NST and SAR to merge becoming a top 10 global producer

Company/ASX Code	Northern Star Resources Limited (NST)
AGM date	Thursday, 25th November 2020 (original date of 2/10/2020 but changed on 14/10/2020; NoM provided on 22/10/2020)
Time and location	10.00 am (AWST) – virtual event @ https://agmlive.link/NST20
Registry	Link Market Services
Webcast	Yes
Poll or0 show of hands	Poll on all items
Monitor	David F Brooke assisted by Robert Kelliher
Pre AGM Meeting?	Yes – Lead independent Director and Company Secretary

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

Commentary on ASA Position

Resolution 1	**Financial Statements and Reports**
ASA Vote	No vote required

Summary of ASA Position

NST's FY/20 NPAT was A$258m; 90% up from the previous year (A$154.7m) largely due to increased annual production of 905,177 ozs resulting from the acquisition of a 50% interest in the Kalgoorlie Super Pit (KGCM) and a 25% average gold price increase to A$2,208/oz. However, this result fell short of the NST FY/20 budget (undisclosed). All in Sustaining Cost (AISC) increased from A$1,296/oz to A$1,496/oz (originally guided at A$1200/oz to A$1300/oz) due to the higher cost of KGCM and other Kalgoorlie operations (due to the refractory nature of this ore) and failure of the Pogo mine in Alaska to meet ambitious aspirations where, since March, COVID-19 has had a serious impact.

NST's Reserves increased (after production depletion) by 102% (to 10.85Mozs) and Resources increased by 53% (to 31.8Mozs), however less acquisitions, these were more modest but still significant.

Production guidance was revised in March 2020 allegedly due to the COVID-19 pandemic, although negative trends could be discerned prior to this date. Mining operations at Jundee (A$1,095/oz) has been the star performer (33.15% of production) with average ASIC of other sites being A$1,689/oz with Pogo ASIC of A$2,094/oz showing a slim 6.9% margin which is likely a loss after inclusion of costs unattributable to ASIC. NST claim that Pogo fresh high-grade ore supplies will restore the mine to historic performance; with Pogo FY/21 production guidance of 180koz to 220koz (FY/20 174,307oz) at AISC of A$1,400/oz to A$1,714/oz (at A$0.7 to US$). During FY/20 improved Pogo head grade has resulted in gradual AISC improvement during the year and into the current September quarter; the Pogo processing plant upgrade in mid CY21 should also help.

The annual dividend payment was delayed due to a prudent need to conserve cash during the onset of the current pandemic, however once the situation clarified the company paid out a much improved fully franked dividend of 27c/share (FY/19 13.5c/share).

The upcoming year could be transformational for Northern Star through a planned merger with Saracen Mineral Resources (SAR) to become a “global top 10” gold miner with annual production of 1.6m oz and a path towards 2m oz by 2028. A major differentiator is that all its assets are in Australia and North America[1].

Hedging has now been reduced to 13% of gold sold; allowing the company to take advantage of higher spot gold prices but also exposing the company should the gold price fall, however in a merged situation SAR’s higher hedging position will be partly offset this exposure.

With a P/E ratio of 22.58 the market still has high expectations for NST and its upcoming merger with Saracen.

Summary

	2020	2019	2018	2017	2016	2015
NPAT ($m)	258.3	154.7	194.1	215.3	**151.4**	**91.9**
Share price ($) – end of year	13.36	11.65	7.26	4.84	4.94	2.21
Dividend (cents)	27.0	13.5	9.5	12	7	5
TSR (%)	16.4%	62%	55%	-7%	125%	72%
EPS (cents)	43.7	24.4	32.1	30.9	27.6	18.4
Exec Chair: total remuneration, actual ($m)	18.06	5.151	7.443	4.524	1.394	1.194

The Executive Chair’s remuneration includes 50% of the market value of 3 million LTI performance rights (at $11.14/share) from the previous 3 years that vested in October 2019 (less loan repayment of $55,424). The other 50% of these performance shares are subject to a 2-year lock. Additional STI performance rights of 60,844 (at $$14.27/share) for FY/20 vested on 8 September 2020 and are not included for FY/20 remuneration (table 21 of annual report). Annual leave provisions of $253,685 were also excluded.

For FY/20, the CEO’s total actual paid remuneration was **196 times** the Australian Full time Adult Average Weekly Total Earnings (based on A$91,983 May 2020 data from the Australian Bureau of Statistics).

ASA focus issues

a) **Board composition/director skills**:

NST outline in their annual report the skills and experience of each director. NST has an Executive Chair on its board of six directors (the CEO – Stuart Tonkin is not on the board). Whilst not independent, the executive chair is a well-respected figure in the gold mining community, however he does have an acknowledged conflict of interest in Australian Underground Drilling Pty Ltd (AUD) who are a material supplier of drilling services to NST. The executive chair operates on an “arm’s length” basis for AUD supplied services. The annual report outlines the skills and experience of each director. NST has two (33.3%) female directors; the mining industry has a historic shortage of suitably qualified females. As of July 2020, female participation was 18.1% against an industry average of 17%.

b) **Remuneration disclosure**: LTI vesting in FY/20 resulted from the 2017 awards which had a 3-year vesting period. FY/19 annual report outlined NST’s LTI scheme which then received shareholder approval. As noted in resolution 2 the proposed merger with SAR will substantially increase the number of participants in the NST award.

A retention bonus was instituted during FY/20 due to the threat of poaching the Chief Operation Officer in what is a thriving gold market during the current pandemic.

LTI’s have long term hurdles but are paid over 3 years, 30 days VWAP on 30 June of the grant year is used to assess the amount.

Disclosure in FY/19 was good, however this year tables of actual KMP renumeration has been dropped and only “fair value” statutory disclosure provided. The company claims that derivation of actual remuneration is misleading due to over-simplification of the calculation. FY/17 LTI performance rights vesting in FY/20 to KMP are disclosed in the annual report, however in case of the executive chair, Directors interest announcement are

[1] Kirkland Lake Gold (KLA) has similar profile but has a P/E ratio of 17.4

provided during the year also set out his vesting LTI awards (his associated non-recourse loans repayments are shown in the annual report). Performance against LTI hurdles are shown in the annual report; all targets were met for the 3 year period of FY/17 to date. NST is now non-compliant to ASA policy in this area.

c) **Skin in the game**: NST takes "skin in the game" seriously with 78% of staff having shares in the company. Minimum shareholdings are set for KMP and NEDs all of whom have shares in the company with a minimum threshold set at 100% of base fees for NED's and 50% of FAR for KMP (100% for CEO and executive chair)

d) **Risk management**:

The company has prudently managed the current pandemic with extensive screening at all sites, however they have been faced with a significant challenge at Pogo in Alaska where the virus is running rampant (36 cases in FY20) and there is a need for fresh ore (rather than stockpiles) to improve head grade and hence production. In Australia there were "contingency" ore stockpiles (particularly at KGCM), however the company has been fortunate in that WA has not seen community transmission since April 2020 and most of the workforce live intrastate.

e) **Shareholder participation**: NST is barely compliant to ASA policies for capital raisings. At the last capital raising (in December 2019) A$770m (90,55,554 shares) was allocated to directors and institutions and a token A$50m (5,555,395 shares) to other shareholders in an SPP which was significantly oversubscribed and scaled back "*in order to reduce the 14% dilutionary effect of the placement for those shareholders*"[2]. This was however an improvement on the company's former (September 2018) capital raising where retail shareholders were completely excluded. The company's continued defence is that these transactions require certainty and expediency and all shareholders benefit from the resulting investments. The company also claims to have less than 16% retail shareholders, however, in ASA's view, the company has failed to treat these shareholders equitably. NST's upcoming merger partner (SAR) handled their 50% investment in the same interest at KGCM (but with a different vendor) in a more sympathetic manner.

NST keeps shareholders well informed with frequent announcements and teleconferences, however bad news, whilst stated, is not always obvious.

Item 1	**Adoption of Remuneration report**
ASA Vote	**Against**

Summary of ASA Position

Executive Chair rem. Framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	$1.40	36.8%	$1.40	34.3%
STI – Cash+	$0.00	0.0%	$0.00	0.0%
STI – Equity+	$1.40	36.8%	$1.68	41.1%
LTI	$1.00	26.4%	$1.00	24.6%
Total	$3.80	100.0%	$4.08	100.0%

* The amounts in the table above are from the FY/20 NoM
+ The Executive Chair chose to take all his STI's as equity

Base annual NED fees are $125,000 plus $50,000 in equity plus committee fees. An additional $40,000/yr is paid to the lead independent director. NST is Australia's second largest gold miner, however its board compliment and NED fees are currently less than Newcrest, who NST (with the SAR merger - resolution 5) now wish to match.

STI's are paid half in cash and half in equity at 100% of Fixed Annual Remuneration (FAR) with an additional 20% "stretch" target. KMP can elect to receive their cash component as equity.

[2] announcement of 5th February 2020

Corporate KPI's are the typical hurdles of Risk Management - 20% (safety (15%), environment (5%)), Production - 30%, financial – 20% (ASIC – 10%, NPAT - 10%) and individual achievements - 30%. It is noted that for FY/20, NST appear to have fairly assessed (and disclosed) actual company and individual STI performance against the criteria set. The ASA also notes that KMP have voluntarily identified with shareholder delays to dividends by accepting a similar delay for payment of their STI performance rights.

LTI is awarded as Performance Rights, with awards based return on invested capital (ROIC) – 25%; relative total shareholder return (RTSR); (measured against the GDX (Van Eck ETF) index - thus independent of US$ gold price) – 50%; reserve replacement and growth – 12.5% and production growth – 12.5% (however only in one quarter during the performance period). Awards are only made if employment is continuous from grant to vesting, although the board has discretion on partial awards.

The RTSR component is only paid if at least 50% of the GDX index (the premier gold miner ETF) is achieved when 50% of this component vests. Vesting is then prorated over the next 18% at which threshold 100% vests. These hurdles are not challenging for a successful company, as when 32% of GDX peers outperform the company, the LTI award is paid at 100%. In ASA's view the 100% award threshold should be more challenging.

The reserves replacement component is paid at 50% when depletion is replaced and 50% when reserves increase by 10%. For a successful company to stay in business, reserves must be successively replaced, or the mine consumes all reserves then shuts down. Reserves are replaced by both exploration and acquisition. During FY/20 acquisition has added enormously to NST's gold reserves and resources; exploration has added a more modest, but significant 19.6% and 17% respectively. Different skill sets are required for exploration and acquisition thus the ASA considers that this hurdle should be sub-divided and only assigned to the applicable group.

The number of potential Performance Rights are correctly calculated based on the scheme, but with only a three-year performance period. While the total quantum of remuneration is comparable to peers, ASA considers that STI stretch at 20% is too low and LTI thresholds appear insufficiently challenging and ASA considers hurdles should be increased in future.

During FY20 a "retention" bonus of 150,000 (at $14.64/share) performance shares (about $2.2M) was granted to the Chief Operating Officer (COO) (50% locked until October 2020 and 50% to October 2021); it could be speculated that there was an imminent danger of losing his services at a critical juncture and no succession plans were to hand.

Item 2	**Refresh Approval of FY20 Share Plan**
ASA Vote	**Against**

Summary of ASA Position

NST reviewed their remuneration policy in FY19, which we commented upon in last year's VI's; they are not compliant to ASA objectives. This resolution acknowledges that the planned merger with Saracen (SAR) that the number of participants in the FY20 scheme will expand substantially and seeks dispensation from ASX rule 7.1 in regard to the 15% cap on share issuance without shareholder approval for performance shares granted under the NST remuneration scheme. It is ASA policy that performance shares should not dilute existing shareholders and should be purchased by the company on market.

This resolution also covers other issues:

Termination benefits – the company appears to be seeking approval for discretionary employee termination issues evidently already sanctioned but possibly conflict with powers under s.200B of the Corporations Act which the company is seeking to clarify; this delegation sought appears reasonable.

Value of termination benefits exceeding 5% on market capitalization – the current market capitalization of NST is $11.36Bn and as a merged entity with Saracen over $17Bn. A limit of 5% (as in ASX listing rule 10.19) for termination benefits would appear to be more than adequate.

On market share purchases – this is that ASA's preferred way of securing performance shares, however the company fears that it may be constrained (under s.260A of the Corporation Act) from doing this unless specifically sanctioned by shareholders; the ASA supports this clarification.

Item 3	**Approval of issue of 433,829 Performance Rights to Executive Chair, Bill Beament, under FY20 Share Plan for FY21**
ASA Vote	**For**

Summary of ASA Position

The number of performance rights granted to Mr Beament appears excessive, particularly in view of his generous prior grants from the former LTI scheme; however, these are an accumulation from FY17; the ASA acknowledges that the company is in the better position in assessing the competitiveness of the award. The basis of the hurdles appears reasonable and in line with shareholder interests.

Item 4	**Re-election of Director – Peter O'Connor**
ASA Vote	**For**

Summary of ASA Position

Mr O'Connor was appointed by the board as a non-executive director in May 2012. He is a member of the ESG, Nominations and Remuneration committees. He is a valuable presence on the board regarding investment and funds management issues which have become increasingly important as the company grows and investors become increasingly concerned about ethical and cultural issues and the company's social licence to operate. He has many decades of experience at Chairman and Deputy Chairman level in the resources sector.

Item 5	**Increase in aggregate Non-Executive Director Remuneration**
ASA Vote	**For**

Summary of ASA Position

NST is foreshadowing the increase in the size of the board following the planned merger with Saracen and wishes to increase the aggregate board fees to $3m/yr due to the increase in the size of the board from 6 to 9 directors; this is similar to the current situation at Newcrest (9 directors) who operate with a fee pool of $2.7m/yr

Item 6	**Approval of issue of 68,862 Performance Rights to proposed Managing Director, Raleigh Finlayson, under FY20 Share Plan for FY21**
ASA Vote	**For**

Summary of ASA Position

This resolution provides Mr Finlayson with an LTI award contingent upon the SAR/NST merger transaction receiving shareholder approval and would be pro-rata for the period of his employment by NST

At Saracen Mr Finlayson's leadership has been a central element in the transformation of that company and will no doubt contribute significantly to the merged company. Contingent on the merger proceeding his performance rights at SAR will pro-rata vest and a similar grant needs to be introduced to appropriately reward him in the merged entity. Whilst the ASA would prefer that all the allocated performance rights were over a 4-year period with a 2-year lock, we understand that this is uncommon in the gold mining industry.

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