



Sierra Rutile

## ASX ANNOUNCEMENT

24 APRIL 2024

### Quarterly Activities Report – March 2024

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 31 March 2024. All figures are in US Dollars unless otherwise stated.

#### Corporate:

- **Unsolicited Takeover Offer by PRM:** Board recommends that shareholders **REJECT THE OFFER.**
- **Shareholder requisition notices:** AGM will now be held on 16 May 2024 with all shareholder proposed resolutions to be considered at the AGM.

#### Operations:

- **Area 1:** Operations suspended for technical and operational reasons on 11 March 2024 following Government of Sierra Leone position on revoking the Third Amendment Agreement. Discussions with Government are continuing and restructure of workforce was completed.
- **Rutile production** of 19kt reduced due to the suspension of Area 1 operations.
- **Rutile sales** of 30kt in Q1 2024 reducing previously accumulated inventories.
- **Realised rutile price** averaging \$1,129/t FOB with prices rising from a January low point.
- **Net unit cash production costs** of \$1,042/t excluding care and maintenance costs, down 18% on Q4 2023 despite Area 1 operations suspension.
- **Excellent Safety:** LTIFR of 0.24 and TRIFR of 0.12. No LTIs in Q1 2024.

#### Sembehun:

- Definitive Feasibility Study (**DFS**) release reinforces strategic value of project.
- 14-years mine life and ~175ktpa of rutile between 2028 and 2038.
- Capex estimate reduced by 11% from pre-feasibility estimate to \$301 million.
- Compelling NPV<sub>8</sub> (post-tax, real) of \$408 million and IRR 27.8%.
- LOM EBITDA \$1.7 billion.
- Sierra Leone EPA Board formally approved Sembehun ESHIA licence.

#### Finance:

- **Net cash at 31 Mar** of \$4.7m (unaudited) following significant redundancy related payments. Cash balances have risen materially following end of quarter.
- **Working capital at 31 Mar** of \$59.9 m (unaudited),
- **2024 Guidance:** In light of the notice of suspension of operations, no guidance has been given for 2024.

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### Sierra Rutile Managing Director and CEO, Theuns de Bruyn, commented:

“The March quarter was an extremely eventful and challenging period for Sierra Rutile as a result of several factors.

The Company received an unsolicited takeover offer from PRM Services LLC, and after careful review, the Board believes the offer is inadequate, and fails to capture the full potential of Sierra Rutile, particularly the positive impact of Sembehun. The Board continues to recommend shareholders **REJECT THE OFFER**.

PRM’s timing appears to be opportunistic, with its offer launched ahead of completion of the Sembehun DFS, which was released post quarter end. The DFS results demonstrate Sembehun is by far the major contributor to the strategic value of Sierra Rutile, with the ability to fundamentally change the cost base and economics of Sierra Rutile’s mineral sands business. We were extremely pleased in the reduction in the estimated capital expenditure needed to bring the Sembehun project online in these inflationary times.

The projected 14-year mine life reinforces the long-term nature of the project, with the potential to deliver sustained economic benefits to both Sierra Rutile and our local stakeholders in Sierra Leone. Sembehun is one of the world’s largest and highest-grade known rutile deposits, and remains a key future contributor to the stable supply of rutile.

The correspondence received earlier this year from the Government of Sierra Leone on the Area 1 tax regime was obviously extremely disappointing. We’ve had to suspend operations at Area 1, and are engaging with the Government on the matter as a priority.

We will continue to keep shareholders informed of all material developments in relation to Sierra Rutile and the PRM takeover offer. On behalf of all Directors of Sierra Rutile, I thank you for your support to date and seek your continued support as we explore value enhancing options for Sierra Rutile.”





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### Corporate

#### **Unsolicited Takeover Offer**

On 20 March 2024, Sierra Rutile received an unsolicited 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**). PRM currently holds a 11.46% interest in the Company.

After a thorough review, the Board unanimously determined that the Offer Price of A\$0.095 per Sierra Rutile Share is inadequate and undervalues Sierra Rutile. The Offer Price fails to capture the Company's established operations, robust balance sheet and significant value opportunity in the world class Sembehun Project, as confirmed by the recently released DFS.

Sierra Rutile released a Target's Statement and a Supplementary Target's Statement in response to the Offer post quarter end. As stated in the Target's Statement and the Supplementary Target's Statement, the Board recommends that Sierra Rutile shareholders **REJECT THE OFFER**.

The key reasons that the Board recommends that shareholders **REJECT THE OFFER** are set out in the Target's Statement and the Supplementary Target's Statement, including:

- the Offer was 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 demonstrate 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 demonstrates significant value associated with the Sembehun Project;
- the mineral sands market cycle is showing signs of improvement; and
- as the Offer is undertaken by way of an on-market takeover bid, it does not require a shareholder vote, and if Sierra Rutile shareholders accept the Offer, they cease to be shareholders of Sierra Rutile and consequently will be unable to participate in any increase in the PRM offer price or accept a superior proposal should one emerge.

It is worth also noting that, the share price of Sierra Rutile has been traded well above the PRM Offer Price since the Offer was announced. This suggests that a number of Sierra Rutile Shareholders also believe the Offer fundamentally undervalues Sierra Rutile.

The Offer open for acceptance until 4.00pm (AEST) on 5 May 2024, unless extended or withdrawn in accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**).

Sierra Rutile shareholders should read the Target's Statement and the Supplementary Target's Statement in their entirety. While the Board recommends Shareholders **REJECT THE OFFER**, it recognises that there are risks associated with continued ownership of Sierra Rutile shares. Further information regarding those risks is set out in the Target's Statement and the Supplementary Target's Statement.



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### Shareholder Requisition Notices, upcoming AGM and Director Resignation

On 20 March 2024, the Company received notices from PRM under sections 203D and 249D of the Corporations Act (**PRM Notices**). The PRM Notices requisitioned a general meeting and proposed resolutions to change the Sierra Rutile Board, by removing Mr Graham Davidson, Ms Joanne Palmer and Mr Gregory Martin as Directors; and appointing Mr Craig Dean, Ms Wara Serry-Kamal, Mr Stephen Palmer and Ms Zhouying Jing as Directors of the Company.

On 22 March 2024, Samuel Terry Asset Management Pty Ltd as trustee for Samuel Terry Absolute Return Fund (**STAM**) gave notice to Sierra Rutile pursuant to section 249N of the Corporations Act, that it proposes to move resolutions to appoint David Birrell as a director of Sierra Rutile and to remove Gregory Martin as a director of Sierra Rutile, at Sierra Rutile's next general meeting.

The Company has obligations under the Corporations Act in relation to these notices, and decided to move the AGM forward from the original AGM date to 16 May 2024 to avoid the need for two general meetings to be convened in a short timeframe, and to put forward each shareholder requisitioned resolution at the upcoming AGM.

In addition, Mano Mining and Logistics Limited and Rockbridge Overseas Limited (who together hold an 11.90% interest in the Company), supported the nomination of Jan Joubert as a candidate for election to the office of a director of Sierra Rutile at Sierra Rutile's Annual General Meeting. This resolution will also be put forward at Sierra Rutile's AGM.

Sierra Rutile's AGM will take place virtually on Thursday, 16 May 2024 at 2.00pm (AWST).

Further details in relation to the AGM and these resolutions, as well as the Board's recommendation in relation to each resolution to be considered at the AGM, are set out in the notice of meeting for the AGM issued on 8 April 2024.

Subsequent to the end of the Quarter, Ms Joanne Palmer stepped down from the Board due to work and personal commitments, including her recently announced appointment to the Board of Karoon Energy.



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### Operations

#### Operations - Area 1

Summary Physical and Financial	Units	Mar Qtr 2023	Dec Qtr 2023	Mar Qtr 2024
<b>Safety</b>				
TRIFR	/mwhrs	1.35	0.55	0.24
LTIFR	/mwhrs	0.61	0.33	0.12
<b>Mining</b>				
Ore Mined	mt	3.8	1.6	2.1
HMC Grade	%	2.5	2.4	2.6
Rutile Grade	%	1.4	1.3	1.4
<b>Production</b>				
Rutile	kt	32	29	19
Ilmenite	kt	12	12	8
ZIC/GIC	kt	8	7	4
<b>Sales</b>				
Rutile	kt	30	34	30
Ilmenite	kt	11	-	24
ZIC/GIC	kt	7	11	-
<b>Revenue &amp; Cash Costs</b>				
Revenue - Rutile	US\$m	42	43	34
Unit price - Rutile	US\$/t	1,427	1,258	1,129
Revenue - Ilmenite/ZIC/ GIC	US\$m	5	4	10
Operating Cash Costs	US\$m	43	41	30
Net Operating Cash Costs - Rutile	US\$m	37	36	20
Unit Operating Cash Costs - Rutile	US\$/t	1,339	1,421	1,570
Net Unit Operating Cash Costs - Rutile	US\$/t	1,166	1,268	1,042
Capital	US\$m	7	3	5

**Note: ZIC/GIC refers to zircon-in-concentrate and garnet-in-concentrate; Capital includes Sembehun studies.**

During the quarter, Sierra Rutile reported 0 Lost Time Injuries (LTIs).



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Total cash operating costs for the March 2024 quarter were US\$32.4m of which US\$2.3m related to site labour costs, contractor standby costs, and power and accommodation costs post the 11 March 2024 suspension of operations and have been removed from operating costs in the table above. In addition to operating costs, one-off redundancy costs of US\$2.0 m were incurred in the March 2024 quarter.

The standby costs of remaining in suspension are estimated to be approximately US\$3.5 million per month.

### **Area 1 Operations Suspended post Third Amendment Agreement Decision**

Area 1 operations have been suspended on technical and operational grounds since 11 March 2024 following the Government of Sierra Leone's (GoSL) informing the Company of its intention to proceed on the basis that the fiscal regime set out in the Third Amendment Agreement would no longer apply to Sierra Rutile, and that Sierra Rutile would revert to the fiscal regime in place as of 20 November 2001 between Sierra Rutile and the GoSL.

The Company is of the view that reverting to the previous fiscal arrangements would make continuing operations in Area 1 uneconomic.

Sierra Rutile has also initiated a dispute process with the GoSL, which started with an obligation to seek to negotiate an agreed outcome, following which there is provision for arbitration in the UK.

On 21 March 2024, Sierra Rutile provided an update on the discussions with the GoSL. As detailed in the update, the GoSL advised that the notice of suspension did not comply with the relevant requirements under the applicable law and regulations, and therefore the suspension was in breach of those laws and regulations. Although Sierra Rutile does not agree with the GoSL's position and have responded to GoSL on this basis, Sierra Rutile is engaging with the GoSL to seek to resolve the issue in conjunction with the broader overall negotiations with the GoSL.

Sierra Rutile intends to restart Area 1 operations if agreement can be reached with the GoSL on an appropriate fiscal regime that would again support production, alongside supportive market conditions.

### **Production**

Ore mined, HMC (heavy mineral concentrate) and Rutile production for January and February 2024 were in line with expectations. For the month of March 2024, the focus was on completing production to enable a 29kt (rutile and ilmenite) shipment which sailed mid-March 2024 followed by safely and progressively suspending the Sierra Rutile operations.

### **Area 1 Operational Updates**

As noted above, Area 1 Operations were suspended on 11 March 2024 following which approximately 25% of the existing workforce were retrenched in order to restructure the Company's cost base.

Pigment demand started the new year on a slightly stronger note compared to Q4 2023, and is expected to improve on last year, reflecting restocking activities in key markets like China. Pricing tracking is below a year ago in the effort to maintain existing customers and expand Asian sales despite competitive pressures.



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IGR (industrial grade rutile) sales volumes were below plan, but pricing was above, after a planned bulk shipment was postponed into Q4 to capitalise on an opportunity to ship pre-suspension onsite inventory to the Amsterdam warehouse.

SGR (standard grade rutile) sales in Q1 were above budget due to the liquidation of excess inventory previously held in Amsterdam .

Ilmenite pricing during Q1 was as planned with volumes above plan.

### Sembehun DFS Release

Sembehun is home to one of the world's largest and highest grade natural rutile deposits. During the Quarter, work continued on the DFS, which was released post quarter end.

The DFS reinforces the strategic value of the project, and has confirmed that once funded and constructed, the project will significantly extend the Company's mine life, materially lower its cost structure, leverage existing infrastructure, and generate significant long-term value both to shareholders and the people of Sierra Leone.

The DFS results indicated that Sembehun has an expected mine life of 14 years including ramp-up and tail periods, and can produce an average of 175,000 tonnes of rutile per annum between 2028 and 2038.

The capex estimate of \$301m (as at September 2023) is an 11% reduction on the 2022 PFS figure of \$337m. For financial analysis purposes, the Sembehun execution capex of \$301m has been escalated to \$308m in mid-2024 to model inflation.

A critical aspect of the capital cost estimate, and a factor that influences Sembehun's attractive financial returns, is the continued use of the existing Mineral Separation Plant and facilities at Nitti Port, neither of which need to be replaced.

### Key DFS Outcomes

Key Production Outcomes	Unit	Sembehun
Life of Mine (LOM)	Years	14
LOM Ore Treated	Mt	173.8
Ore Grade	%	1.45
Ore Recovery - Rutile	%	91.4
Production – Total Rutile	kt	2,155
Production – Total Ilmenite	kt	1,242
Production – Total Zircon in Concentrate	kt	107
Annual average production rate	ktpa	175
Key Financial Outcomes		
LOM Total Revenue	\$m	3,724
LOM Cash Production Costs	\$m	1,874
Capex	\$m real	301
Sustaining Capex	\$m	120
Closure Costs	\$m	30.6
Free Cash flow	\$m	935
Long Term Rutile Price Assumption (real)	\$/t	1,391
Cash Production Costs, net of credits	\$/t rutile	622
Cash Production Costs, net of credits (steady state)	\$/t rutile	600
LOM EBITDA	\$m	1,705



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Payback period from first construction	# months	55
Payback period from first revenue	# months	25
NPV <sub>8</sub> (post-tax, real)	\$m	408
IRR	%	27.8

Table 1: Production and Financial Outcomes and Economic Assumptions – Sembehun.

Contribution from Sembehun is calculated from the difference between Area 1 continuing alone, versus a combined Area 1 and Sembehun operation.

The Environmental Protection Agency in Sierra Leone has approved the Environmental, Social and Health Impact Assessment (**ESHIA**), associated Environmental, Social and Health Management Plan (**ESHMP**). The approval of the ESHIA and ESHMP is one of the major items required to proceed with the Sembehun project.

Concurrently with seeking to obtain resolutions of the Third Amendment Agreement dispute with the GoSL, the Company aims to progress the development of Sembehun in line with the DFS, obtain funding for construction and develop the project to materially extend the overall life of operations and improve long-term cost competitiveness. Sierra Rutile will also consider other options, such as a sale of part or all of the Sembehun Project and will pursue the option which the Board considers will maximise value for Sierra Rutile Shareholders.

The DFS assumes a timeline for execution as detailed in the ASX release of 12 April 2024 and any delay to earlier key project milestones may lead to additional delay to later key milestones. The critical path scheduled the commencement of detailed engineering work in May 2023. Due to current uncertainties with the Third Amendment Agreement and the suspension of operations at Area 1 this work will be delayed. The Company will provide further updates when appropriate.

### Environmental, Social and Governance

Sierra Rutile remains committed to sustainable operations and upholding high standards for environmental, social, and governance (ESG) practices.

The Annual Environmental Management report was submitted to the National Minerals Agency.

Sierra Rutile advanced local educational efforts with financial support paid to 159 beneficiaries of the SRL Educational Scholarship Programme.







Sierra Rutilite

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### **Rutile sales and finance**

Sierra Rutilite's realised rutile price in the March 2024 quarter was 10% lower than the Company's realised price in the December 2023 quarter, reflecting a concerted effort to clear rutile inventories built up during the second half of 2023.

Sierra Rutilite understands that other key players in the titanium feedstock market also observed soft demand in the second half of 2023, negatively impacting sales volumes.

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. This is consistent with the fact that whilst the March 2024 quarter reflected an overall realised rutile price averaging US\$1,129 per tonne, individual bulk rutile sales within the quarter demonstrated progressively improving prices.

Cash balance at quarter end was \$4.7m (excluding \$40.1 m of additional funds set aside for rehabilitation by the independently managed Sierra Rutilite Rehabilitation Trust).

Sierra Rutilite remains debt-free with a net working capital position of US\$59.9 m as at 31 March 2024 (unaudited, refer below). Total working capital reduced in the month of March 2024 largely as a result of one-off payments relating to redundancies totalling US\$3.7m<sup>1</sup>.

SRX Net Working Capital Position	31 December 2023 (audited) US\$m	31 March 2024 (unaudited) US\$m
Cash	7.8	4.7
Receivables and prepayments	46.6	46.5
Prepayments	7.8	12.5
Finished goods inventories	31.7	16.0
Other inventories (excl consumables)	6.7	8.3
Trade and other payables	(34.5)	(28.1)
Net working capital	66.1	59.9

Sierra Rutilite is seeking opportunities to sell slow and non-moving consumables inventories (excluded from the table above) to other mining and manufacturing businesses in the country and across the region.

Additionally Continuous Improvement Project initiatives are underway to increase / sustain cost efficiencies and challenge non-production related spend.

A range of options for Area 1 are being assessed by the Board, including the potential for a re-start through to a closure case that would look to maximise the cash flows from the working capital balance. The optimal option will depend on various factors including the outcome of negotiations with the GoSL and market dynamics.

<sup>1</sup> This figure comprises of redundancy costs of US\$2.0 million, together with end of service benefits of US\$1.7 million (previously provided for).



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### **Outlook**

The recently released DFS has demonstrated the significant value of Sembehun, with the NPV significantly greater than current market capitalisation.

Discussions with respect to Sembehun will occur with major development partners and key industry participants. The discussions may occur in the context of either discrete funding or joint venture arrangements for Sembehun, or within the context of a complete corporate transaction involving Sierra Rutile. Sierra Rutile will also consider other options, such as a sale of part or all of the Sembehun Project and will pursue the option which the Board considers will maximise value for Sierra Rutile Shareholders.

These discussions will occur concurrently with ongoing discussions with the GoSL on matters relating to Area 1. The Company's strategy remains to obtain resolution of the Third Amendment Agreement dispute, part of which may involve continuing the arrangements under the Third Amendment Agreement or reaching a compromise with the GoSL on the fiscal arrangements and/or the GoSL taking an agreed interest in Sierra Rutile's business.

Ends

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

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### **About Sierra Rutile**

Sierra Rutile is the world's largest natural rutile producer, with an established operating history of more than 50 years from its operations in Sierra Leone.

The Company is well positioned to extend its operations through the proposed development of the Sembehun deposits. Sembehun represents one of the largest and highest grade natural rutile resources in the world, and its development is expected to extend Sierra Rutile's mine life by 14 years.

Sierra Rutile is listed on the Australian Securities Exchange. Further details about Sierra Rutile are available at [www.sierra-rutile.com](http://www.sierra-rutile.com)



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### Forward looking statements

Certain statements in or in connection with this announcement contain or comprise forward looking statements. Such statements may include, but are not limited to, statements with regard to future production and grades, capital cost, capacity, sales projections and financial performance and may be (but are not necessarily) identified by the use of phrases such as “will”, “expect”, “anticipate”, “believe” and “envisage”. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and may be outside Sierra Rutile’s control. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in product prices and exchange rates and business and operational risk management. Subject to any continuing obligations under applicable law or relevant securities exchange listing rules, Sierra Rutile undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today’s date or to reflect the occurrence of unanticipated events.

### Mineral Resources, Ore Reserves Estimates and Production Guidance

The information in this announcement relating to Sierra Rutile’s estimates of Mineral Resources and Ore Reserves statements for the Sembahun Project is extracted from the Information Memorandum prepared by Sierra Rutile in connection with its application for admission to the ASX, lodged on the ASX 25 July 2022 (**Information Memorandum**), available at [www.asx.com.au](http://www.asx.com.au). Sierra Rutile confirms that it is not aware of any new information or data that materially affects the information included in the Information Memorandum and that all material assumptions and technical parameters underpinning the estimates of Mineral Resources and Ore Reserves Statements in the Information Memorandum continue to apply and have not materially changed. Sierra Rutile confirms that the form and context in which the relevant competent persons’ findings are presented have not been materially modified from the Information Memorandum.

The information contained in this announcement relating to a production target and forecast financial information derived from the production target set out in the DFS summary was announced to the ASX on 12 April 2024, under the heading “Sembahun DFS Reinforces Strategic Value of Significant Project” (**DFS Announcement**). Sierra Rutile confirms that all the material assumptions underpinning the production target and the forecast financial information derived from the production target in DFS announcement continue to apply and have not materially changed.

### Non-IFRS financial information

This announcement includes certain information and data, such as *Operating Costs*, *Net Operating Cash Costs* and *Unit Operating Cash Costs*, that are not recognised under Australian Accounting Standards and are classified as ‘non-IFRS financial information’ under ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information). Sierra Rutile uses these non-IFRS financial information metrics to assess business performance and provide additional insights into the underlying performance of its operations. The non-IFRS financial information metrics in this announcement do not have standardised meaning under the Australian Accounting Standards and, as a result, may not be comparable to the corresponding metrics reported by other entities. Non-IFRS financial information should be considered in addition to, and not as a substitute for, financial information prepared in accordance with Australian Accounting Standards. Readers are cautioned not to place undue reliance on non-IFRS financial information cited in this announcement.