



Sierra Rutile

ASX ANNOUNCEMENT

28 March 2024

UNSOLICITED TAKEOVER OFFER FROM PRM – TAKE NO ACTION ON INADEQUATE OFFER

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) refers to its announcement entitled 'Unsolicited Takeover Offer – Take No Action' of 20 March 2024.

Sierra Rutile continues to recommend Sierra Rutile shareholders **TAKE NO ACTION** concerning the on-market takeover offer from PRM Services LLC (**PRM**) to acquire all of the Sierra Rutile shares it does not own at a price of A\$0.095 cash per share (the **Offer**). Shareholders should wait to receive further information from Sierra Rutile before acting, including a Target's Statement containing the formal recommendation from Sierra Rutile's Directors (**Directors**) in relation to the Offer. The Offer must remain open until at least 4.00pm (AEST) on 5 May 2024 and Sierra Rutile shareholders will receive the Target's Statement well before this date.

Further to Sierra Rutile's ASX announcement on 20 March 2024, the Directors have formed the preliminary view (subject to further analysis, which will be provided in the Target's Statement) that the Offer is inadequate. This view is based on the key points –

- **Offer is opportunistically timed ahead of key value catalysts such as the Sembehun DFS and does not reflect Sierra Rutile's significant strategic value**
- **PRM's Offer and associated actions demonstrates PRM is seeking control without offering an adequate premium**
- **Sierra Rutile's Area 1 operations provide optionality, underpinned by its robust balance sheet**
- **Sembehun DFS targeted for mid-April 2024 anticipated to demonstrate significant value**
- **The mineral sands market cycle is showing signs of improvement**
- **If shareholders accept the Offer, they will be unable to participate in any increase in the PRM offer price or accept a superior proposal should one emerge**

In addition, shareholders should note that the market price of Sierra Rutile shares has remained above the A\$0.095 price of the Offer at all times since the Offer was announced.

Sierra Rutile's Chairman Greg Martin said: "We have formed the view that the Offer is opportunistic, inadequate and undervalues the Company, following the Board's preliminary review of the unsolicited on-market takeover offer from PRM.

PRM has opportunistically timed its Offer ahead of key value catalysts, such as the Sembehun DFS, and we do not believe it reflects Sierra Rutile's significant strategic value as a major participant in the global mineral sands industry.



Sierra Rutile

ASX ANNOUNCEMENT

However, the Board will continue to assess the on-market takeover further and issue an official Target's Statement containing a formal recommendation from Sierra Rutile's Directors in relation to the Offer. In the interim, the Sierra Rutile Board unanimously recommends shareholders continue to TAKE NO ACTION in relation to the Offer."

1. The Offer is opportunistically timed ahead of key value catalysts such as the Sembehun DFS and does not reflect Sierra Rutile's significant strategic value:

- Sierra Rutile's recent share price performance has been adversely impacted by:
 - o A downturn in the mineral sands markets.
 - o Uncertainty relating to its Area 1 operations, given the recent suspension of operations and the ongoing discussions with the Government of Sierra Leone (**GoSL**) regarding the terms of the Third Amendment Agreement (**TAA**), which governs the fiscal regime applying to remaining production from the existing Area 1 operations.
- These factors have resulted in Sierra Rutile's current share price trading at year-low levels, down 66% year-on-year. Sierra Rutile's 1-month VWAP (to last close 19 March 2024) of \$0.075 per share is significantly lower than its 12-month VWAP of A\$0.154 per share and 12-month high of A\$0.300 per share.
- The Board is of the opinion that Sierra Rutile's current share price trading is not reflective of the company's true underlying value.
- PRM has opportunistically timed the Offer while discussions are ongoing between Sierra Rutile and the GoSL on any amendment to the TAA, the outcome of which will be critical to resuming operations at Area 1.
- PRM's Offer has also been lodged shortly in advance of the announced timing for the release of Sierra Rutile's Definitive Feasibility Study (**DFS**) for the globally significant Sembehun Project. The Sembehun DFS remains on-track to be released by mid-April 2024. This is anticipated to confirm the strong economics and global significance of the Sembehun Project. The Board considers the Offer implies no value at all for the Sembehun Project, as detailed below.

2. PRM's Offer and associated actions demonstrate PRM is seeking control without offering an adequate premium:

- The offer price of A\$0.095 per share implies:
 - o a significant discount of 38.28% to the 12-month VWAP of A\$0.154 per share;
 - o a premium of 8.46% to the 6-month VWAP of A\$0.088 per share;
 - o a premium of 24.71% to the 3-month VWAP of A\$0.076 per share;
 - o a premium of only 21.79% to Sierra Rutile's last close prior to the announcement of A\$0.078 per share.
- The Directors believe PRM is seeking to create the impression of an offer premium and distract shareholders from understanding the true underlying value of the company. This is consistent with the 249D Notice issued by PRM (see announcement titled 'Notice Received under section 249D of the Corporations Act' and dated 21 March

Sierra Rutile Holdings Limited
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Sierra Rutile

ASX ANNOUNCEMENT

2024). The Directors believe this action demonstrates PRM is seeking to control who is on the Sierra Rutile Board without acquiring more than 50% of the Company and paying a premium to shareholders.

3. Sierra Rutile's Area 1 operations provide optionality, underpinned by its robust balance sheet:

- At 31 December 2023, Area 1 had remaining Reserves of 388 thousand tonnes of rutile
- Sierra Rutile is actively progressing discussions with the GoSL to reach an agreement on an appropriate fiscal regime under the TAA that would support resumed production at Area 1, alongside supportive rutile market conditions.
- At 31 December 2023, Sierra Rutile had audited net assets of US\$115.5m.
- Sierra Rutile remains debt-free with a net working capital position of US\$64.2m as at 29 February 2024 (unaudited, refer below).
- Sierra Rutile confirms it has sold US\$28.8m of the US\$41.4m finished goods inventory post 29 February 2024, and this will be converted to cash in the near term. Finished goods inventories at the date of this announcement are limited to zircon-in-concentrate and industrial grade rutile.
- A range of options for Area 1 are being assessed by the Board, including the potential for re-start through to a closure case that would look to maximise the cash flows from this working capital balance. The optimal option will depend on a range of factors including ongoing negotiations with GoSL and market dynamics. The Board is focussed on maximising value for all shareholders and will ultimately take the option that demonstrably does this.

Sierra Rutile Net Working Capital Position	29 February 2024 US\$m	31 December 2023 US\$m
Cash	13.0	7.8
Trade and other receivables	38.4	54.4
Inventory (excl consumables)	48.6	38.4
Trade and other payables	(35.8)	(34.5)
Net working capital	64.2	66.1

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4. Sembehun DFS targeted for mid-April 2024 anticipated to demonstrate significant value:

- The Sembehun Project is a globally significant development project and is one of the largest and highest-grade natural rutile deposits in the world. As detailed in the Pre-Feasibility study completed in June 2022¹, the project is expected to deliver steady state production of 176 thousand tonnes per annum of high-quality natural rutile over a mine life of more than 13 years².
- Sierra Rutile has advanced the DFS for the Sembehun project, which is nearly finalised with results expected to be announced in mid-April 2024.
- Through leveraging existing Area 1 infrastructure and longstanding customer relationships, Sembehun presents a brownfields development option with significantly reduced risk relative to other greenfields options in the market.
- Sierra Rutile has today announced that the final capital cost estimate to be included in the DFS is US\$301m inclusive of US\$40m in contingency. This figure represents a significant reduction from the capex estimate in the 2022 PFS and comes as a result of the adoption of a single-phase development approach and a “cost-conscious” owner’s approach.
- The PRM Bidder’s Statement highlights the significant strategic value which Sierra Rutile would provide to PRM given the scarcity of high-grade, large-scale natural rutile deposits globally.
- The Directors expect when the Sembehun Project DFS outputs are announced in mid-April, that these outputs will demonstrate an attractive NPV for the Sembehun project.
- **However, the Directors believe that given the upside potential at Area 1 and Sierra Rutile’s net working capital position, PRM’s Offer of A\$0.095 per share, implying an equity value of approximately US\$26.2m³, clearly implies no value at all for the Sembehun Project.**

5. Mineral sands market cycle showing signs of improvement:

- Sierra Rutile’s recent performance has been negatively impacted by weak market conditions in the mineral sands sector, including weakened demand for titanium dioxides and consequent soft pricing.
- Sierra Rutile’s realised rutile price in the December 2023 quarter was nearly 20% lower than the company’s realised price in the December 2022 quarter.⁴

¹ Refer to the Information Memorandum prepared by Sierra Rutile in connection with its application for admission to the ASX, Section 3.12, lodged on the ASX 25 July 2022

² Refer to Sierra Rutile ASX announcements ‘Interim Financial Report for the half year ended 30 June 2023’ dated 24 August 2023 and ‘Information Memorandum and Demerger Booklet’ dated 25 July 2022, via <https://www.asx.com.au/>.

³ Based on the PRM Offer price of A\$0.095 cash per share, implying an equity value for SRX of approximately A\$40.3m at an AUD / USD exchange rate of 0.65.

⁴ Refer to Sierra Rutile ASX announcements ‘Quarterly Activities Report – December 2023’ dated 29 January 2024 and ‘Quarterly Activities Report – December 2022’ dated 25 January 2023 via <https://www.asx.com.au/>.



Sierra Rutile

ASX ANNOUNCEMENT

- Other key players in the titanium feedstock market have pointed to soft demand in the second half of 2023, negatively impacting sales volumes.⁵
- The titanium dioxide market showed signs of improvement in late 2023, with pigment customers expected to replenish stocks in early 2024, supporting a return of demand to normalised patterns.⁶ This is supported by recent rutile sales executed by Sierra Rutile and ongoing discussions with long term customers.
- Natural rutile is expected to be of increasing importance to pigment producers, given the high-grade purity and environmental and cost efficiencies as a titanium dioxide feedstock.

6. If you accept the Offer, you will be unable to participate in any increase in the PRM offer price or accept a superior proposal should one emerge:

If Sierra Rutile shareholders accept the Offer now and sell their shares to PRM, they will not be able to participate in any increase in PRM the offer price or any superior proposal should there be such an increase or any superior proposal is forthcoming.

Wait for the Target's Statement

Sierra Rutile will provide shareholders with a Target's Statement, including a formal recommendation from the Directors. Shareholders are encouraged to read this Target's Statement prior to making any decision or taking any action regarding their shares.

No urgency or need to sell on-market now

The Offer is required to remain open for acceptance until 4:00 pm (AEST) on 5 May 2024. As such, there is **no urgency for shareholders to sell their shares, accept the Offer or take any action at all at this time.**

Shareholders have time to wait and consider their position, and all the information available (including in the Target's Statement). PRM may try to contact Sierra Rutile shareholders to encourage shareholders to accept. However, there is no need to act quickly or take any action until after the Target's Statement is made available to shareholders.

Sierra Rutile shareholders who sell their shares to PRM on-market will be unable to participate in any increase in the Offer price, should there one or any competing proposal should one emerge.

⁵ Refer to Tronox announcement 'Tronox Reports Fourth Quarter and Full Year 2023 Financial Results' dated 14 February 2024 (via <https://www.tronox.com>), Kronos Worldwide, Inc. announcement 'Kronos Worldwide, Inc. Reports Fourth Quarter 2023 Results' dated 6 March 2024 (via <https://www.kronosworldwideinc.gcs-web.com>) and Chemours announcement 'Chemours 3Q 2023 Earnings Presentation' dated 26 October (via <https://investors.chemours.com/>).

⁶ Refer to Iluka Resources Limited ASX announcement 'Quarterly Review to 31 December 2023' dated 23 January 2024 via <https://www.asx.com.au/>.



Sierra Rutile

ASX ANNOUNCEMENT

The Sierra Rutile Board will advise shareholders of further developments in due course and provide the Target's Statement. In the interim, the Sierra Rutile Board unanimously recommends shareholders continue to **TAKE NO ACTION** in relation to the Offer.

Ends

This ASX Release was authorised for release to the ASX by the Board.

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