

## Silver Lake/RED 5 - merger of Equals?

<b>Company/ASX Code</b>	Silver Lake Resources (ASX: SLR)
<b>AGM time and date</b>	10.00am AWST Friday, 31 May 2024
<b>Location</b>	Level 6, Brookfield Tower Two, 123 St Georges Terrace, Perth WA 6000
<b>Registry</b>	Computershare
<b>Type of Meeting</b>	Physical
<b>Monitor</b>	David F Brooke
<b>Pre Scheme Meeting</b>	Yes; with Chairman (David Quinlivan) and Secretary (David Berg)

The individual (or their associate) involved in the preparation of these voting intention does not have a shareholding in either SLR or RED.

### 1. Proposed Voting Summary

No	Resolution Description	Vote
1	Approval of the Scheme (75% threshold)	Directed votes will be lodged in accordance with proxy instructions. Voting on Open proxies will be determined at the meeting.

### 2. Summary observations

- Silver Lake Resources (SLR) is proposing a “Merger of Equals” with RED 5 so as to create a gold miner with approximately 400Mozs – 500Mozs of annual gold production; SLR claim that the joint production level will command higher multiples in worldwide share markets and thus increase the joint company’s market value.
- RED5’s operations are in the Leonora locality and comprise 2 open pit low-grade bulk mining operations (KOTH – “King of the Hills” and Darlot), which are both serviced by a recently commissioned 5MT/yr processing plant with long mine life. RED5’s gold processing cost of this operation are low (~A\$16/tonne). SLR “expertise” is primarily in high-grade underground gold mining rather than RED5’s low grade “bulk” open pit mining. There is little affinity in terms of geography to both company’s mining operations.
- RED5 has over the last year been subject to “speculation” regarding demand from another local miner (GMD) to consolidate gold operations in the Leonora locality and as such its market price has “inflated”.
- SLR is the minor partner in this proposed merger (even though it holds 11% of RED5 shares and arguably has more valuable assets). SLR has adopted a “Scheme of Arrangement” (with a 75% shareholder voting threshold) for the consolidation. No shareholder vote for RED5 is required.
- SLR commissioned an “Independent Expert Report” from BDO, which concludes that the transaction is “fair and reasonable”. This report goes into detail on the relative valuation of each company and

ASA recommends SLR shareholders consider the important value of assets, for both SLR & Red 5.

- The independent expert report, including Scheme Booklet, is voluminous (600pages) and, an important consideration for shareholders.

### 3. Independent Expert Valuation

The independent expert valuation was done by BDO (with help from SRK). SLR claim their report was entirely independent of them and as such they unable to make any comment upon the valuation other than to accept the experts view that the transaction is “fair and reasonable”.

The ASA note that whilst the SLR position is correct there are many inconsistencies in the “independent” valuation, although some of these apply to both parties to the transaction.

Observations noted by ASA are:

1. The independent expert only “flexed” valuations by 10% from a nominal US\$2,060/ozs whilst the current price of gold is US\$ 2,416/ozs;
2. The RED5 hedge position is currently 233,987ozs at A\$2,618/ozs. At current gold prices this is a A\$254m liability at current gold prices;
3. Additional capex will be required for further stripping at KOTH whilst Mount Monger reserves are in stockpiles with the mining/haulage already paid.
4. The independent expert report considers FX rates to rise by 6% next year and 10% thereafter. However, if PoG falls slightly, this may not be justified?
5. RED shares are valued at ~A\$118m whereas they are valued at A\$184 million by SLR in their last quarterly report;
6. Tax is considered in the DCF model when SLR has a considerable tax credit and, the tax paid is passed on to Shareholders as a franking credit;
7. No starting date is provided for the discount rate (e.g FY/25, CY/25 or FY/26);
8. On current metrics SLR is likely to produce about 246kcozs for FY/24. Why is production assumed to be 180kcozs for FY/25 and 170kcozs thereafter.
9. The latest resource estimates for Sugar zone are ignored and the 4 year Life of Mine (LOM) of SLR assets take no account of future finds.
10. The independent expert concludes that SLR is worth:

Value of Silver Lake prior to the Scheme (control), adjusted for Silver Lake-specific corporate costs, transaction costs and interest in Red 5	Ref	Low \$'000	Preferred \$'000	High \$'000
Value of Silver Lake prior to the Scheme (control)	11.3	837,328	1,049,261	1,268,283
Add back: Corporate costs of Silver Lake prior to the Scheme	11.1.3	89,000	80,000	71,000
Add back: Transaction costs specific to Silver Lake	11.1.5	1,640	1,640	1,640
Less: Silver Lake's interest in Red 5	11.1.4	(109,904)	(118,837)	(128,059)
Less: Tax impact of cancellation of Silver Lake's interest in Red 5		(7,420)	(10,507)	(13,595)
<b>Total</b>		<b>810,644</b>	<b>1,001,557</b>	<b>1,199,269</b>

And RED 5 is worth (bottom of page 74):

## Conclusion on DCF valuation of Red 5's Operating Assets

Based on the above analysis we consider the value of Red 5's Operating Assets to be in the range of \$503 million to \$717 million with a preferred value of \$609 million.

Our assessed range incorporates SRK's recommendations for certain input assumptions and was formed having consideration to sensitivities around a +/-4% relative change in AUD:USD exchange rate and a circa +/-5% relative change in the gold price, given the sensitivity of the NPV to these assumptions.

SLR is the minority partner in the merger of equals. However SLR has the higher valuation of assets.

11. The recent SLR quarterly says, "net cash, bullion and liquid investments of \$526m". Add on concentrates/GIC of \$31m and a reasonable valuation of stockpiles @ A\$3,400 gold price equates to about \$750m. Mining assets (particularly at Mount Monger – written off) are valued at zero? The Q3/FY24 (~A\$58M) quarter earnings at least, should be added?
12. Much of the SLR M&I resources of 4.2Moz will be converted to reserves and extend the assumed mine life. In the latest quarterly, SLR makes reference to this at Mount Monger (presumably referring to French Kiss, Maxwells and Cock-Eyed-Bob). SLR assets were updated last on 30<sup>th</sup> June 2023. Sugar zone and Spanish Galleon should be added at least + exploration update at Mount Monger;
13. On the basis of market prices, the RED 5 share price may be artificially inflated (RED P/E 31 SLR P/E 15) due to a market perception that the RED 5 plant was in demand from GMD whilst this was not the case for SLR.

## 4. Perceived conflicts of Interest

1. Mr Tonkin's (the current SLR CEO and other KMP/staff) incentives vest on the merger. Mr Tonkin will receive \$3.887 million (escrowed until July 2025). The ASA has been told that all KMP and directors will be voting for this transaction.
2. Mr Tonkin also receives an uplift in FAR (and presumably new STI/LTI's) to \$1.064 million.
3. The consolidated BoD receives a 60% increase in fees from a successful merger.

The three points may raise the perception of conflict if SLR existing BoD's and KMP are allowed to vote on the resolution.

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