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NST – first year as Australia's second Gold Miner

Company/ASX Code	Northern Star Resources Limited (NST)
EGM date	Thursday, 18 November 2021 (notice given on 4/10/2021)
Time and location	1:00 pm AWST - Perth Convention & Exhibition Centre
Registry	Link Market Services
Webcast	Hybrid event – ASA to attend physically
Poll or show of hands	Poll on all items
Monitor	David F Brooke assisted by Robert Kelliher
Pre AGM Meeting?	Yes

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

Item 1	Financial Report, Directors' Report and Auditor's Report
ASA Vote	**No vote required**

Summary of ASA Position

Bill Beament the CEO and then Executive Chairman over the past 14 years left the company in July 2021, however the major event of FY/21 was the "*merger of equals*" of NST with Saracen Mineral Resources (SAR) on 12 February 2021. The merger resulted in a 37.63% increase in NST shares and offered a combined (FY/20) base of 1,595,729 ozs of gold production at an All in Sustaining Cost (ASIC) of A$1,483/ozs. Guidance for FY/22 is from 1.55 to 1.65Mozs at a group ASIC of A$1,475/oz – A$1,575/oz; the AISC increased primarily due to growing costs at Thunderbox and the integration of higher cost NST operations at Pogo (A$1,851/oz) and Kalgoorlie (A$1,942/oz); NST has subsequently disposed of its assets at Kundana (FY/21 production 120,943oz) which were part of its Kalgoorlie operation. This September quarter the groups all in costs (AISC + growth capex & exploration) were running at A$1,933/oz with Pogo currently unprofitable with a loss of A$301/oz on a group basis due to its operations being under pressure from COVID-19 and a plant upgrade resulting in 24 days downtime (14 days unplanned) in the September quarter. NST now accepts that Pogo is about a year behind earlier aspirations.

Over the last 4 years NST's group AISC has experienced an average increase in ASIC of about 11% per annum due to mining more expensive ore (at Pogo and KCMG) but also the industry's increasing labour costs; lower cost ex-SAR operations initially stabilized AISC; although all operations (apart from Jundee) have shown recent concerning cost increases implied by lost days and worsening head grades. TSR has been negative due to the declining share price since the merger.

A review of KCGM operations is currently underway for delivery in June 2022, however upgrade of this mining fleet is currently in progress. KCGM is perceived to be the primary source of increased production (along with Thunderbox) to a group total of around 2mozs/yr in tier 1 jurisdictions by FY/26.

On 30 June 2020 the combined market capital of NST and SAR was A$15.89m compared to the merged company of A$11.38m as of 30 June 2021 (i.e., 28.3% down); with the benchmark being the GDX ETF index which was 4.8% down over the same period. This reduction was due to poor sentiment in the gold mining market and the merged entity being too large for the GDXJ junior mining ETF from which both companies were removed in March 2021 precipitating the sale of about US$500m in shares of both companies at the rebalance date in March.

Production growth (and resource/reserves) of both SAR and NST was primarily driven by acquisition of the Kalgoorlie Superpit (KCGM), which is now consolidated by the merger. Assets have been re-valued resulting in a net upgrade of A$4.163Bn.

NST earned a statutory NPAT of A$1,302m (underlying NPAT A$372m) and a fully franked dividend of 19c/share which is compliant to NST's new policy of 20% - 30% of cash earnings.

As of 30 September 2021, NST had cash and bullion of A$771m and A$262m debt. Hedging has been reduced to ~15% of production thus increasing exposure to gold price increases (or decreases).

EPS has been temporarily distorted by merger revaluations (and stockpile write down).

Summary

	2021	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	1032.5	258.3	154.7	194.1	215.3	**151.4**
Share price ($) – end of year	9.78	13.36	11.65	7.26	4.84	4.94
Dividend (cents)	19	17	13.5	9.5	12	7
TSR (%)	-25%	16.4%	62%	55%	-7%	125%
EPS (cents)	114.3	37.3	25	31.5	30.9	27.6
Chairman: total remuneration, actual ($m)	4.17*+	18.06	5.151	7.443	4.524+	1.394+

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

* NST permitted the old Executive Chairman to carry forward unvested 388,367 FY/20 and 103,293 FY/21 LTI Performance Rights; these will vest on 30 June 2022 and 30 June 2023 respectively. The salary shown includes a 4-month termination payment for outstanding notice.

For 2021, the Executive Chairman's total remuneration was 46 times the Australian Full time Adult Average (note that the Executive Chairman has now resigned) Weekly Total Earnings (A$1,737.10) based on May 2021 data from the Australian Bureau of Statistics).

ASA focus issues

a) **Directors and Board skills**

Since the merger NST has undergone a major re-structure of the board and KMP; the old Executive Chairman (Bill Beament) has been replaced by a non-executive chairman (Michael Chaney). Also three directors (Peter O'Connor, Shirley In't Veld and Anthony Kiernan – former chairman of SAR) are retiring along with the SAR managing director (Raleigh Finlayson) who will return as a NED on 4th April 2022; his old post has been consolidated by Stuart Tonkin (the former NST CEO).

The new board has eight directors (including CEO) and will be later joined by Raleigh Finlayson: the skills of the board are outlined on a skills matrix included in the annual report which is comprehensive, with additional skills added by the merger. Seven of the directors qualify as independent.

The new NST board has three (37.5%) female directors on the board; the mining industry has a historic shortage of suitably qualified women. All directors have served on the board for less than 9 years.

b) **Remuneration and Performance**:

At the last AGM the new NST remuneration scheme received a strike (25.12% against) due to shareholders viewing KMP (including the former Executive Chairman) rewards as excessive (particularly a restricted shares award to the CoO). The former executive chairman also received a 36.52% vote against his remuneration package which was consistent pattern from FY/19 when he also received a 40.79% vote against. We commented upon the new scheme in the FY/20 VI's which sets out both short term (STI) and long-term goals (LTI); our criticism was mainly the magnitude rather than structure; consequently the ASA voted "against". It is now noted that despite a negative shareholder return of 25%, KMP who were employed through FY/21 received an average renumeration increase of 57% partly due to the increased size of the company. Further comments are under item 2.

In the current year the company's Pogo operation (in Alaska) has experienced significant impact from COVID-19 whilst Australian operations have experienced manpower shortages, resulting in wage inflation.

c) **Risk management**

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. This year NST has also laid out targets for control of emissions and water usage.

d) **Shareholder communication and fairness in capital raisings**

NST's capital raisings have been strongly biased towards institutional investors. In 2018 (for Pogo) NST did not have an offer to retail investors and in January 2020 (for 50% of KCGM) only allocated A$50m (6%) out of A$825m ($5m reserved to directors) to a vastly oversubscribed SPP; NST commented that both transactions required expediency and certainty. NST observe that they had less than 13% retail investors on their register and remark that all (including retail) shareholders benefited from the results; however since the merger the NST share price has fallen substantially. At our pre-AGM meeting the Chairman acknowledged our views on fairness in capital raisings and said that in future he would seek to make them more equitable.

NST keeps shareholders well informed, including regular quarterly results investor briefings.

Item 2	Resolution 1 – Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

The report sets out the remuneration framework and the consequent remuneration elements for key executives and non-executive directors. FY21 remuneration for KMP is shown in the statutory remuneration table on page 114 of the annual report. KMP remuneration increased by an average of 57% despite shareholder returns being negative 25% over the financial year (and share price 38.6% lower than prior to the merger announcement on 25th November). We note that for FY22 KMP remuneration was reviewed, and fixed remuneration increased by 37.4% on average, albeit with fewer KMP posts.

The current NST remuneration scheme was approved by shareholders at the FY/20 AGM (albeit with a strike); ASA comments were provided last year: none of those LTI's vested during FY/21. The SAR (pre-merger) remuneration scheme was pro-rated over the year for SAR KMP retained by the merged entity.

The scoring of STI's outcomes for FY/21 (for both NST and SAR staff) appears to have been fairly implemented with significant STI performance rights lapsing due to performance downgrades and skill losses during FY/21. Contrary to ASA guidelines, NST does not disclose actual take-home remuneration, so the relative amount of remuneration derived by executives from year to year is unknown and undisclosed.

NST did not receive any JobKeeper funding during FY/21

All KMP (and directors) are now consolidated to the NST scheme, however the following amendments are proposed for FY/22:

1. STI's to all be based upon company measures; the individual component to be removed (previously 30%);
2. Return on Invested Capital (RoIC) to be replaced by two relative Total Shareholder Return (RTSR) measures. One of these is against "top 10" international and local peers and the other against the S&P TSX Global Gold Index which replaces the GDX ETF. This Index is predominately (66%) Canadian gold miners and replaces the much larger and international Van Eck GDX ETF as a benchmark;
3. LTI's to be extended from 3 to 4 years with effect from FY/22 with the grant being annual rather than over 3-years;
4. to fill the gap in FY/24 due to moving from 3 to 4 years, a special 3-year award in FY/22 only with a 75% grant and a 3-year performance period;
5. LTI's require the holder to be employed by NST throughout the performance period;
6. the inclusion of ESG issues (including indigenous, CO_2 emissions, water usage and safety) into LTI's;
7. Safety measures included in LTI ESG issues (as above) as well as STI's (where it was before);

8. Reserve and Resource metrics and hurdles has been removed from LTI's in a year when NST has written down 2.3mozs of KCGM low grade stockpiles.

The ASA supports the move to 4-year LTI's which is complaint to ASA policies; the magnitude of the awards 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. Market value used to calculate performance share grants, not fair value;
2. STI's to vest equally over a two-year period;
3. 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;
4. "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;
5. 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;
6. We would prefer that the company commit to purchase performance shares on market rather than issuing new shares, however we note that management can use their discretion on this aspect.

Item 3	Resolution 2 – Conditional spill resolution (contingent resolution)
ASA Vote	Against

Summary of ASA Position

In view of the "strike" of last year this motion is required. Due to the substantial board changes during the last year, we consider that the new board should have the opportunity to perform and rectify some of the issues apparent from former years. We also note that the substantial drop in share price over the last year was recognized in forfeitures in accordance with the scheme, although the ultimate outcome of substantial increases for KMP failed to recognize the substantial decline in share price since the merger.

Item 4	Resolution 3 – Approval of issue of 329,776 LTI-1 Performance Rights (for measurement on 30 June 2025) to Managing Director & Chief Executive Officer, Stuart Tonkin
ASA Vote	Against

Summary of ASA Position

NST propose to allocate to Mr Tonkin an LTI-1 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 FY21 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; 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.

Item 5	Resolution 4 – Approval of issue of 247,332 LTI-2 Performance Rights (for measurement on 30 June 2024) to Managing Director & Chief Executive Officer, Stuart Tonkin
ASA Vote	Against

Summary of ASA Position

Our view regarding this LTI-2 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.

Item 6	Resolution 5 – Approval of issue of 164,888 STI Performance Rights (for measurement on 30 June 2022) to Managing Director & Chief Executive Officer, Stuart Tonkin
ASA Vote	Against

Summary of ASA Position

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.

Item 7	Resolution 6 – Re-election of Director – John Fitzgerald
ASA Vote	For

Summary of ASA Position

Mr Fitzgerald was NST's lead independent director prior to the arrival of Tony Kiernan from SAR. Mr Fitzgerald has a historical association with the company over many years. Mr Fitzgerald's strength is his analytical and prudent approach to the management, risk and finances of NST; he has played a significant role in the success of NST, which we hope will continue for another term. We note that with 9 years on the NST board, that after the current term he will have reach our preferred limit of 12 years when we consider Mr Fitzgerald as not independent.

Mr Fitzgerald is chairman of the Audit & Risk and the Nomination Committees and serves on the remuneration and ESG & Safety committees. His role is significant, as a well-grounded and prudent voice on the board.

Item 8	Resolution 7 – Election of Director – Sally Langer
ASA Vote	For

Summary of ASA Position

Ms Langer was a member of the SAR board who was appointed to NST's board on the merger of 12 February 2021. Ms Langer is also a Director of Sandfire Resource and MMA Offshore.

Her qualifications and track record should provide expertise and greater gender diversity to the Board thus (along with Ms Warburton & Ms Hackett) more than meeting ASX gender diversity targets in an industry where well qualified female directors are scarce. She brings wide experience at a management level of for major projects in the resources industry; this is an area of increasing importance to NST. Ms Langer is a member of four board committees (ESS, audit & risk, nomination, and remuneration).

Item 9	Resolution 8 – Election of Director – John Richards
ASA Vote	For

Summary of ASA Position

Mr Richards was a director of SAR who was appointed to the NST Board with the merger and is now chair of a new exploration & growth committee and a member of two other committees (audit & risk and nominations). Mr Richards is also a Director of Sandfire Resources and Sheffield Resources.

Mr Richard background is as an economist in the resources industry where he has many years of experience across several mining companies, investment banking and private equity operations. Mr Richards role will be allocation of capital to all types of growth initiatives; his key aim will be to ensure competing capital expenditure priorities across the Company are disciplined and in the best interests of shareholders.

Item 10	Resolution 9 – Election of Director – Michael Chaney AO
ASA Vote	For

Summary of ASA Position

Mr Chaney is well respected as a chairman from his previous and current roles in this position at several major Australian companies; he should bring maturity and experience to this role at NST. The change of Chairmanship from an executive to a non-executive position is to be welcomed particularly the independence that brings. Mr Chaney's background in geology and business together with chairmanship of leading companies he should be of value to NST now it has attained the status of an ASX 50 company and the sixth largest player in the worldwide gold mining industry.

Item 11	Resolution 10 – Election of Director – Sharon Warburton
ASA Vote	For

Summary of ASA Position

Ms Warburton was asked to join the NST board in September 2021, she is a fellow board member with Mr Chaney at Westfarmers. Ms Warburton is an accountant by training and has held senior executive positions in several leading Australian companies, is a member of the take-overs panel and several not-for-profit organisations. Her experience in the mining industry and business is very relevant to NST. Ms Warburton still to be allocated duties on board committees. Along with the other female members of the NST board she brings gender diversity to the board of the male dominated mining industry. Ms Warburton's many roles give her a heavy workload which she will need to carefully manage.