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A step change for Evolution with lots of work ahead

Company/ASX Code	Evolution Mining/EVN
AGM date	Thursday 24 November 2022
Time and location	11am AEDT Wentworth Sofitel Hotel Phillip Street Sydney
Registry	Link market services
Type of meeting	Physical
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills and Miles Wu
Pre AGM Meeting?	Yes with Exec Chair Jake Klein, Investor Relations Martin Cummings

Monitor Shareholding: An individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

This was the ASA's first meeting with Evolution and we wanted to get a general understanding of the business strategy and the chairman's approach.

An initial concern for the ASA is the independence of the board with an Executive Chairman, we wanted to understand how this will be managed and work for the company in the long term, what preparation is in place for succession, to protect the independence of the board and how are conflicts and remuneration resolved?

The executive chair role is not one that the ASA generally supports in an ASX100 listed company. In Evolution's case the executive chair is also the founder of the company and like many mining companies the success is largely due to him, a loyal team and a consistent strategy. He has delivered on his strategy. As Jake Klein has said he set out to develop a small gold mining company that could take advantage of long life, low cost and higher margin, quality assets in safe jurisdictions.

The appointment of a new lead independent director this year along with the promotion of the CFO to the role of CEO/ MD appears to be a move towards a more sustainable long-term governance framework. The company has good governance procedures and frameworks in place and is focused on a sustainable and safe culture.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of Remuneration Report	For
2	Re-election of Ms Andrea Hall as a Director	For
3	Re-election of Ms Victoria Binns as a Director	For
4	Re-election of Mr Jason Attew as a Director	For
5	Issue of Performance rights to Mr Jacob Klein	For
6	Issue of Performance rights to Mr Lawrence Conway	For
7	Approval to issue securities under the Non-executive Director Equity Plan	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

It was a disappointing year for Evolution (EVN) with results not living up to expectations mainly due to weather events, COVID absenteeism and travel restrictions, and supply chain issues.

EVN continues to improve the quality of its assets and now has five wholly owned mines: Cowal in NSW, Ernest Henry and Mr Rawdon in Queensland, Mungarri in W.A and Red Lake in Ontario Canada. The company is focused on exploration, mine development and operation, and the sale of gold and copper concentrate. They are a sector leading low cost producer with an all in sustainable cost (AISC) of ~ A$1,245/oz.

The Cowal mine in NSW is the highest gold producing mine with a AISC of $1,245oz. It produced 227,105oz in FY22. It was affected by wet weather and COVID absenteeism which impacted the AISC and gold production and sales. Plans for an $380m underground mine which will extend the mine life and improve gold reserves, is on budget and schedule.

The full ownership of Ernest Henry has provided immediate cash flow generation, lowered the AISC and provided growth potential. As a copper gold mine it is a significant contributor to the AISC producing a negative AISC ($1680oz). Mine life has been extended to 2031 and has seen a 28% increase in copper mineral resource, and 24% increase in gold mineral resource.

The 2020 Red Lake mine acquisition provides a high quality gold asset with a goal of producing 300,000 oz/per annum. FY 22 production of 115,276 oz was below expectation due to COVID absenteeism and procurement delays. Its mine transformation is running 12 months behind schedule.

Looking at the consolidation of Mungari, the purchase of the Kundana Mine Carbine project makes it the largest tenement holder in Kalgoorlie with the aim of providing synergies, operational flexibility and longevity. There are cost pressures ahead. EVN is exploring the feasibility of a plant extension in the future.

EVN is heading into a big capital spend in FY23 and 24 with the Cowal underground mine, Red Lake transformation plans and mine extensions for Ernest Henry. Labour costs are increasing and inflationary cost pressures on diesel etc will put pressure on AISC. If they can pull it off there are good upside returns. The aim of all these acquisitions is for superior returns over the long term.

Governance and culture

There are 8 directors, 6 independent non-executive directors, including 2 women, and two executive directors Jake Klein the executive chair and Laurie Conway the current CFO. There is a new lead independent director Mr Attew, who has been in place since December 2021, replacing director Mr Thomas McKeith.

Mr Klein as an executive chair requires the appointment of a lead director to manage the conflicts between the executive chair and his role on both the board and management, in particular the remuneration and performance reviews.

Mr Askew has been on the board since its inception for more than 10 years he is considered by the board to be independent. This could be challenged at his re-election.

Financial performance

A strong result with $2,055million in revenue, although below expectations. Statutory net profit after tax of (NPAT) of $323 million was down 6% from the FY21. Operating mine cash flow was $893m. Net cash of $284m.

Total gold produced was 640,275oz at the AISC A$1,259/oz. EVN continues as one of the lowest cost producers globally. EBIT margin was 44%.

Guidance for FY23 is for an increase in production to 720,000oz at AISC of $1240/oz (AUD) and 800,000oz in FY24.

In FY22 the share price has nearly halved along with this year’s dividend of 6 cents. How much of this is down to the gold price is unclear. EPS was down 12% to 167.7cps. There is a dividend target of 50% of group cash flow. $146.6m was spent on dividends.

A $400m institutional placement for 104 million shares at $3.85, was raised in July 21. It was used to purchase the Kundana Mine Carbine project which included $104m for 51% interest in EKJV and $145.7m for 75% in the W. Kundana JV. This was followed by a $68m share purchase plan at $3.85 in August 21 to fund general purpose needs.

Two US Private placements of $550m and $200m have moved the debt out at low fixed interest rates. Gearing is at 27% with 57% debt fixed at 3%. There is $930m in liquidity to support growth strategies. EVN has managed to maintain its investment grade rating. Looking at the overall debt position, there are no pressing concerns regarding EVN’s ability to repay its debt and interest coverage given its strong cash flow position.

Key events

The 2022 year saw significant acquisitions. Full ownership of the Ernest Henry mine was purchased from Glencore for $1bn. It was partly offset by a US private placement for $200m.

Mt Carlton was sold for $90m with $27m in profit recognised.

The 50:50 joint venture with Ironstone Capital in the 1-2GW Pumped Hydro project at Mt Rawdon is progressing with a feasibility study due in June 23 and potential Queensland government funding. This could provide an opportunity to offset emissions or realise a sale and presents a model mine closure and value for shareholders. Production at the mine was impacted this year due to instability in the north wall due to wet weather.

Weather issues have continued with flooding impacting Cowal and Mt Rawdon.

Key Board or senior management changes

The main change to the board and management this year will be the transition of the CFO Mr Lawrie Conway to the role of CEO and managing director effective from the 1 January 2023. Mr Conway has been with the company since its inception firstly as a NED, then as CFO from 2014. Mr Klein, will continue in this role as executive chair, with a predominantly external focus to advance the strategic ambitions, while Mr Conway will have a predominantly internal operational performance and delivery focus. As the founder of Evolution he still wants to be involved in the company. He has a two year contract in place with an optional further two years. There is an acknowledgement that the company has grown significantly in the last year and will require a step change in management.

The ASA prefers an independent chair however in this case we can see the impact that Mr Klein and his team has had on the development of the company to date, appreciate the new CEO role that has been created and the changes to a new lead independent director, and support his continuing role. We note that there is much to do in the next couple of years and the scale of the company may need an independent chair's perspective at some point in the future.

The board has very experienced mining industry directors, with a good cross-section of skills across all the usual areas including ESG. There is only 25% representation of women on the board with an aim to improve this within the next couple of years to 30%.

A search for a new CFO is underway.

ASA focus issues (not discussed under remuneration report or re-election of directors

ESG sustainability

EVN has been reporting on sustainability for 5 years and it is well advanced in most areas. Mainly focussing on safety and environment, indigenous engagement, employment and partnerships, and they invest in the broader communities in which they operate.

The Sustainability Report has Paris aligned climate goals, a 30% target for scope 1 & 2 by 2030, and net zero by 2050 for scope 1&2. It has well described pathways to get to net zero. 2022 has seen an efficiency improvement of 7% to energy use. The sale of Mt Carlton has improved GHG scope 1 & 2 emissions marginally but the emissions per tonne of gold produced has been increasing. EVN is planning to offset its emissions through the purchase of AGL large scale generation certificates.

In October, EVN signed an 8 year power purchase agreement with AGL for its Cowal mine, with a growing portion to renewable energy over time, to align with its commitment to 30% renewable energy by 2030. Its Red Lake Mine already has 75% renewable energy. EVN has low scope 3 emissions.

EVN has improved its recycling of water with a 42% reduction in water use from FY20 baseline and is focused on continuing these efforts. A climate scenario analysis for the Cowal mine covering water, energy and emissions, and high level site decarbonisation road maps for all mines are under way.

EVN is also involved in the Electric Mine Consortium, an intercompany collaboration on electrification of the mining industry but it is early days and there are difficulties getting large tonnage trucks to go electric.

Much of the sustainability report is focused on social impact with safety at the forefront. There are impressive engagements and partnerships with indigenous communities and a focus on local community employment and support. The support of the local newspaper in West Wyong is an example of this.

Good training and leadership programs are in place, good working conditions, employee engagement at 79, employee retention at 82%.

In an effort to address gender balance it has a 50% female intake of summer interns but the graduate intake has dropped to 30%. Only 10% of managers are women. EVN is trying to improve these numbers. Gender is an issue within the mining industry with the chairman admitting that the culture needs to change for it to be safe and appealing for women.

EVN has good external recognition of its ESG credentials with a number of ratings agencies including the MSCI AA score for leading in sustainability.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m) statutory	323.3	345.3	301.6	218.2	263.4
UPAT ($m)	274.7	354.3	405.4	218.2	250.8
EBITDA ($m)	898.8	914.2	1,029.4	730.3	795.1
Share price ($) 30 June	2.38	4.50	5.67	4.36	3.51
Dividend (cents)	6.0	12.0	16.0	9.5	7.5
Simple TSR (%)	(46%)	(18.5%)	33.7%	26.9%	48.7%
EPS (cents)	17.74	20.21	17.71	12.86	15.57
CEO total remuneration, statutory ($m)	3.094	2.896	3.723	5.529	4.644

*The remuneration table p175 AR provides an amortised value for the performance rights expensed during the year and this is reflected in remuneration reported above. The Monte Carlo simulation is used to value this. Note awards are allocated using face value (volume weighted average price.)

CEO's total statutory remuneration is 32x annualised Australian Full time Adult Average Weekly Total Earnings (based on data from the Australian Bureau of Statistics http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0).

Election or re-election of directors

The current directors up for election are considered independent and include the lead independent director (LID), Mr Attew. They improve the independence of the board and the gender diversity and have the skills required. The board is aiming for 30% women on the board by 2024. Gender diversity could be improved but the company may find it difficult to achieve with many female mining directors over boarded, and to an extent this applies here.

We would like the directors to speak to the meeting about their workloads and independence.

Item 2. Re-election of Ms Andrea Hall

Andrea was appointed to the board in 2017. She is Chair of the Audit Committee and member of Risk and Sustainability Committee. She is a chartered accountant with 30 years' experience in financial services including as a Perth based partner of KPMG Risk Consulting Services for mining, mining services, and transport. Currently she is a NED and Chair of Audit and Risk Committee of Pioneer Credit Ltd, NED of Perenti Group, Insurance Commission W.A. and AFL Fremantle Football Club.

Andrea has 51,855 shares.

The ASA will be supporting Ms Hall's re-election.

Item 3. Re-election of Ms Victoria Binns

Victoria was appointed to the board in April 2020. She is a member of the Audit Committee.

Currently she is a NED Sims Ltd, Cooper Energy and NFP Carbon Market Institute, Advisory committee J P Morgan ANZ, Chair of Women in Mining and Resources Singapore. She has 35 years' experience in global resources and financial services including BHP, Merrill Lynch and Macquarie Equites along with broad mining metal and international markets experience.

Victoria has 36,784 shares.

The ASA will be supporting Ms Binns's re-election.

Item 4. Re-election of Mr Jason Attew

Mr Attew was appointed to the board in December 2019. He has served as the Lead Independent Director since December 2021. He is a member of the audit committee and nominations and remuneration committee. He was CFO of Goldcorp Inc, and CEO Gold Standard Ventures until August 2022.

He brings experience in capital markets, finance, financial management in the mining and resource industry, and experience as an investment banker with BMO global metals and Mining Group, M&A and capital raisings. He is a director of the Food Stash Foundation in Vancouver a NFP.

Jason has 929,339 shares.

The ASA will be supporting Mr Attew's re-election.

Item1. Adoption of Remuneration Report and approval of equity grant to Managing Director/CEO

The remuneration is reasonably generous across the company with potentially large LTI incentives at stretch. The reduction this year in short term incentives (STI) and long-term incentives (LTI) and the outcomes for KMP does indicate it is working.

The remuneration report is comprehensive but not particularly clear. It would benefit with some simplified tables and a clearer simple summary at the beginning.

Evolution's remuneration is designed to provide incentives for outstanding performance with fixed remuneration at a median and long- and short-term incentives increasing remuneration to up to the 90th percentile for stretch. Incentive payments apply to managers and above. It fits with their purpose of "acting like an owner".

Non-executive directors board fees are paid in cash and with a significant equity component to align them with shareholders. For FY22 and FY23 Equity grants of $65,000 for NED's and $80,000 for the lead independent director (LID). The number of share rights issued is based on the VWAP, 10 days after guidance, for FY22 it was $2.458. They are not subject to performance conditions but there are disposal restrictions. This simplifies the trading complications for directors. There is no minimum shareholding requirement.

NED base fees are $120,000 with additional committee fees. Total NED fees range between $205k and $255k and are considered reasonable for the size of the company. There is a $1.2m cap on director's cash fees approved by shareholders. The FY22 value of all NED remuneration is $1.37m.

Changes for FY23 will see an average 7.3% increase in TFR for KMP from 1 July 22, after a 3 year freeze. There is also an average 2% increase in incentive in STIP to 71-75% for target and 78-82% for stretch. This is in line with external benchmarking to P75.

The CEO/ managing directors' remuneration is complicated by the change in roles from 1 January 2023. This will see the executive director Mr Klein's TFR reduced to $875k he will no longer be paid a directors' fee of $300k. Mr Conway s TFR as CEO will be increased to $990k and his LTI will increase to a maximum of 350% of TFR in line with Mr Klein, he will not be paid his directors fee of $135k.

Mr Klein has an end of year shareholding of 15,842,070 shares and Mr Conway has an end of year shareholding of 1,327,357 shares aligning them with shareholders.

The STI outcome for FY22 was measured against 5 measures: safety, material and critical controls, group cash controls, group AISC and strategic imperatives.

Board discretion is attached to strategic imperatives and the progress in net zero sustainability goals, growth and extension of key assets and the improved portfolio were considered. The outcome was reduced for the AISC increase and lower group cash contribution. There is some alignment to shareholders here.

STI will be based on 75% of TFR at target and 112% at stretch.

STI are paid in cash The ASA likes to see a proportion paid in equity and deferred, the company argues the tax implications make this difficult for some employees. The larger proportion of at-risk equity incentive tied to LTIs compensates for the lack of equity attached to STIs. The STI's for 2022 saw a reduction in the short-term incentive plan (STIP) outcome to 69%.

The LTI are measured against relative total shareholder return (TSR) against peers, absolute TSR, growth in earnings per share (EPS) and increased ore reserves. The LTI performance rights are calculated on the face value basis VWAP of $2.458. They are set at a maximum of 350% of TFR at stretch.

The outcome for FY20 was 33.3% compared to the FY19 outcome of 77% reflecting a reduction of incentive that aligns with shareholder returns.

Item 5. Issue of Performance rights to Mr Jacob Klein

This is to approve the issue of 1,245,932 performance rights under the Evolution Mining Ltd Employee Share Option and Performance Rights Plan. The maximum will only be awarded if the LTI stretch performance is achieved. The number of performance rights is determined at the face value of $2.458 calculated on VWAP after the announcement of results.

The vesting conditions are measured equally across the relative TSR (rTSR) of 12 ASX peer group gold mining companies, absolute TSR (aTSR), relative AISC against peers, and ore reserve growth. They are tested at the end of a three-year period ending June 30, 2025.

The ASA will support this resolution because the performance measures of relative TSR and absolute TSR are aligned with shareholders, and it is paid in equity. We would prefer to see a longer timeframe for vesting beyond the three years to align with long term strategy and performance however we feel there is due consideration in the STI and LTI measures.

Item 6. Issue of Performance rights to Mr Lawrence Conway

This is to approve the issue of 1,035,395 performance rights under the Evolution Mining Ltd Employee Share Option and Performance Rights Plan. The maximum will only be awarded if the LTI stretch performance is achieved. The number of performance rights is determined at the face value of $2.458 calculated on VWAP after the announcement of results.

The vesting conditions are measured equally across the relative TSR (rTSR) of 12 ASX peer group gold mining companies, absolute TSR (aTSR), relative AISC against peers, and ore reserve growth. They are tested at the end of a three-year period ending June 30, 2025.

The ASA will support this resolution because the performance measures of rTSR and aTSR are aligned with shareholders and it is paid in equity.

Item 7. Approval to issue securities under the Non-executive Director Equity Plan

This is required to approve the issue of share rights to non-executive directors (NED) under the NED Equity Plan for FY23, FY24, and FY25.

In FY23 Non-executive Directors will receive $65,000 worth of shares and the Lead independent Director will receive $80,000 worth of shares based on the VWAP of $2.458. There is no performance requirement and there is a minimum holding period of 3 years, or the director's retirement. The shares will be issued to preserve cash. A NED may elect to receive more remuneration in equity. The board has discretion to adjust the amount in future years.

The ASA will be supporting this resolution as we feel in the absence of a minimum shareholder requirement, this aligns directors with shareholders, providing significant "skin in the game" and avoids the restrictions around trading.

Appendix 1
Remuneration framework detail

Jake Klein until 1 January 2022

Executive Chair rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Total Fixed Remuneration	0.875*	26%	0.875	18%
STI - Cash	0.525	15%	0.7875	17%
LTI	1.885	59%	3.0625	65%
Total	3.285	100.0%	4.725	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

- a director's fee of $300k is added to this amount but not included in calculations of STI and LTI

Laurie Conway from Jan 1

CEO rem. Framework for FY 23	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.990	25%	0.990	18%
STI - Cash	0.7425	18%	1.1088	20%
LTI	2.3067	57%	3.465	62%
Total	4.039	100.0%	5.564	100%

No director fee from 1 January 2023.

Not a particularly easy to understand remuneration report for 2022.

Total statutory remuneration of all except one KMP increased from FY21-FY22. This is perhaps reflective of the indicative value applied to LTI.

The exec chair increased his total remuneration in FY22, his STI did reduce from $583,000 to $364,000. Total STI for KMP reduced from $2.66 million to $1.80 million.

FY23 7.3% increase in fixed TFR.

STIP is paid in cash. Performance measures include: safety, risk, group cash contribution, AISC and 30% for strategic imperatives, which allows for board discretion of overall performance. Additional board considerations included: Sustainability, key assets Cowal and Red Lake on track and budget, and business development improved portfolio. These are well described within the annual report page 170-171.

There is no equity component to STI. ASA prefers a split STI cash and equity to align it with shareholders and have more equity at risk. In this case the STI is a smaller component of incentive remuneration and it could be argued that the LTI covers this.

LTIP KPI's performance hurdles include: relative TSR at 25%, absolute TSR at 25%, relative AISC performance at 25%, and ore reserves /share at 25%. Measured over a 3 year time frame (page 172-173.)

LTI (ESOP) Performance rights are issued based on the VWAP 10 days after guidance of shares.

FY23 changes to the remuneration framework saw slightly more of a STI cash component and slightly less LTI equity as can be seen in the table above.

Actual remuneration is a bit difficult to find and confusing because it combines statutory with actual the date of transfer of performance rights to shares is included.

Monte Carlo simulation is used to provide an amortised value for the LTIs (a statutory requirement) in the remuneration table, I found this very confusing.

All-in Sustaining Cost (AISC) includes C1 cash cost, plus royalties, sustaining capital, general corporate and administration expenses on a per ounce sold basis.

C1 Cash costs include operating costs for mining, processing, site admin and selling and refining charges, less credits from sales of by-products (Copper and silver).