



NST – first year as Australia’s second gold miner

Company/ASX Code	Northern Star Resources Limited (NST)
AGM date	Wednesday, 16 November 2022
Time and location	2:00 pm AWST - Perth Convention & Exhibition Centre
Registry	Link Market Services
Type of meeting	Hybrid – ASA to attend physically
Poll or show of hands	Poll on all items
Monitor	David F Brooke assisted by Leanne Harrison
Pre AGM Meeting?	Yes, with Chair, Michael Chaney, and General Counsel, Hilary McDonald, to be held on 7 November 2022

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

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Approval of issue of LTI Performance Rights (for measurement 30 June '26)	For
3	Approval of issue of LTI Performance Rights (for measurement 30 June '26)	For
4	Approval of issue of Conditional Retention Rights	Against
5	Approval of issue of dividend equivalent vested Performance Rights	For
6	Re-election of Michael Chaney AO	For
7	Re-election of Nick Cernotta	For
8	Re-election of John Richards	For
9	Election of Marnie Finlayson	For

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

Summary of ASA Position

Consideration of accounts and reports - No vote required

This year has been one of consolidation of NST assets after the merger with Saracen Mineral Resources in 2021. It has been a challenging year due to the COVID-19 pandemic, rapidly rising costs and labour shortages throughout its operations. These were particularly severe at the Alaskan operations (Pogo); where production was well short of targets although improved (due to a plant upgrade) and costs at this site remain high due to a US\$ cost base making operations unprofitable on an all-in cost basis (A\$2,842/ozs in Q1/FY23).

All in sustaining costs (AISC) across the group rose from A\$1,483/ozs to A\$1,633/ozs (10%) during the year with Pogo (A\$2,068/ozs) and Thunderbox (A\$1,949/ozs) being outliers and Kalgoorlie (ex KCGM) operations (A\$1,848/ozs) being sold in August 2021. The latest Q1/FY23 group AISC was A\$1,788/ozs. Rising AISC has been an issue for the whole gold industry but NST has suffered this trend (average 11%/year) over the last 5 years. TSR has remained negative due to a declining share price since the Saracen merger although the NST dividend was increased from 19c to 21.5c (20% - 30% of earnings). Now a A\$300m on market share buyback has been implemented for the remainder of FY/23 although with A\$300m debt and considerable ongoing capex we do not understand why this is prudent.

Gold sold during FY/22 was slightly down at 1.56mozs (1.596m combined total for FY/21) yielding an NPAT of A\$429.8m (A\$1,032.5m in 2021); the reduction is largely due to write off stockpiles (A\$436m) at KCGM and rising production costs. Debt was reduced by A\$562m largely due to the sale of Kunduna (A\$402m) and Tanami/Paulsen (~A\$44.5m) assets

KCGM pre-stripping and Thunderbox operation have involved large capex expenditures (A\$498m) and the company now expects Thunderbox nameplate operations (3MT/yr to 6MT/yr) to be achieved in 2H23. Growth capex for FY/23 is A\$650m plus A\$125m for exploration.

A review of KCGM operations was delivered in June 2022. Four options were proposed for the upgrade of KCGM ranging from A\$440m to A\$1.4Bn over 4 years (24Mt/yr). The report envisaged an increase in production of 100koz/yr to 200koz/yr resulting in a AISC reduction of around A\$200/ozs. These proposals envisage about 60% renewable power leading to emissions saving of around 37% by 2030. The FY/26 target of 2Moz/yr production appears to be challenging without further acquisitions.

On 30 June 2020 the combined market capital of NST and SAR was A\$15.89m compared to the merged and consolidated company of A\$8.43m as of 30 June 2022 (i.e. 53% down); the benchmark being the GDX ETF index was 13.4% down in A\$ terms over the same period. There has however been poor sentiment in the Australian gold mining sector generally over the last 18 months despite the A\$ gold price holding up well.

Summary

	2022	2021	2020	2019	2018	2017
NPAT (\$m)	429.8	1032.5	258.3	154.7	194.1	215.3
Share price (\$) – end of year	6.84	9.78	13.36	11.65	7.26	4.84
Dividend (cents)	21.5	19	17	13.5	9.5	12
TSR (%)	-28.6%	-25%	16.4%	62%	55%	-7%
EPS (cents)	13.6	-71.7	43.7	25	31.5	30.9
CEO/Exec. Chairman (prior to FY/22): total remuneration, actual (\$m)	2.375	4.17	18.06	5.151	7.443	4.524 ⁺

+ This figure is based upon “fair” value as defined in the relevant NST annual report

On 22 July 2021 the CEO (Stuart Tonkin) took over executive leadership of the company from the past Executive Chairman (Bill Beament). The latest remuneration represents that of the CEO which was 25.8 times the Australian Full time Adult Average Weekly Total Earnings (A\$1,769.80 based on May 2022 data from the Australian Bureau of Statistics).

ASA focus issues

Fair treatment of shareholders

In the past NST have observed that they had less than 13% retail investors on their register and remarked that all (including retail) shareholders benefited from past capital raisings. Last year the NST Chairman acknowledged the ASA view on fairness to all shareholders in capital raisings and accepted that in the future he would seek to make them more equitable.

NST keeps shareholders well informed, including regular quarterly results investor briefings; these are at 9.00am Eastern time – a later hour would be appreciated.

Directors and Boards

Since the merger NST has undergone a major re-structure of the board and KMP. Board resignations during FY22 include Bill Beament, Raleigh Finlayson, and Anthony Kiernan AM. Mary Hackett resigned on 22 August 2022. The current board has seven directors (including MD & CEO) with the skills of the board outlined on a skills matrix included in the annual report which is comprehensive. Six of the directors qualify as independent.

With the appointment of Ms Marnie Finlayson the NST board continues to have three (37.5%) female directors on the board. All directors (except for Mr Fitzgerald) have served on the board for less than 10 years – comment was made in our last VI's concerning the independence of Mr Fitzgerald now that he has served 10 years

ESG

The growth of NST into Australia's second largest gold miner has led to greater emphasis on ESG practices and procedures in an industry which has not always appreciated their relevance. NST has run a Safety, Teamwork, Accountability, Respect and Results (STARR) campaign since about 2014 and been compliant with its ESG undertakings.

NST has achieved an outstanding safety record of TRIFR score of 2.0 (Industry average of 5.7). NST has set reduction targets in carbon emissions targets and water usage.

Remuneration

In the past few years, the ASA criticism was mainly the magnitude rather than structure of the remuneration; we also understand that demand for top talent is also very high.

The FY22 Remuneration report is comprehensive with KMP achieving the STI 30% weighting on Environment Social Governance on safety, culture, community, heritage and the environment. Remuneration was 22.4%, (from a possible 70%) in the areas of Production, Performance and Financial Management, due to not achieving its' production target of 1,650 koz. Australian operations continue to have considerable manpower shortages, resulting in the increased employment of inexperienced staff and wage inflation (including continued impact from COVID- 19). AISC has risen to A\$1,642/oz by June 2022 from increased fuel, foreign exchange, flight costs, components and reagent prices.

No changes were made to the Non-Executive Director remuneration for FY23, aside from the cessation of the NED share plan, so their payments are in cash only. The board members are required to maintain a minimum level of share ownership of 100% of the NED base fee of \$190,000.

Summary of ASA Position

Resolution 1 – Adoption of Remuneration Report – For

The report sets out the remuneration framework and the consequent remuneration elements for key executives and non-executive directors. FY22 remuneration for KMP is clearly shown in the statutory remuneration table on page 90-91 of the annual report.

The scoring of STI's outcomes for FY/22 appears to have been fairly implemented with some STI performance rights lapsing due to performance downgrades and increased costs during FY/22. STI's is based upon company measures, rather than individual. appears to be approximately on a par with companies of a similar size but the gateway (see 5 below) is insufficient.

Further issues ASA would like NST to consider are:

1. STI's to vest equally over a two-year period.

2. LTI's should have a 2-year lock. However, we noted that a 4-year performance period is somewhat of an innovation in the gold mining industry.
3. "Resource" and "reserves" metrics should remain part of LTI's since their preservation and growth are essential to the company remaining a viable concern. This metric should be rewarded in terms of those sites owned at the time of grant and new green field discoveries. Resources from M & A are in our view a different category; incentives should be offered only for resource/reserves required to grow the company's business.
4. The gateway to a positive shareholder returns over the performance period only impacts vesting by 50% and only active on passing both hurdles of both relative and absolute TSR; we view this as insufficient. Notwithstanding the above points, we support the board's efforts to balance the importance of retaining key personal with performance indicators that align with shareholder interests in the current market of labour shortages. NST remuneration is around par with companies of a similar size, therefore we support a 'for' vote for resolutions 2, 3 and 4.

Resolution 2 – Approval of issue of 467,675 LTI Performance Rights (for measurement on 30 June 2026) to Managing Director & Chief Executive Officer, Stuart Tonkin - For

NST propose to allocate to Mr Tonkin an LTI award at \$10.31 (90 day VWAP at 30 June 2021) based upon 200% of a FAR of A\$1.7m. As we have earlier stated we consider that such a grant should not be without a gateway of a positive shareholder return and a more severe scale back in the event of such occurrence. The amount of Mr Tonkin's award is high but around par with companies of similar size, however, returns to shareholders in FY22 have been disappointing not just due to market sentiment but also to rising costs, poor performance at Pogo and Kalgoorlie operations (i.e. Kunduna) and forced sales from the GDXJ ETF with the merger in 2021; we consider there should be a more severe penalty to disbursement. To earn the full value of this award (which will of course only be determined when the relevant shares vest), we consider Mr Tonkin needs a more severe gateway to maintain a pre-determined level of shareholder returns during the performance period. Our view regarding this LTI grant is set out above. In short, we consider these awards cannot be justified without a link to total shareholder return over the performance period.

Resolution 3 – Approval of issue of 233,837 STI Performance Rights (for measurement on 30 June 2023) to Managing Director & Chief Executive Officer, Stuart Tonkin - For

Stuart Tonkin elected to have 100% of his FY22 STI in Performance Rights. (This aligns with shareholder interests.). We also note that Mr Tonkin has also purchased 150,000 shares from his own monies

We note that Mr Tonkin has decided to take all his STI's as performance rights, however in view of the decline in the NST share price since the merger and the FY/21 remuneration outcome of a 33% rise for Mr Tonkin against a 25% fall to shareholder, the reward envisaged appears to be over generous without a more severe gateway to a positive shareholder return. It would also appear that this STI is based upon a "fair value" share price of A\$10.31 when the average closing share price since 1 July is A\$9.62. We also consider that such STI awards should vest over a two-year period or at least an additional years' lock.

Resolution 4 – Approval of issue of 230,000 Conditional Retention Rights to Managing Director & Chief Executive Officer, Stuart Tonkin - Against

Generally, we do not support "retention rights" as they are not a performance-based reward.

It is noted that this grant is only 0.25% of Mr Tonkin's remuneration which puts him on the same basis as other shareholders, thus incentivising Mr Tonkin to operate on the same way as other shareholders.

Resolution 5 – Approval of issue of 1,689 Dividend Equivalent vested Performance Rights to Managing Director & Chief Executive Officer, Stuart Tonkin - For

Resolution 6 – Re-election of Director – Michael Chaney AO – For

Mr Chaney is well respected as a chairman from his previous and current roles in this position at several major Australian companies; he brings maturity and experience to NST. Mr Chaney's background in geology and business together with chairmanship of leading companies he provides value and credibility to NST as an ASX 100 company and a large player in the worldwide gold mining industry.

Mr Chaney chairs the Nomination Committee and is a member of the People & Culture Committee and Exploration & Growth Committee.

Resolution 7 – Re-election of Director – Nick Cernotta – For

Mr Carotta is a mining engineer with considerable experience in the management and operation of large resource projects with a proven track record of improving safety, managing costs and efficiencies, including recent experience at Fortescue Metals Group and Barrick Pty Ltd.

Currently he is non-executive chairman of Panoramic Resources Ltd, Pilbara Minerals Ltd and New Century Resources Ltd.

Mr Cernotta commenced as an independent director of NST in 2019 and is Chair of the People & Culture Committee and a member of the Exploration & Growth Committee and Nomination Committee.

Resolution 8 – Re-election of Director – John Richards - For

Mr Richards is an economist with more than 35 years' experience in the resource industry, investment banking and private equity operations. He has extensive experience in the mining industry and is Chair of the Exploration & Growth Committee and a member of the Audit & Risk Committee and Nomination Committee. His experience with MD&A may prove useful if NST is to achieve its FY/26 production target.

Mr Richards was appointed as an independent director of NST in February 2021 and is the chair of the Exploration and Growth Committee and a member of the Audit & Risk and Nomination Committees.

Resolution 9 – Election of Director – Marnie Finlayson – For

Marnie Finlayson was appointed to the board on 1st October 2022; she has extensive operational experience with Rio Tinto both domestic and international. Ms Finlayson will be a member of the Environmental, Social & Safety Committee and Nomination Committee. Her leadership of the Rio Tinto battery materials area will provide experience of a rapidly growing sector

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