Australian Shareholders' Association
Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Merger of Equals?

Company/ASX Code	Saracen Mineral Holdings (SAR)
Scheme Meeting date	Friday, January 15th, 2021 (notice given on 10/12/2020)
Time and location	9.00 am – virtual meeting at https://web.lumiagm.com/349257825
Registry	Computershare Investor Services Pty, Ltd
Webcast	Yes – online only as above
Poll or show of hands	Poll on all items
Monitor	David F Brooke
Pre AGM Meeting?	No – one was requested but not possible over the Christmas period

The individual (or their associates) involved in the preparation of this voting intention have no shareholding in either company.

Summary of ASA Position

These voting intentions are for a scheme meeting called for Saracen (SAR) shareholders to consider and if thought fit to approve what is presented as a "*Merger of Equals*" for Saracen to merge with Northern Star Resources (NST) by way of an all-script merger Implementation Deed. Saracen shareholders would receive 0.3763 NST shares for every SAR share which, after adjustments for small shareholding and disallowed jurisdictions, would result in Saracen shareholders owning 36.3% of the merged entity. The merged entity would retain the title of Northern Star Resources. Both parties accept that the transaction is a "zero premium" all script merger which would create the sixth largest gold producer by market cap and the eighth on a production basis. In effect NST would be acquiring 100% of SAR and SAR would be delisted from the ASX.

As a "control transaction" the Corporations Act (s.412(1)) requires an "explanatory statement" however, in the interests of good governance, SAR have additionally commissioned an Independent Expert Report" "IER" prepared by EY Strategy & Transactions Limited and dated 8th December 2020.

The IER signifies it considers the Merger of Equals a takeover bid which from a regulatory standpoint represents a control transaction. It is noteworthy that Ernst and Young Strategy and Transactions Limited - "E&Y" - were commissioned as the Independent Expert "IE" with SRK Consulting (Australasia) Pty Ltd -SRK - as a "specialist" advisor on SAR mineral assets. E&Y are not conflicted by being the auditor for either NST or SAR, although they have provided services to both companies. The "explanatory statement" including the IER and SRK Consulting report are voluminous (665 pages) and conclude that the proposed transaction is "fair and reasonable" to SAR shareholders.

Shareholders & interested parties are strongly advised to familiarise themselves with all details in the IER and public announcements issued by SAR. Page (iv) of the IER includes a table of relative contributions (as of 5th October 2020 with cash balances on 30th September 2020) on the part of SAR & NST under the Scheme. Line items include shares, market cap, enterprise value, mineral resources & reserves, plus md point production & production guidance

It is understood upon closure of the Scheme, current NEDs of SAR Sally Langer & John Richards will be appointed to the NST board and that Anthony Kiernan AM would be appointed as Lead Independent director of NST. Raleigh Finlayson would be appointed MD of NST. In addition under the IER set out that 15,075,853 SAR performance rights (worth about $71.6m) will vest; this includes a total of 6,048,300 (worth about $29m) performance rights vesting to three SAR KMP including Raleigh Finlayson.

In some circumstances a break fee of $57.6m is payable by either party and the documentation provides the respective details and conditions which apply to SAR and separately to NST, however clauses 3.9 and 14.1 (c) of the

Merger Implementation Deed avoids these penalties in the event of at least 25% rejection by shareholders at the scheme meeting and subsequent support of that rejection by the courts. SAR indicates their estimated transaction costs to be in the range $16.9m to $19.1m.

As set out in the IER the ASA considers it significant that both parties and the IE accept that no control premium is being offered. Our consideration of both attributable gross earnings (item 15 in the appendix) and the ratio of closing prices over a 6-month period[1] (item 12 in the appendix) indicate that the NST offer is a discount to "zero premium". Our analysis indicates an offer of around 39.5% to SAR would be nearer to "no premium".

The Van Eck ETF (GDXJ) holds approximately US$500m of both NST and SAR shares with a rebalance date of 12th March 2021. This ETF has a maximum market capitalisation for holdings which will be exceeded for the merged entity on rebalance should the merger proceed. The GDXJ rebalance will roughly coincide with vesting following a merger and thus realization of tax liabilities. Should the merger proceed as planned these sales could have an impact on the share price of the merged entity.

ASA is not providing financial advice for the proposed Scheme; interested parties are strongly recommended to consider the details provided by SAR in the following links before providing their proxy (the ASA will vote "open" proxies "against"):

Scheme booklet dated 10th December 2020

Scheme Booklet registered with ASIC (iguana2.com)

Update on proposed merger of equals November 25 2020

Update on Proposed Merger of Equals (iguana2.com)

Results of First Court hearing – Supreme Court of WA- December 10 2020

Proposed Merger with NST - Results of First Court Hearing (iguana2.com)

ASA proxy votes will be lodged in accordance with shareholder instructions.

Resolution 1	**APPROVAL OF THE SCHEME**
ASA Vote	**Against**

Our rationale convinces the ASA that a premium (or at least breakeven) should be offered by NST to SAR shareholders to make the proposed merger attractive.

As shown in item 23 of the appendix there would appear to be a considerable incentive in terms of vesting performance rights for to SAR employees to accept the current transaction. History suggests that if the current deal is rejected, NST are likely to reconsider their position. Without a merger, history would suggest that the SAR share price should be buoyant as they would likely remain within both the GDX and GDXJ indexes. NST was on the point of being removed from GDXJ in March 2020 but remained due to the dramatic equity price correction caused by COVID-19 and a postponement of the rebalance date.

[1] The IER at section 8.8.3 supports this conclusion but refers to "gold price" to justify the difference; we consider this to be largely irrelevant to a factor which applies to both companies.

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1

Itemised comment on the conclusions in the IER (pages iii to xi at Part 1 of the IER) are:

Item		Independent Expert view (IE)	ASA Comment
No	IER Heading		
1	Approach	The IE outlined their methodology	Appears to be a logical approach but some important issues are missing
Summary of Opinion			
2	Fairness and reasonableness of Proposed Scheme	The IE assesses the offer on a “controlling interest basis” and considers it “fair and reasonable”	The author argues that NST should be paying a “control premium” rather than “a zero premium” (or discount) since, apart from KCGM (where they both hold 50% interests) SAR assets are of higher overall quality. Undoubtedly NST’s Jundee mine is high quality mine, however it is less clear that NST’s “Kalgoorlie operations” and Pogo are of similar quality to Thunderbox and Carosue Dam. For a “merger of equals” to work the market needs to accept overriding benefits of single project ownership and operation.
3	Other Considerations	The IE says some shareholders may have other considerations	Since the NST/SAR announcement on October 6 the PE ratio of NST has averaged about 39 whilst SAR has been about 32.
Advantages			
4	Saracen Shareholders should benefit from future Optimisation of KCGM	The IER claims that KCGM benefits are unique to this merger with multiple ore processing synergies	KCGM management structure rationalization is unique, however synergies are limited since SAR focusses on Fimiston Open Pit and NST on Mount Charlotte. Decisions should be better aligned and faster, however Kalgoorlie ores are largely “refractory” requiring ultrafine grinding at Gidji and/or roaster at Kanowna Belle. Such issues would have limited scope for SAR ores (particularly with completion of the A$34m upgrade (to 3.2MT/yr) at Carosue dam). Consolidated ownership at KCGM may provide scope for economies at NST’s Kanowna Belle, however a tolling agreement under the existing structure could have a similar result. Either option is of little benefit to SAR.
5	Saracen Shareholders may benefit from additional growth opportunities	The IE claims potential synergies in ore processing. All the proposed ore sourcing are from NST mines (i.e. gain is NST’s)	Some of the proposed synergies could be accomplished by a tolling at KCGM. However, both companies are projecting that high grade ore from Fimiston South will be mined from 2024 (when the east wall is remediated) which will absorb Gidji capacity, limiting the scope for processing external ores without further capex. The IE (SRK) eliminated Fimiston Deeps from their valuation (containing inferred resources of 2.2Moz)
6	Saracen Shareholders will share in other potential synergies	The IE claims that significant benefit may accrue from NST avoiding expenditure on the legacy Bronzewing plant for processing Echo resources (now NST) ore	In the Yandel area, Thunderbox processing capacity is planned at 3.5MT/yr (FY22) to cope with current SAR supplies which is “soft” ore whose grade increases with depth, however further expansion (and additional capex) could provide scope for processing (at Thunderbox) ore from the NST’s Echo Resources acquisition – a benefit to NST. Higher grade supplies from Bronzewing could increase production but would displace current supplies. Capex for further expansion of Thunderbox is an alternative of re-conditioning the legacy 2MT/yr Bronzewing plant (previous owner (Echo) estimated - $19.4m) – one way or the other it will need Capex.

			Avoidance of costs of staffing two plants may be achieved although significantly increased transport costs are likely to be an offset.
7	Greater financial resources	The IER claims economies of scale and higher credit ratings	Capital requirements are similar irrespective of whether the companies merge or otherwise. Possibly capital may be assigned more efficiently. The IE notes the credit rating of both companies is "BBB" however we also note the importance of efficient use of capital.
8	Potential re-rating of the Merged Group	The IER speculates that a larger producer commands higher rating	The PE ratio of NST is high compared to international peers. SAR may gain from this; however, this is speculative, and the merged entity may revert to the lower value of peers. SAR has a lower group AISC than NST which would indicate higher quality resources & processing albeit with lower production. Most of the planned production increase is from KCGM where investment is currently joint, and production equally shared – the benefit to SAR shareholders is reduced to 36.3% in that mine.
9	Potential for dividends	NST has a history of paying dividends.	SAR flagged (ann. of 19/8/20) that a maiden dividend was Imminent. Since SAR has to date preserved earnings to fund growth it would indicate that this "value" is preserved within its market capitalisation whereas NST has paid dividends to its shareholders since 2012; as such a premium to SAR would seem in order.
10	Potential greater liquidity of Saracen shares	The IER speculates that a larger group would be more attractive to ETF and funds	Both companies are currently in the GDXJ index but when merged will exceed its mandated maximum and thus likely removed causing the sale of about US$500m shares from both companies. The merged entity will remain in the Van Eck GDX ETF where they are both currently represented.
Disadvantages			
11	Exposure to additional risks	The IER speculates that a mine in USA and COVID-19 exposes SAR investors to higher risk	COVID-19 risks at Pogo are current and getting worse; only 62% of the FY20 drilling program took place. To date, Pogo has failed to live up to its promise and currently barely profitable. Hopefully, this will improve. In the CY20 September quarter NST sourced 78% production was from high cost "refractory" Kalgoorlie ores (implying high cost) and Pogo. For SAR 74.7% of production came from higher cost KCGM operations. This would imply that on a merged basis SAR is contributing proportionally more to low-cost production.
12	Possibility that potential synergies will not be realized	The IER bases its valuation on the SAR and NST market price since the 6 October announcement	SAR are contributing 44% of gold reserves and 35% of resources. SAR's FY21 production guidance is 38% of the merged entity and traditionally SAR under-promises/over-delivers on guidance. FY20 SAR's AISC was A$1101/ozs whilst NST's was A$1496/ozs (up 15% from FY19). From 24 June to 5 October the average ratio of the SAR and NST closing prices was 39.2% whilst from 6 October to 24 December this ratio dropped to 37.47% (roughly in lockstep with the scheme ratio of 37.63%). This would indicate that the merger announcement has depressed the SAR share price. Impacts from the gold price are common to both companies. The higher valuation of SAR prior to 6 October included the period of NST going ex-dividend on 8 September for 19.50c/sh fully franked. In comparison the

<table>
<tr><td></td><td></td><td></td><td>SAR special dividend of 3.8c (fully franked) is conditional on the merger proceeding</td></tr>
<tr><td colspan="4">Other relevant factors</td></tr>
<tr><td>13</td><td>Comparison of our assessed value of the Scheme Consideration plus Special Dividend with traded share price of Saracen</td><td>The IER concludes that on market prices SAR is not receiving a control premium. A drop in gold price is claimed as a complicating factor</td><td>SAR has put their money into growth; long term shareholders have been loyal to see future growth with brokers rating SAR as their preferred choice due to NST being fully valued (i.e. a higher PE ratio). It would need a large rerating to reward not only KMP, but also shareholders who have backed SAR for growth and no dividend, even when they appeared to have surplus cash. (See above for market factors in the ratio of the share prices which may be minimally affected by failure of the merger).
Based on an EV/AISC adjusted production metric, NST is priced at around $15,000/oz while SAR is priced at around $12,800/oz.</td></tr>
<tr><td>14</td><td>The value of the Scheme Consideration up until the date of the Scheme Meeting may change</td><td>The IER notes that share prices of both NST and SAR have declined in line with the gold price since the 6 October.</td><td>Correct; but we would argue that this is irrelevant to the ratio of the share price of both companies in an all-script merger. Since 6th October the junior gold miner index (GDXJ) has declined by 2.6% whilst the major miner index (GDX) has declined by 5.6% which would indicate (if anything) the market moving in favour of SAR (the smaller company).</td></tr>
<tr><td>15</td><td>Saracen Shareholders' interest in the Company's assets will be diluted</td><td>IER says that SAR KCGM interest will be diluted from 50% to 36.3%</td><td>Agreed, however SAR shareholders will gain a 36.3% in NST assets at Jundee, Kalgoorlie and Pogo where earnings may improve once the new methods are in place and COVID-19 conditions suppressed.
ASA examined the transaction based upon annual FY21 gross earnings (based upon midpoint guidance, AISCs and September quarter realised gold prices) attributable to SAR in both the current situation and a merged scenario where SAR holders own 36.3% of the equity with results as below:
<table>
<tr><td></td><td>FY21 Gross Margin earned by SAR shareholders based upon guidance (A$)</td></tr>
<tr><td>Stand-alone SAR as of now</td><td>$625,640,000</td></tr>
<tr><td>In merged situation</td><td>$575,422,458</td></tr>
<tr><td>Earnings Loss to SAR shareholders</td><td>($50,217,542)</td></tr>
</table>
For SAR shareholders to break even on guidance gross earnings they would need to own 39.47% of the merged entity.</td></tr>
<tr><td>16</td><td>Saracen Shareholders are not giving up the opportunity to realize a premium for control</td><td>Saracen are foregoing a premium for control and will reduce the possibility of further consolidation</td><td>Saracen shareholders will lose the possibility of organic growth in Australia, however with the merger they will gain a foothold in Alaska.</td></tr>
<tr><td>17</td><td>Potential for an alternative superior proposal to emerge</td><td>The IER argues that the KGCM is unique and another proposal unlikely</td><td>Agreed, however SAR is also losing the possibility of organic growth and further M&A.</td></tr>
<tr><td>18</td><td>If the Proposed Scheme is not approved the Saracen</td><td>The IER argues that the SAR share price could</td><td>In view of NST's position near the ceiling of the GDXJ index they (NST) are more likely to be sold off than SAR. If the merger proceeds around US$500m GDXJ of SAR and NST</td></tr>
</table>

<table>
<tr><td></td><td>share price may fall below current trading levels</td><td>drop if the merger does not take place</td><td colspan="3">shares are likely to be sold. In addition, around $71m SAR vest on a change of control some of which may be sold</td></tr>
<tr><td>19</td><td>Tax consequences</td><td>Possible Tax implications to overseas shareholders</td><td colspan="3">ASA's membership is largely Australian domiciled.</td></tr>
<tr><td>20</td><td>Costs associated with the Proposed Scheme</td><td>The IER says that $3.5m has been spent so far and a further $16.9m to $19.1m will be incurred if approved</td><td colspan="3">If approved further inefficiencies are stamp duty of $34m + restructuring costs. Also, early payment of $71m in vested performance rights without validation of performance hurdles with locks released – a "merger" provides an early payment for SAR staff.</td></tr>
<tr><td>21</td><td>Current volatility in gold prices and share prices</td><td>The IER notes that gold and share prices change by the ratio is affected to a less extent</td><td colspan="3">Agreed – however based upon the movement in the GDX and GDXJ ETF's to date, price variations in smaller gold miners have been less than larger ones which would disadvantage SAR on a ratio fixed on 6 October.</td></tr>
<tr><td>22</td><td>Conclusion</td><td>The IER concludes that the merger is in the "best interests of Saracen Shareholders"</td><td colspan="3">We disagree and consider that a control –takeover premium NST should apply.</td></tr>
<tr><td colspan="6">Other matters not considered in the IER</td></tr>
<tr><td rowspan="7">23</td><td rowspan="7">Impact on KMP Remuneration</td><td rowspan="7">No Comment by IER</td><td colspan="3">The following SAR performance rights vest due at merger completion (sections 10 & 11 of the explanatory statement)</td></tr>
<tr><td>Person</td><td>Performance Rights vesting on completion</td><td>Approx. Value @ $4.75/sh</td></tr>
<tr><td>All employees (incl. KMP below)</td><td>15,075,853</td><td>$71.61m</td></tr>
<tr><td>Raleigh Finlayson</td><td>2,826,100</td><td>$13.42m</td></tr>
<tr><td>Simon Jessop</td><td>1,616,500</td><td>$7.68m</td></tr>
<tr><td>Morgan Ball</td><td>1,605,800</td><td>$7.63m</td></tr>
<tr><td colspan="3">The SAR FY20 remuneration scheme pro-rata's vested performance rights on a change of control; this does not apply to the above historic performance rights.</td></tr>
</table>