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The Silver Lake branches out to Canada

Company/ASX Code	Silver Lake Resources (SLR)
AGM details	Friday, 25 November 2022
Time/venue	2.00 pm, QV1 Conference Centre (Theatrette), Level 2 QV1 Building, 250 St Georges Terrace, PERTH, WA
Registry	Computershare
Type of Meeting	Physical (no webcast)
Poll or show of hands	Poll on all items
Monitor	David Brooke
Pre AGM Meeting?	Yes with Chairman & Secretary

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

Proposed Voting Summary

No	Resolution Description	Vote
1	Non-Binding Resolution to Adopt Remuneration Report	Against
2	Re-Election Of Kelvin Flynn as a Director	For
3	Ratification of prior issue of shares to Harte Gold	For
4	Ratification of prior issue of shares to Appian	For
5	Issue of Performance Rights to Luke Tonkin	Against
6	Reinstatement of Proportional Takeover Provisions	For

Summary of ASA Position

Financial Report - No vote required

We note KPMG has been the audit firm for Silver Lake Resources since 2005, and while the partner is rotated as required by law, ASA believes good corporate governance mandates that audit firms should be changed periodically. There should be a competitive tender for the external audit every 10 years and the date of the most recent tender should be disclosed in the annual report.

SLR reported in FY22 an NPAT of A$77.7m (including a A$28.8m "revaluation" for a "bargain" Harte Gold acquisition), record production (251.735ozs) and a group All in Sustaining Cost (ASIC) of A$1.756/ozs from three sites. SLR has a significant cash "war chest" of A$289m (30 Sept 22) less a 7,952ozs liability to closed out Harte Gold's hedge book (February 2023), no debt and past Australian tax losses of A$304m. With the acquisition of Harte Gold SLR also have additional Canadian tax losses of A$130.3m as an offset to future taxable profits from their Harte Gold operation and in Canada more broadly. A current 10% share buyback program is currently in place.

Mount Monger's ASIC has risen recently to A$2,421/ozs possibly indicating this mine may be approaching its end of life; staff retention at this mine has been a major issue. At this location the Tank South deposit may help but is likely be insufficient to restore historic production. The Maxwells mine continues to be impacted by specialised equipment and skilled labour availability due to its narrow vein lodes. To preserve the value of the Maxwells Mineral Resource and Ore Reserve, production from Maxwells was suspended at mid-year with production at Mount Belches intending to focus on Cock Eyed Bob (CEB) in FY23/24 once operations resume.

The Mount Monger ore stockpile at 30 June 2022 was 3.1 mt at 1.23 g/t for 123,000 ounces (30 June 2021: 2.7 mt at 1.35 g/t for 115,500 ounces) presenting a significant cash generative ore source to supplement production in FY23 and beyond. At EoY FY22, ore stockpiles were valued at $104.5 million (at cost); this will contribute an increasing portion of Mount Monger mill feed in FY23, with a corresponding non-cash unwind of book value.

The acquisition of the Deflector mine from Doray in 2019 (including the later acquisition of nearby Rothsay from Egan Street) has recently been the mainstay to SLR operations. Moving the CIL plant from Andy Well (now sold) to Deflector has been a success with this mine now producing both gold dore and gold/copper concentrate.

During FY22 the company has failed to replace its reserves at both Mount Monger (736kozs to 592kozs) and Deflector/Rothsay (623kozs to 490kozs); reserve grade has reduced at both sites thus putting stress on production.

Until recently SLR operations were entirely in Western Australia; a major recent departure is SLR's first overseas operation in a very different climate. The new Harte mine (in the "sugar zone" in northern Ontario) was in liquidation with a troubled history of poor ventilation, freezing tailings dam, equipment breakdowns, COVID-19 travel restrictions, low mining production and poor head grade reconciliation. The Harte mine does however play to SLR's strength as a high grade, narrow vein underground gold mining operation; however, success remains a challenge.

Harte Gold is now equipped with specialised narrow vein mining equipment plus a number of other improvements including better crushing; however, this site only produced 10,709 ozs in Q1/FY23 at an unprofitable A$2,665/ozs and a northern Ontario winter is on its way. The new mining equipment will recover more ore but at lower grade. SLR intends to almost double mine production (1400tpd) and processing capacity (1500tpd) with permits now received; key to achieving this is developing new mining areas in the sugar zone.

SLR's exploration budget (A$27m) appears low for a three-site operation producing ~250kozs/yr; in comparison to peers.

Summary

	2022	2021	2020	2019	2018	2017
NPAT ($m)	77.7	98	256.9	6.5	16.2	2.0
Share price ($) – end of year	1.34	1.75	2.13	1.255	0.59	0.47
Dividend (cents)	0	0	0	0	0	0
TSR (%)	-27.5	-22.1	69.7	109.2	27.7	-8.7
EPS (cents)	5.8	22.4	31.3	2.9	3.2	0.4
CEO: total remuneration ($m) +	3.71	4,12	3.87	$2.16	$2.36	$0.917

For FY22 the CEO's total actual remuneration was 38.9 times the annualised Australian Average Weekly Total Earnings (Abased on May 2022 data from the Australian Bureau of Statistics)

ASA focus issues

Fair treatment of shareholders

a) The last SLR capital raising was in 2014 which was compliant with ASA policies in offering an SPP alongside the placement. SLR has provided information on shareholder participation in votes. All M&A has been through a scheme of arrangement where SLR was the acquirer in a share based transaction. SLR does not award dividends so a reinvestment plan is irrelevant.

b) **I**n terms of shareholder communications and presentations, SLR meets its statutory commitments; we understand the company's focuses on institutional shareholders; however, in the past they have offered to treat the ASA on the same manner.

Directors and Boards

SRL has one executive director on a board of four Directors; three are independent. SLR now have one female director which is an innovation for SLR who only this year embraced a level of gender diversity on their board. The company's formalised board skills matrix is missing from their Annual Report

ESG

SLR does not produce a sustainability report and does not consider ESG to be a significant part of its corporate mission. It's only recognition of ESG is as one criterion (along with safety) as 9% of STI's. If SLR is to grow they are likely to have to provide more attention to this aspect so as to attract institutional investors.

Remuneration

a) **Incentives**

  i. STI's are generous (⅓ total) and all paid in cash – we would prefer to see a 2 year payment period with some in equity and a more general move from STI remuneration to LTI's.
  ii. LTI's are only over a 3-year period and have hurdles as outlined our comment for resolution 1. All grants are based a 20-day VWAP on the 30 June of the relevant year.

The annual report shows KMP remuneration at fair value; the ASA has calculated the CEO's remuneration from director's interest's notices.

b) **Skin in the game**: SLR NED's have no "skin in the game". On 7 September 2022 the CEO sold 290,000 shares once his performance rights vest and currently holds 1,504,186 shares and 929,440 performance options.

The disposal of performance shares on vesting appears to be a pattern for KMP (the CEO sold 580,000 shares on 24 August 2021) after his performance shares vested (possibly to partly pay tax) – this pattern appears to be repeated amongst other KMP who sold and average of 85% of their performance rights soon after vesting.

From ASA discussions with Mr Quinlivan we understand that his view is that NED shareholdings can represent a "conflict of interests" particularly for a non-executive Chairman.

c) **Shareholder participation**: The last SLR capital raising was in 2014 which was compliant with ASA policies in offering an SPP alongside a placement. Current M&A at Harte Gold was an arrangement whereby SLR was the acquirer in a share and cash-based transaction (the cash came for SLR's balance).

SLR has not awarded a dividend, so a reinvestment plan is irrelevant.

In terms of shareholder communications and presentations, SLR meets its statutory commitments; the company claims to focus on institutional shareholders; however, they don't provide quarterly report briefings or many company presentations.

Resolution 1 - Non-binding resolution to adopt remuneration report – Against

Base salary is ⅓ of the total package and appears in line with peers for a company the size of SLR.

Target Short Term Incentives (STI - ⅓ total), are generous and all paid in cash and are a mixture of six criteria; one environmental & safety (9%) and the rest are business related (production (45%), costs (18%), operating strategy (9%), business development (9%) and TSR (relative to a peer group) (10%). The STI payments attained for KMPs were between 66%, and 54% which suggests targets were only partly achieved. The ASA notes that before any STI's are paid the company must be cash flow positive, including sustaining capex.

Target Long term incentive (LTI - ⅓ total) is all in the form of performance rights (or options) and issued on the 20-day VWAP at the time of grant (currently $1.73 as at 30 June 2021). LTI's lapse (at the board's discretion) 30 days after leaving the company's employment.

The proportion of LTI's depends only on the company's relative total shareholder return (TSR) using a pre-defined peer group as a comparator; a minimum threshold for any award is the average of the peer group. Performance rights are tested at a single point in time, vest after 3 years with no holding lock.

ASA consider that

a) Relative TSR should not be the only criteria; measures like TSR to the wider market, EPS and reserves growth are common components.

b) LTI's should have a four-year appraisal period and a subsequent holding lock;

c) LTI's achieve a maximum at 75% performance not 100%;

d) The SLR "peer" group is published in the NoM shows SLR as a market capital of A$1.1Bn against a "peer" group average of A$3.4Bn (i.e 3 times larger); this is not a representative comparator group

e) Past published peer group for SLR have also not been representative in terms of market capitalisation. We suggest a better comparator is an index such as MVIS Global Junior Gold Miners Index, which Van Eck GDXJ ETF aims to match, as more typical, particularly as Van Eck is a major shareholder of SLR;

f) The annual report should contain a table of "take home pay" to complement the statutory disclosure;

g) On a takeover vesting of incentives should be on a pro rata basis;

h) KMP and NEDs should have minimum company holdings as a percentage of FAR;

Performance rights should be purchased on market rather than issued under ASX rule 7.1.

Resolution 2 - Re-election of Kelvin Flynn as a director – For

Mr Flynn has a background in corporate banking & investment. As such Mr Flynn is valuable to the board at a time when the company has made a high risk move to acquire and operate assets in Canada. Mr Flynn should assist in ensuring prudence and discipline in conducting these M&A activities. Mr Flynn is Audit Committee chairman and a member of the Nomination & Remuneration Committee.

Resolution 3 – Ratification of prior issue of shares to Harte Gold – For

This was part of the acquisition of Harte Gold which whilst high risk we see as good value to shareholders should the company be successful.

Resolution 4 - Ratification of prior issue of shares to Appian – For

This was also part of the acquisition of Harte Gold, settling its debt facility obligations.

Resolution 5 - Issue of performance rights to Luke Tonkin - Against

Approval is being sought to grant Mr Tonkin 840,555 performance rights at $1.4638/share or 133% of FAR; for FY23 and a similar number (adjusted for FAR and a 20-day VWAP share price on 30 June 2023) for FY24; this represents a departure from SLR's policy of 100% LTI's for other KMP.

Vesting of each of these grants is over a 3-year period subject to a relative TSR hurdle starting from zero at 50% to 100% at a 75% percentile

Already granted to Mr Tonkin are 505,819 FY22 performance rights approved at the 2021 AGM and issued on 23 December 2021.

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 and poor performance at Mount Monger; 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. In short, we consider these awards cannot be justified without a link to a more demanding total shareholder return comparator group including an absolute TSR component over the performance period.

FY22 remuneration grant of a 33% rise to Mr Tonkin against a FY22 - 25% fall to shareholders, the reward envisaged appears to be over generous without a more severe gateway to a positive shareholder return.

The ASA notes that the CEO (along with other KMP) tends to dispose of his performance shares once vested (part of this may be for tax reasons)

Resolution 6 - Reinstatement of proportional takeover provisions – For

Renewal of constitutional provisions which prevent a predator from only bidding for a proportion of a shareholders' interest is supported. We prefer full takeovers so that shareholders are not left with a controlling shareholder without a full premium for control.