Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235

Silver Lake builds yet more cash – what about a divvy?

Company/ASX Code	**Silver Lake Resources (SLR)**
AGM time and date	1.00 pm AWST Friday, 24 November 2023
Location	The Langley Room, Novotel Perth Langley, 221 Adelaide Terrace, Perth, WA
Registry	Computershare
Type of Meeting	In person; no webcast
Monitor	David F Brooke
Pre AGM Meeting	Yes with Chairman (David Quinlivan) and Secretary (David Berg)

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

1. Proposed Voting Summary

No	Resolution Description	Vote
1	Adoption of Remuneration Report	**Against**
2	Re-election of David Quinlivan as Chairman	**For**

2. Summary of Issues

- At end of year (EoY), SLR had $332m in cash (and bullion) and $12m in investments (cash/bullion at EoY FY22 was $314m)
- FY23 Sugar Zone production guidance was 60k - 50kozs @ A$2,250 – A$2,550/oz AISC but 49kozs @ A$2,966/ozs was produced. Sugar Zone was idled in August 2023 with a "reset" involving a major exploration program and the camp relocated to "on site".
- Stockpiles valued at $107.7m in place with 95% at Mount Monger (124kozs @ 1.23g/t). In FY23 Mount Monger produced 97kozs with 33kozs drawn from stockpiles (non-cash), indicating that head grades (and production) will fall and end of mine life may be approaching.
- Group FY24 production guidance reduced by 20% and AISC guidance increased by 22%. FY23 results were at lower end of production guidance (i.e. 237kozs actual, lower guidance 230kozs).
- Group resources down from 6.809kozs to 6,192kozs and reserves from 1,594kozs to 1,441kozs despite exploration spending of $24.8m in FY23. FY24 exploration increased to A$42.5m (Sugar zone being the priority).
- Growth capex to increase from A$46.6m in FY23 to A$85m in FY24 thus potentially impacting cash build.
- SLR approved $3m (2,610,249 shares) share buyback in February FY22 (maximum 10% of total shares); now expired. Despite the buyback, the share price dropped 39% in FY23, however, the Sugar Zone saga and a failed St Barbara (SBM) bid likely had an impact.
- Investment in RED 5 (11.9% blocking stake) and failed takeover of SBM Gwalia operations, indicate a puzzling SLR "Leonora area" (or Australian) strategy which appears to be at odds with their

underground mining credentials.

- CEO sold 57.4% of his personal holdings (including all vested FY21 LTI's) during FY23. All other KMP, upon vesting in FY23, sold all their FY21 vested performance shares including prior shareholdings (except David Berg who retains 536,951 SLR shares).
- Non-executive directors hold no shares in SLR
- SLR has never paid dividends and has no plans to do so.

3. Financial performance

	2023	2022	2021	2020	2019
NPAT ($m)	30.8	77.7	98	256.9	6.5
Share price ($) – end of year	0.965	1.34	1.75	2.13	1.255
Dividend (cents)	0	0	0	0	0
TSR (%)	-28%	-27.5	-22.1	69.7	109.2
EPS (cents)	30.8	5.8	22.4	31.3	2.9
CEO: total remuneration ($m) +	2.43	3.71	4,12	3.87	2.16

For FY/23 the CEO's total actual remuneration was 25.4 times the Australian Average Weekly Total Earnings (A$1,838 based on May 2023 data) from the Australian Bureau of Statistics)

4. Key events

in FY23 SLR reported an NPAT of A$31m, record production (260,372ozs) and a group All in Sustaining Cost (ASIC) of A$1,941/ozs from three sites (which was a 10.5% increase from FY22). SLR has a significant cash and bullion "war chest" of A$332 (30 June 2023), no debt and accumulated Australian tax losses of A$240m and Canadian tax losses of C$209m.

During FY23 Canadian (Sugar Zone) production was curtailed (despite a new mining fleet and plant improvements), due to shortfalls in mining operations caused by bushfires and numerous manning issues resulting from inadequate accommodation facilities.

Mount Monger's ASIC guidance for FY24 is A$2,300 to A$2,500/ozs for 90k – 100kozs/yr; indicating lower head grades (from use of stockpiles); the mine may now be approaching its end of life. At this location the Tank South deposit has helped but is likely to be insufficient to restore historic production. The Maxwells mine continues to be constrained by its narrow vein lodes; process feed is now being supplemented by about 34% from stockpiles thus reducing head grade and production with a corresponding non-cash unwind of stockpile book value.

SLR's deflector mine (including Rothsay) has been the mainstay of SLR production with around 56% of group gold equivalent production (i.e gold, gold concentrate and copper) with a competitive AISC (A$1,731/ozs).

SLR took over operation of their Canadian mine in February 2022 and have been beset by problems largely due to lack of investment by the previous owner (who went bankrupt). Issues were poor mine ventilation, freezing tailings dam, equipment breakdowns, low mining production and poor head grade reconciliation. Whilst operations continued throughout FY23 (idled in August 2023) infrastructure improvements and further drilling have proved necessary to exploit the inherent value of this asset. SLR equipped the mine with a new mining fleet and has done a lot of necessary grade control drilling, however, the location of the accommodation camp 30km distant (50 minute travel time) at White River (rather than on site) has led to numerous manning issues. As such Sugar Zone is now undergoing a re-appraisal and will not contribute further to FY24 production (6,359ozs contributed in FY23).

In Australia SLR has sought to expand via M&A and unsuccessfully bid for St Barbara Gwalia assets (around Leonora, WA). In the aftermath of this unsuccessful bid SLR has now secured an 11.9% stake in RED 5 (at a cost of A$107.7m) in the same locality, however, whilst RED 5 has a large asset (a 6Mt/yr processing plant) the resources are low grade. RED 5 is desirable but probably not essential to the successful incumbent (Genesis), however, it does not appear to play well to SLR underground mining skill set.

5. Governance and culture

Sustainability/ESG

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

Remuneration

There has been little change in the SLR renumeration structure from last year where we were critical of its structure and period (i.e LTI's 3 years not 4 years without a holding lock and STI's all in cash and measured on one year). The only change in the LTI structure appears to be variations in the rTSR "peer" group against which LTI's are measured. Whilst SLR have claim considerable attention is given to performance their annual report is opaque in this regard and only provides a percentage achieved against an unstated STI target. The annual report only states the aggregate FY21 LTI performance rights vested, which is minimal, reflecting poor FY23 share price performance against peers.

Shareholder Communications

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 and few company presentations.

6. Rationale for Voting Intentions

Resolution 1 - Adoption of Remuneration Report – Against

The remuneration structure is virtually the same as last year which we voted against

Base salary is 30% of the total package with target STI's at 30% and target LTI at 40% which appears in line with peers for a company the size of SLR.

Target Short Term Incentives 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 rTSR (relative to a peer group) (10%). The STI payment attained for KMP's in FY23 was 60% thus targets were only partly achieved, although these targets are unstated. ASA notes that before any STI's are paid the company must be cash flow positive, including sustaining capex.

Target Long term incentive (LTI – 40% total) performance conditions are all in the form of performance rights and issued on the 20-day VWAP at the time of grant (currently A$1.46 at 30 June 2022). 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 (this changes year on year); a minimum threshold for any award is the average of the peer group. Performance rights are tested at a single point in time and vest after 3 years with no holding lock.

As stated previously, ASA consider that:

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

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

c) LTI's achieve a maximum award at 75% performance not 85%;

d) The SLR "peer" group is published in the annual report shows SLR an outlier in terms of market capital (and even less representative in terms of enterprise value) against the published "peer" group.

e) On a takeover vesting of incentives should be pro rata;

f) KMP and NED's should have minimum company holdings as a percentage of FAR;

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

Resolution 2 - Re-election of Chairman – David Quinlivan - For

Mr Quinlavan is an experienced and respected director appointed in 2015. He is currently chairman of Dalaroo Metals. Mr Quinlavan has a strong background in mining and in particular as CEO at Sons of Gwalia, thus providing him with an intimate knowledge of the Leonora mining area where SLR has aspirations as well as a large stake in RED 5.

Mr Quinlavan is a member of the Audit committee and the Nomination & Remuneration Committee.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY/23	Target* $m	% of Total
Fixed Remuneration	0.826	30%
STI – Cash	0.826	30%
STI – Equity	0	0%
LTI	1.101	40%
Total	2.753	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. Some remuneration framework set a maximum opportunity amount, but not all.

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