 11.2 will not apply to the Demerger;
- provided in-principle confirmation that ASX Listing Rule 10.1 does not apply to the issue of Sierra Rutile Shares to Iluka's substantial shareholders (if any) or directors; and
- provided an in-principle waiver from ASX Listing Rules 6.23.2, 6.23.3 and 6.23.4 to the extent necessary to permit Iluka to amend the terms of the Iluka employee

incentive arrangements in the manner described in Section 5.6 and to cancel the Iluka incentive awards to the Managing Director and Chief Executive Officer of Sierra Rutile and certain Sierra Rutile employees (so that they can be replaced with Sierra Rutile awards as described in Sections 3.25.6.4 and 3.25.6.5), in both cases without obtaining Iluka Shareholder approval.

In relation to Sierra Rutile, the ASX has provided in-principle confirmation that:

- Sierra Rutile may lodge an information memorandum in lieu of a prospectus with ASX for the purposes of its listing on the ASX as contemplated by ASX Listing Rule 1.1, condition 3;
- Sierra Rutile will satisfy the assets test under ASX Listing Rule 1.3 and Sierra Rutile may rely on the audited Iluka consolidated financial statements for the purposes of ASX Listing Rule 1.3.5(a);
- provided an in-principle waiver from ASX Listing Rule 10.14 to the extent necessary to permit Sierra Rutile to issue Sierra Rutile Shares and performance rights to the Managing Director and Chief Executive Officer and also the Finance Director of Sierra Rutile in the manner described in Section 3.25.6, without obtaining Sierra Rutile Shareholder approval; and
- ASX Listing Rule 9.1 does not apply to the issue of Sierra Rutile shares to Iluka's shareholders.

9.6 CONSENTS AND DISCLAIMERS

Each of the parties named in this Section 9.6 as consenting parties:

- has given and has not, before the date of this Demerger Booklet, withdrawn its written consent to be named in this Demerger Booklet in the form and context in which it is named;
- has given and has not, before the date of this Demerger Booklet, withdrawn its written consent to the inclusion of their respective statements and reports (where applicable) noted next to their names in this Section 9.6, and the references to those statements and reports in the form and context in which they are included in this Demerger Booklet;
- does not make, or purport to make, any statement in this Demerger Booklet other than those statements referred to in this Section 9.6 in respect of that person's name (and as consented to by that person); and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Demerger Booklet.

Role	Consenting Party
Legal advisers	Herbert Smith Freehills King & Wood Mallesons
Financial adviser	Gresham Advisory Partners Limited
Joint ECM Advisors	Euroz Hartleys Limited and Morgans Financial Limited
Independent Accountant	PricewaterhouseCoopers Securities Ltd, in relation to the Independent Limited Assurance Report in Section 7 and any statements based on that report
Independent Expert	Deloitte Corporate Finance Pty Limited, in relation to the Independent Expert's Report in Section 8 and any statements based on that report
Taxation adviser	Greenwoods & Herbert Smith Freehills Pty Ltd, in relation to Section 6 and any related tax statements
Auditor	PricewaterhouseCoopers
Other	<p>TZMI, in relation to any statements based on its reports titled:</p> <ul style="list-style-type: none"> • Titanium Feedstock Supply/Demand February 2022; • TiO₂ Pigment Supply/Demand February 2022; • Zircon Supply/Demand February 2022; or • Titanium Feedstock Price Forecast to 2026, February 2022. <p>Iluka is a licensed subscriber to the above reports from TZMI and the information from the above reports has been accurately reproduced from the relevant sources and, as far as Iluka and Sierra Rutile are aware and are able ascertain from information published by TZMI, no relevant facts have been omitted which would render the reproduced information being inaccurate or misleading.</p> <p>In addition to the above reports, in April 2022 Iluka commissioned long-term price forecasts for rutile, ilmenite and zircon from TZMI.</p> <p>TZMI has consent to the inclusion of statements based on the above reports in this Demerger Booklet.</p>

9.7 RESTRICTIONS ON FOREIGN OWNERSHIP

There are no limitations under Australian law on the right of non-residents to hold or vote Sierra Rutile Shares other than as set out below.

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) applies to acquisitions of shares and voting power in a company of 20 per cent or more by a single foreign person and its associates (**Substantial Interest**), or 40 per cent or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**). Where a foreign person holds a Substantial Interest in Sierra Rutile or foreign persons hold an Aggregate Substantial Interest in Sierra Rutile, Sierra Rutile may (subject to certain exceptions) itself be a 'foreign person' for the purpose of the FATA.

Where an acquisition of a Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Australian Commonwealth Treasurer (**Treasurer**). The Treasurer also has the power to prohibit an acquisition of an Aggregate Substantial Interest or, if the acquisition of an Aggregate Substantial Interest has already occurred, unwind the acquisition, if it meets certain criteria. If the Treasurer has been notified of the acquisition of a Substantial Interest or Aggregate Substantial Interest and has either stated that there is no objection to the proposed acquisition or a statutory period has expired without the Treasurer objecting, then the Treasurer is prevented from making an order prohibiting or unwinding the transaction.

In addition, acquisitions of a direct investment in an Australian company by foreign governments and their related entities should be notified to the Foreign Investment Review Board for approval, irrespective of value. Under the FATA, a 'direct investment' will typically include any investment of 10% or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company but may also include investment of less than 10% where the investor is building a strategic stake in the target or obtains potential influence or control over the target.

9.8 FOREIGN SELLING RESTRICTIONS

This Demerger Booklet does not constitute an offer of Sierra Rutile Shares in any jurisdiction in which it would be unlawful. In particular, this Demerger Booklet may not be distributed to any person, and the Sierra Rutile Shares may not be offered or sold, in any country outside Australia except to the extent provided below.

HONG KONG

WARNING: This Demerger Booklet has not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the Demerger. If you are in any doubt about any of the contents of this Demerger Booklet, you should obtain independent professional advice.

This Demerger Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Demerger Booklet also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Accordingly, no person may issue this Demerger Booklet in Hong Kong, other than to persons who are "professional investors" (as defined in the Securities and Futures Ordinance and any rules made thereunder) or in other circumstances that do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

No person may issue this Demerger Booklet or any advertisement, invitation or document relating to the Sierra Rutile Shares, whether in Hong Kong or elsewhere, that is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except

if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors.

This Demerger Booklet may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this Demerger Booklet, or any offer or an invitation in respect of securities, to the public in Hong Kong. This Demerger Booklet is for the exclusive use of Iluka Shareholders in connection with the Demerger. No steps have been taken to register or seek authorisation for the issue of this Demerger Booklet in Hong Kong.

This Demerger Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this Demerger Booklet is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this Demerger Booklet to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with consideration of the Demerger.

NEW ZEALAND

This Demerger Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Financial Markets Conduct Act 2013 or any other New Zealand law. The offer of Sierra Rutile Shares under the Demerger is being made to existing shareholders of Iluka in reliance upon the Financial Markets Conduct (Incidental Offers) Exemption Notice 2021 and, accordingly, this Demerger Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law.

SINGAPORE

This Demerger Booklet and any other document relating to the Demerger or the Sierra Rutile Shares have not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore and the Demerger is not regulated by any financial supervisory authority under any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act 2001 (**SFA**) will not apply.

This Demerger Booklet and any other document in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of Sierra Rutile Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part 13 of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to Sierra Rutile Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

This Demerger Booklet is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

Nothing in this Demerger Booklet constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Iluka nor Sierra Rutile is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Iluka and Sierra Rutile are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

UNITED KINGDOM

Neither this Demerger Booklet nor any other document relating to the Demerger has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Sierra Rutile Shares.

This Demerger Booklet does not constitute an offer of transferable securities to the public within the meaning of the Prospectus Regulation (2017/1129/EU) or the FSMA. Accordingly, this Demerger Booklet does not constitute a prospectus for the purposes of the Prospectus Regulation (2017/1129/EU) or the FSMA.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Sierra Rutile Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to Iluka.

In the United Kingdom, this Demerger Booklet is being distributed only to, and is directed at, persons (i) who fall within Article 43 (members of certain bodies corporate) of the Financial Services and Markets Act 2000 (Financial

Promotions) Order 2005, or (ii) to whom it may otherwise be lawfully communicated (together, the **relevant persons**). The investments to which this Demerger Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Demerger Booklet or any of its contents.

UNITED STATES

This Demerger Booklet has not been filed with, or reviewed by, the US Securities and Exchange Commission or any US state securities authority and none of them has passed upon or endorsed the merits of the Demerger or the accuracy, adequacy or completeness of the Demerger Booklet. Any representation to the contrary is a criminal offence.

The Sierra Rutile Shares have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. Upon completion of the Demerger, the Sierra Rutile Shares will be issued pursuant to an exemption from the registration requirements under the US Securities Act and applicable US state securities laws. The Sierra Rutile Shares are not being offered in any US state or other jurisdiction where it is not legally permitted to do so.

US shareholders of Iluka should note that the Demerger is made of securities of an Australian company in accordance with the laws of Australia and the listing rules of the Australian Securities Exchange. The Demerger is subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since Iluka and Sierra Rutile are located outside the United States and most, if not all, of their officers and directors are residents of Australia or other countries outside of the United States. You may not be able to sue their respective officers or directors outside the United States for violations of the US securities laws. It may be difficult to compel Iluka and Sierra Rutile to subject themselves to a US court's judgment.

9.9 OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION IN RELATION TO THE DEMERGER

Except as set out in this Demerger Booklet, there is no other information material to the making of a decision in relation to the Demerger Resolution being information that is within the knowledge of any Iluka Director, or any director of any related body corporate of Iluka, which has not previously been disclosed to Iluka Shareholders.

9.10 SUPPLEMENTARY INFORMATION

Iluka will issue a supplementary document to this Demerger Booklet if it becomes aware of any of the following between the date of this Demerger Booklet and the date of the Extraordinary General Meeting:

- a material statement in this Demerger Booklet is false or misleading;
- a material omission from this Demerger Booklet;
- a significant change affecting a matter included in this Demerger Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Demerger Booklet if it had arisen before the date of this Demerger Booklet.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Iluka may circulate and publish any supplementary document by:

- posting the supplementary document on Iluka's website (www.iluka.com); or
- making an announcement to ASX.

Any updated information about the Demerger will be made available by announcement to ASX and on Iluka's website (www.iluka.com).

10. Glossary



\$ or A\$	Australian dollars.
AAS or Australian Accounting Standards	Australian Accounting Standards issued by the AASB.
AASB	Australian Accounting Standards Board.
ABN	Australian Business Number.
AEST	Australian Eastern Standard Time.
Aggregate Substantial Interest	acquisitions of shares and voting power in a company of 40% or more by two or more unassociated foreign persons and their associates.
Area 1	the mining, mineral processing operations at Lanti, Gbeni and Gangama, and the exploration and development operations at Pejebu, Ndendemoia, Taninahun, Mogbwemo Virgin and Mosavi within the area of the Mining Lease.
ASIC	Australian Securities and Investments Commission.
ASTC	ASX Settlement Pty Limited (ABN 49 008 504 532) as a holder of a licence to operate a clearing and settlement facility.
ASX	ASX Limited, or the financial market operated by the Australian Securities Exchange, as the context requires.
ASX Listing Rules	the official Listing Rules of ASX.
ASX Recommendations	ASX Corporate Governance Principles and Recommendations 4th Edition.
AWST	Australian Western Standard Time.
Board	the Iluka Board and/or the Sierra Rutile Board, as the context requires.
Business Day	has the meaning given in the ASX Listing Rules.
CAGR	compound annual growth rate.
Capital Reduction	the reduction of the share capital of Iluka in accordance with the Demerger Resolution.
Capital Reduction Amount	<p>the amount of the capital of Iluka that is to be reduced in accordance with the Capital Reduction Resolution, calculated as set out below or as otherwise assessed by the Iluka Board:</p> $A = (B / (B+C)) \times D$ <p>where:</p> <p>A = Capital Reduction Amount;</p> <p>B = Sierra Rutile Market Value;</p> <p>C = Iluka Market Value; and</p> <p>D = Iluka Share Capital Amount.</p>
CGT	capital gains tax.
CHESS	the clearing house electronic subregister system of share transfers operated by ASTC.
CIF	cost, insurance and freight.
Commissioner	Australian Commissioner of Taxation.
Corporate Restructure	the transfer of all the companies, assets, rights and obligations relating to the business to be conducted by Sierra Rutile after the Implementation Date from the Iluka Group to the Sierra Rutile Group to be undertaken in accordance with the Restructure Documents.

Corporations Act	<i>Corporations Act 2001</i> (Cth).
Demerger	the proposed demerger of Sierra Rutile from Iluka, to be implemented through: <ol style="list-style-type: none"> 1. the Capital Reduction and the Dividend; and 2. the Sierra Rutile Listing.
Demerger Booklet	this booklet.
Demerger Entitlement	the entitlement of each Iluka Shareholder to Sierra Rutile Shares under the Demerger, being in relation to an Iluka Shareholder, one Sierra Rutile Share for every Iluka Share held by that Iluka Shareholder as at the Record Date.
Demerger Implementation Deed	the demerger implementation deed dated on or about the date of this Demerger Booklet between Iluka and Sierra Rutile under which each party undertakes specified obligations to give effect to the Demerger, a summary of which is set out in Section 5.9.2.
Demerger Resolution	an ordinary resolution of Iluka Shareholders relating to the reduction of capital in Iluka in order to effect the Demerger and in the form set out in the Notice of Meeting.
Demerger Separation Deed	the demerger separation deed dated on or about the date of this Demerger Booklet between Iluka and Sierra Rutile dealing with certain commercial, transitional and legal issues arising in connection with the legal and economic Demerger of Sierra Rutile from Iluka, a summary of which is set out in Section 5.9.3.
Demerger Tax Relief	merger tax relief under Division 125 of the Income <i>Tax Assessment Act 1997</i> .
DFS	Definitive Feasibility Study.
Distribution Amount	the VWAP of Sierra Rutile Shares on the ASX, whether on a deferred or normal settlement basis, over the first 5 days of trading in Sierra Rutile Shares on the ASX, multiplied by the number of Iluka Shares on issue on the Record Date.
Dividend	the Distribution Amount less the total Capital Reduction Amount.
DWT	dividend withholding tax.
Effective Date	the Business Day prior to the date on which trading in Sierra Rutile Shares on the ASX commences (including on a deferred or conditional basis).
EHSMS	Environmental, Health, Safety and Social Management System.
EIA	environmental impact assessment.
EITI	Extractive Industries Transparency Initiative.
Eligible Shareholder	an Iluka Shareholder whose registered address on the Iluka Share Register on the Record Date is in: <ul style="list-style-type: none"> • Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States; or • a jurisdiction in which Iluka reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer the Sierra Rutile Shares to the Iluka Shareholder.
EPA Act	Environment Protection Act.
EPA-SL	Environmental Protection Agency of Sierra Leone.
ESG	environmental, social and governance.
ESHIA	Environmental, Social and Health Impact Assessment.
ESHMP	Environmental, Social and Health Management Plan.
Extraordinary General Meeting	the extraordinary general meeting of Iluka Shareholders convened to consider the Demerger Resolution to be held at 9.30am (AWST) on Friday, 22 July 2022.

FATA	<i>Foreign Acquisitions and Takeovers Act 1975 (Cth).</i>
FOB	free on board.
FR	fixed remuneration.
GDP	gross domestic product.
GST	has the meaning given in the <i>A New Tax System (Goods and Services Tax) Act 1999 (Cth)</i> .
High Grade Feedstocks	high grade titanium feedstocks.
HMC	heavy mineral concentrate.
IFC	International Finance Corporation.
IFC Shareholders Agreement	the shareholders agreement dated 5 June 2019 between Iluka BVI, Sierra Rutile, Iluka Resources Limited and International Finance Corporation which terminated on 13 May 2022.
IFRS	International Financial Reporting Standards adopted by the International Accounting Standards Board.
IGR	industrial grade rutile.
Iluka	Iluka Resources Limited (ACN 008 675 018).
Iluka Board	the board of directors of Iluka.
Sierra Rutile BVI	Sierra Rutile Investments (BVI) Limited.
Iluka Director	a director of Iluka.
Iluka Group	Iluka, together with its Subsidiaries, following the Demerger.
Iluka Group Member	a member of the Iluka Group.
Iluka Historical Financial Information	has the meaning given in Section 4.7.1.
Iluka Market Value	the VWAP of Iluka Shares for the first 5 Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Sierra Rutile Shares on the ASX multiplied by the number of Iluka Shares on issue at the Record Date.
Iluka Share	a fully paid ordinary share in the capital of Iluka.
Iluka Shareholder	a registered holder of Iluka Shares.
Iluka Share Capital Amount	the balance in the Iluka share capital account immediately prior to the Implementation Date.
Iluka Share Register	the register of Iluka Shareholders maintained under section 169 of the Corporations Act.
Iluka Share Registry	Computershare Investor Services Pty Limited (ACN 078 279 277).
Implementation Date	the date of implementation of the Demerger and the transfer of Sierra Rutile Shares to Iluka Shareholders (apart from Ineligible Overseas Shareholders and Selling Shareholders), which is expected to be Thursday, 4 August 2022, or such other date as determined by the Iluka Board.
Independent Expert	Deloitte Corporate Finance Pty Limited (ACN 003 833 127).
Independent Expert's Report	the report of the Independent Expert contained in Section 8.
Independent Limited Assurance Report	the report of the Independent Accountant on certain pro forma historical financial information presented in this Demerger Booklet, as set out in Section 7.
Ineligible Overseas Shareholder	an Iluka Shareholder who is not an Eligible Shareholder.

Independent Accountant	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617).
IPO	initial public offering.
IPP	independent power producer.
JORC Code	the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.
Kronos	Kronos Worldwide Inc.
kt	thousand tonnes.
Listing	the admission of Sierra Rutile to the Official List.
LOM	life of mine.
LRP	Livelihood Restoration Plan.
LTIFR	Lost Time Injury Frequency Rate.
LTI	long term incentive.
mbcm	million bank cubic metres.
Mining Lease	Mining Lease and Dredging Licence No. 2134 granted to SRL on 1 July 1984, and extended by the Mining Lease and Dredging Licence – Additional Lease Area granted to SRL on 17 September 1991.
MMU	mobile mining unit.
MOFA	Multi Option Facility Agreement.
MSP	mineral separation plant.
Mt	million tonnes.
Notice of Meeting	the notice of meeting for the Extraordinary General Meeting set out in Section 11.
Official List	the official list of ASX.
Organisation	Iluka, Sierra Rutile and their respective share registries.
PAC	Project Affected Community.
PFS	Preliminary Feasibility Study.
Post-CGT Iluka Shares	Iluka Shareholders who are Australian tax residents (and are not tax residents in any other country), and who acquired, or are taken to have acquired, their Iluka Shares on or after 20 September 1985.
Pre-CGT Iluka Shares	Iluka Shareholders who acquired, or are taken to have acquired, their Iluka Shares before 20 September 1985.
Proxy Form	the proxy form for the Extraordinary General Meeting.
R	rutile.
RAP	Resettlement Action Plan.
Record Date	the date for determining entitlements of Iluka Shareholders to Sierra Rutile Shares, expected to be Thursday, 28 July 2022.
REO	rare earth oxides.
Residency Election	election to treat Iluka Shares as taxable Australian property under section 104-165 of the <i>Income Tax Assessment Act 1997</i> (Cth) when ceasing to be an Australian resident.
Restructure Documents	the restructuring documents between Iluka and Sierra Rutile dealing with corporate restructuring steps, a summary of which is set out in Section 5.9.1.
ROM	run of mine.

RTSR	relative total shareholder return.
Sale Agent	the nominee appointed by Iluka to sell or facilitate the transfer of the Sierra Rutile Shares to which Ineligible Overseas Shareholders and Selling Shareholders are entitled.
Sale Facility	the facility to be established by the Sale Agent under which Sierra Rutile Shares to which Ineligible Overseas Shareholders and Selling Shareholders are entitled, will be sold as described more fully in Section 5.8.
Sale Facility Form	the sale facility form which accompanies this Demerger Booklet or such other form as Iluka may permit or agree to in connection with the sale of Sierra Rutile Shares under the Sale Facility.
Section	a section of this Demerger Booklet.
Selling Shareholder	a Small Shareholder who elects to have all the Sierra Rutile Shares that they would otherwise receive pursuant to the Demerger sold using the Sale Facility.
Sembehun or the Sembehun Project	Sembehun mineral sands project.
SGR	Standard Grade Rutile.
Shareholder Information Line	the information line set up for the purpose of answering enquiries from Iluka Shareholders in relation to the Demerger. The information line numbers are 1300 733 043 (within Australia) or +61 3 9415 4801 (international) on weekdays between 8.30am and 5.00pm (AEST).
Sierra Rutile	Sierra Rutile Holdings Limited (ACN 613 822 165) or its business or operations or its relevant Subsidiaries (as the context requires).
Sierra Rutile Act	Sierra Rutile Agreement (Ratification) Act, 2002.
Sierra Rutile Agreement	the Agreement between the Government of the Republic of Sierra Leone and Sierra Rutile Limited dated 20 November 2001.
Sierra Rutile Board	the board of directors of Sierra Rutile immediately prior to the Implementation Date, or from time to time following the Implementation Date, as the context requires.
Sierra Rutile Constitution	the constitution of Sierra Rutile, with effect from immediately prior to the Implementation Date.
Sierra Rutile Director	a director of Sierra Rutile immediately prior to the Implementation Date, or from time to time following the Implementation Date, as the context requires.
Sierra Rutile Group	Sierra Rutile, together with its Subsidiaries, following the Demerger.
Sierra Rutile Group Member	a member of the Sierra Rutile Group.
Sierra Rutile Listing	the listing of Sierra Rutile on the ASX.
Sierra Rutile Market Value	the VWAP of Sierra Rutile Shares for the first 5 Business Days starting from the date of the commencement of trading (including on a deferred settlement basis) of Sierra Rutile Shares on the ASX multiplied by the number of Sierra Rutile Shares transferred to Iluka Shareholders under the Demerger (which will equal the number of Iluka Shares on issue on the Record Date).
Sierra Rutile Share	a fully paid ordinary share in the capital of Sierra Rutile.
Sierra Rutile Share Register	the register of Sierra Rutile Shareholders maintained under section 169 of the Corporations Act.
Sierra Rutile Shareholder	a holder of a Sierra Rutile Share.
SLL	Sierra Leonean Leone, being the currency of Sierra Leone.

Small Shareholders	an Eligible Shareholder with a registered address in Australia, New Zealand, Hong Kong, Singapore, the United Kingdom or the United States, who individually holds 2,000 Iluka Shares or less as at the Record Date.
SR1	synthetic rutile kiln 1.
SR2	synthetic rutile kiln 2.
SRL	Sierra Rutile Limited, a company incorporated in Sierra Leone.
STI	Short Term Incentive.
Subsidiary	has the meaning given in the Corporations Act.
Substantial Interest	acquisitions of shares and voting power in a company of 20 per cent or more by a single foreign person and its associates.
TFN	Australian Tax File Number.
TiO₂	titanium dioxide.
Transcend	Transcend International Resources Ltd.
Treasurer	Australian Commonwealth Treasurer.
TRIFR	Total Recordable Injury Frequency Rate.
TSF	Tailings Storage Facility.
VWAP	volume-weighted average price.
WCP	wet concentrator plant.
ZIC	zircon-in-concentrate.

11. Notice of Extraordinary General Meeting



Notice is given that an Extraordinary General Meeting of Iluka Shareholders will be held at 9:30am (AWST) on Friday, 22 July 2022 as a hybrid meeting, online and at the Theatre on the Mezzanine level at 240 St Georges Terrace, Perth, Western Australia.

Notice is given that an Extraordinary General Meeting of Iluka Shareholders will be held at 9.30am (AWST) on Friday, 22 July 2022 as a hybrid meeting, online and at the Theatre on the Mezzanine level at 240 St Georges Terrace, Perth, Western Australia.

The Iluka Board considers that the health and safety of Iluka Shareholders to be paramount, and as such Iluka shareholders and proxyholders who would prefer not to attend in person may choose to participate in a live webcast of the meeting through the Computershare online platform (webcast link: <https://meetnow.global/MN7RMAU>), including the ability to ask questions (written or oral) and vote online during the meeting.

Iluka will be closely monitoring the evolving COVID-19 situation. If it becomes necessary or appropriate to make alternative arrangements for the holding of the Extraordinary General Meeting, Iluka will ensure that Iluka Shareholders are given as much notice as possible via the ASX Market Announcements Platform and Iluka's website.

An Explanatory Memorandum accompanies and forms part of this Notice of Meeting. This Notice of Meeting should be read in conjunction with the Explanatory Memorandum which provides further information on the proposed item of business.

Terms used in this Notice of Meeting and the Explanatory Memorandum have the same meaning as set out in the Glossary in Section 10 of this Demerger Booklet (of which this Notice of Meeting forms part), unless indicated otherwise.

AGENDA

RESOLUTION 1 – APPROVAL OF DEMERGER

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

"That, subject to the conditions precedent set out in clause 3.1 of the Implementation Deed being satisfied or waived in accordance with that deed:

- 1. for the purposes of section 256C(1) of the Corporations Act, Iluka Resources Limited's share capital be reduced on the Implementation Date by the Capital Reduction Amount, with such amount being applied equally against each Iluka Share on issue on the Record Date and the reduction, together with the Dividend, being effected and satisfied by distributing in-specie the Sierra Rutile Shares to Eligible Shareholders (and the Sale Agent in respect of Ineligible Overseas Shareholders and Selling Shareholders); and*
- 2. the Demerger otherwise be implemented in the manner more fully described in the Demerger Booklet (which accompanies and forms part of this Notice of Extraordinary General Meeting)."*

ATTENDING THE EXTRAORDINARY GENERAL MEETING IN PERSON

Shareholders and proxyholders can attend and participate in the Extraordinary General Meeting in person at the Theatre on the Mezzanine level at 240 St Georges Terrace, Perth, Western Australia, including the ability to ask questions and cast votes during the meeting.

For the health, safety and wellbeing of all attendees, Iluka will be observing any government requirements that apply based on the COVID-19 situation at the time.

The venue may be subject to a capacity limit if required to comply with government health directives, in which case there is a risk that persons may not be able to be admitted and Iluka Shareholders and proxyholders will be given priority to attend the meeting.

Iluka Shareholders and proxyholders who plan to attend the Extraordinary General Meeting should be mindful of government advice in relation to COVID-19 and monitor Iluka's website and ASX announcements for any updates about the Extraordinary General Meeting.

The health, safety and wellbeing of Iluka's Shareholders, employees and other meeting attendees is of the utmost importance. Please do not attend the AGM if you feel unwell or have been in close contact with someone who may have been exposed to COVID-19. Iluka may implement screening procedures at admission to the Extraordinary General Meeting venue, for example, temperature checks, depending on circumstances at the time. Iluka will be closely monitoring the evolving COVID-19 situation in Australia. If it becomes necessary or appropriate to make alternative arrangements for the holding of the Extraordinary General Meeting, Iluka will ensure that Iluka Shareholders are given as much notice as possible via the ASX Market Announcements Platform or www.iluka.com.

PARTICIPATING IN THE EXTRAORDINARY GENERAL MEETING VIA THE ONLINE PLATFORM

Shareholders and proxyholders have the option to participate at the Extraordinary General Meeting in real-time using the online platform. To use the online platform you will require a computer, tablet or mobile device with an internet connection.

It is recommended that Iluka Shareholders login to the online platform at least 15 minutes prior to the scheduled start time for the Extraordinary General Meeting using the below instructions:

- Online registration will open from 9:00am (AWST).
- Iluka Shareholders can register to participate in the Extraordinary General Meeting via the online platform by using a web browser or mobile device: <https://meetnow.global/MN7RMAU>
- Click on 'Join Meeting Now'.
- Enter your SRN/HIN. Proxyholders will need to contact Computershare on +61 3 9415 4024 prior to the Extraordinary General Meeting to obtain their login details.
- Enter your postcode registered to your holding if you are an Australian Iluka Shareholder. If you are an overseas Iluka Shareholder select the country of your

registered holding from the drop-down list.

- Read and, if you are prepared to do so, accept the Terms and Conditions and click 'Continue'.
- Participating in the Extraordinary General Meeting online enables Iluka Shareholders to view the Extraordinary General Meeting live, comment and ask questions (written or oral), and vote in real-time at the appropriate times during the meeting.

It is possible that technical difficulties may arise during the course of the Extraordinary General Meeting, in which case the chairman has discretion as to whether and how the Extraordinary General Meeting should proceed.

More information about online participation is available in the Extraordinary General Meeting Online Guide at: <http://www.computershare.com.au/virtualmeetingguide>.

PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

PROXY INSTRUCTIONS

An Iluka Shareholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint an individual to act as proxy to attend and vote on the Iluka Shareholder's behalf. An Iluka Shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of the Iluka Shareholder's votes each proxy is entitled to exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

The Proxy Form (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and a certified copy of the power of attorney or other authority) must be delivered to or sent by facsimile transmission to Iluka's share registry, **Computershare Investor Services Pty Limited, GPO Box 1282, Melbourne, Victoria 3001 Australia, facsimile number 1800 783 447 and outside Australia +61 3 9473 2555** or to the Company's registered office at Level 17, 240 St Georges Terrace, Perth, Western Australia 6000, facsimile number +61 (8) 9360 4777, by no later than **9.30am (AWST) on Wednesday, 20 July 2022** (that is, at least 48 hours prior to the Extraordinary General Meeting).

Alternatively, you may register your proxy instructions electronically at the share registry website www.investorvote.com.au (Control Number: 181125) or on your mobile device by scanning the personalised QR code on the Proxy Form by 9.30am (AWST) on **Wednesday, 20 July 2022**. For Intermediary Online subscribers only (custodians) please visit www.intermediaryonline.com to submit your voting intentions.

The Proxy Form must be signed by the Iluka Shareholder or their attorney duly authorised in writing or, if the Iluka Shareholder is a corporation, in a manner permitted by the Corporations Act. The proxy may, but need not, be an Iluka Shareholder.

In the case of Iluka Shares jointly held by two or more persons, any one holder may sign the Proxy Form.

VOTES ON RESOLUTIONS

You may direct your proxy how to vote by placing a mark in one of the boxes opposite the Demerger Resolution in the Proxy Form. All your Iluka Shareholding will be voted in accordance with such a direction unless you indicate only a proportion of voting rights are to be voted on the Demerger Resolution by inserting the proportion or number of Iluka Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes with respect to the Demerger Resolution, your proxy may vote as they choose with respect to the Demerger Resolution, subject to any voting exclusions that apply to your appointed proxy. If you mark more than one box on the Demerger Resolution, your vote on the Demerger Resolution will be invalid.

CHAIRMAN'S VOTING INTENTIONS

The Chairman intends to vote all available proxies in favour of the proposed Demerger Resolution set out in this Notice of Meeting.

CORPORATE REPRESENTATIVES

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case Iluka will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act. The certificate of appointment must be lodged with Iluka and/or Iluka's share registry, Computershare Investor Services Pty Limited, before the Extraordinary General Meeting or at the registration desk on the day of the Extraordinary General Meeting. Certificates of appointment of corporate representative are available at www.investorcentre.com or on request by contacting Computershare Investor Services Pty Limited on telephone number 1300 733 043 or +61 3 9415 4801 (outside Australia).

VOTING ENTITLEMENTS

For the purposes of determining voting and attendance entitlements at the Extraordinary General Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 5.00pm (AWST) on **Wednesday, 20 July 2022**. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Extraordinary General Meeting.

By order of the Iluka Board



Nigel Tinley
Company Secretary

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared to provide Iluka Shareholders with information in relation to the business to be conducted at the Extraordinary General Meeting. This Explanatory Memorandum should be read in conjunction with, and forms part of, the Notice of Meeting.

RESOLUTION 1 – APPROVAL OF DEMERGER

The Demerger Resolution at the Extraordinary General Meeting is being put to shareholders to obtain approval under section 256C of the Corporations Act to an equal capital reduction in Iluka's ordinary share capital under section 256B of the Corporations Act.

The Demerger Resolution at the Extraordinary General Meeting is being proposed in connection with the Demerger and the Demerger is conditional on, among other things, the Demerger Resolution being passed.

The Demerger will be effected by a distribution of Sierra Rutile Shares to Iluka Shareholders as at the Record Date (or in the case of Ineligible Overseas Shareholders and

Selling Shareholders, to the Sale Agent) via the Dividend and the Capital Reduction in accordance with the Demerger Booklet.

The effect on Iluka and its shareholders if the Demerger Resolution is passed, together with all other factors that are material to the making of a decision by shareholders whether to approve the Demerger Resolution, is set out in this Demerger Booklet, of which this Notice of Meeting and Explanatory Memorandum forms part.

If the Demerger Resolution is passed by the required majority, it will take effect provided all other conditions to the Demerger are satisfied or waived.

The Iluka Directors are of the view that, taking into account all relevant matters, the Demerger (which includes the Capital Reduction and the Dividend) is in the best interests of Iluka Shareholders and will not materially prejudice Iluka's ability to pay its creditors. Each Iluka Director recommends that you vote in favour of the Demerger Resolution and intends to vote all shares controlled by them in favour of the Demerger Resolution.

CORPORATE DIRECTORY

ILUKA

Iluka Resources Limited
Level 17
240 St Georges Terrace
Perth WA 6000

INDEPENDENT EXPERT

Deloitte Corporate Finance Pty Limited
Tower 2, Brookfield Place
123 St Georges Terrace
Perth WA 6000

ILUKA SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 11
172 St Georges Terrace
Perth WA 6000

INDEPENDENT ACCOUNTANT

PricewaterhouseCoopers Securities Ltd
Brookfield Place
125 St Georges Terrace
Perth WA 6000

FINANCIAL ADVISER

Gresham Advisory Partners Limited
Level 11
123 St Georges Terrace
Perth WA 6000

TAX ADVISER

Greenwoods & Herbert Smith Freehills Pty Limited
Level 36, QV.1 Building
250 St Georges Terrace
Perth WA 6000

LEGAL ADVISERS

Herbert Smith Freehills
Level 36, QV.1 Building
250 St Georges Terrace
Perth WA 6000

King & Wood Mallesons
Level 30, QV.1 Building
250 St Georges Terrace
Perth WA 6000

AUDITOR

PricewaterhouseCoopers
Brookfield Place
125 St Georges Terrace
Perth WA 6000
