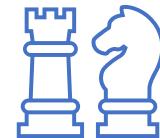


10 Questions for Mining and Metals Compensation Committees Ahead of the Q1 Meeting

A Strategic Perspective for Public Company Directors

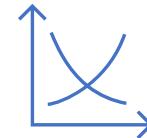
1. Does our annual scorecard (and the weighting of metrics) reflect our corporate strategy? Do we have the right balance of production, safety, financial, growth and sustainability metrics?



Meridian Comment: The annual scorecard focuses senior executives on key strategic priorities for the year, whether that is to grow production or invest in new permitting and exploration. Committees should stress test the scorecard each year to ensure the underlying metrics align with the needs of the business and the corporate strategy communicated to the capital markets.

2. How sensitive is our annual scorecard to commodity price? Is this optimal?

- ✓ Do we have sufficient exposure to align pay outcomes at year-end with investors, while balancing line of sight and span of control?
- ✓ What portions of the scorecard are commodity price positive, commodity price negative, and commodity price neutral?



Meridian Comment: There is a range of market practice in dealing with commodity price influence, in particular for financial metrics within a corporate scorecard. While neutralizing for commodity price in financial metrics like free cash flow appears more “controllable” to plan participants, this approach can lead to:

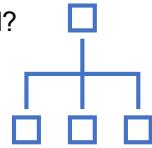
- Significant disconnects between management incentive outcomes and the investor experience
- Tension between scorecard outcomes and management making decisions that are best for the business

Perhaps a better way to mitigate commodity price in incentive plans is to have an appropriate balance between commodity price positive (e.g., free cash flow), commodity price negative (e.g., cash cost/royalty cost) and commodity price neutral (e.g., safety or production) metrics.

3. How does our annual scorecard cascade throughout the company?

- ✓ Is the scorecard well understood at all levels of the organization?
- ✓ Do each of the regions or mine sites in our business have a tie to the annual scorecard?

Meridian Comment: *In our experience, the annual scorecard is a critical performance management tool that should be customized throughout the organization by function and mine site. In multi-asset mining companies, this typically translates to site specific scorecards for production, cost and safety that build up to the overall corporate scorecard.*



4. What is the appropriate balance between corporate, regional and individual performance?



- ✓ What weight should be given to corporate vs. regional vs. individual performance in the annual incentive plan? How should this differ by level in the organization?

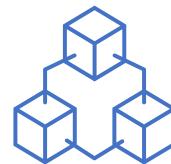
Meridian Comment: *At the most senior executive levels and in particular for the CEO, we have seen a notable shift away from individual performance as a component of annual incentives. This is driven primarily by compensation philosophy, culture (e.g., “one team”), and leadership preferences. Arguably for the CEO, 100% of performance should be determined by the corporate scorecard result, as they are most accountable for enterprise performance. Even when individual performance is not a compensable metric, committees should still conduct robust performance evaluations for the CEO and other key executives.*

5. Do we have the right peer group for benchmarking compensation?

- ✓ Who are our competitors for talent? How do we select a peer group that is both internally credible and externally defensible?

Meridian Comment: *Committees should annually review the compensation peer group. With free cash flow at an all-time high, we expect further industry consolidation in the sector which shrinks the universe of available peer companies and can cause significant changes in the size of peers. In addition to financial and operating metrics such as assets, market cap, and production, the peer group should reflect:*

- *The stage of the company (e.g., pre-production/exploration, production)*
- *The complexity (e.g. single or multiple assets)*
- *The jurisdiction and risk profile of the company (e.g., North America vs. Africa vs. South America)*



6. Do we have the right peer group for benchmarking total shareholder return?

- ✓ Who are we competing with for investor capital?

Meridian Comment: *Relative TSR is a critical metric for commodity companies as it can neutralize for commodity price and reward for outperforming peers in both strong and weak commodity cycles.*

Committees should regularly assess the relevance of peer companies for benchmarking TSR (most commonly measured in the long-term performance share unit (PSU) portion of the long-term incentive grant). In the precious metals space, committees are spoiled for choice with a broad universe of public companies. In selecting relative TSR peers:

- *Size is less critical than for compensation peers, but companies should not be so much larger or smaller that their share price volatility profile is less aligned*
- *Correlation analysis is one tool used to analytically test whether a group is similarly affected by macroeconomic conditions and commodity price – highly correlated peers are better, generally*
- *Committees should consider the merits of using an industry index like the S&P/TSX Global Gold Index vs. a more customized peer group, tailored based on business factors*

7. If stock options are a part of our compensation program, should they be?

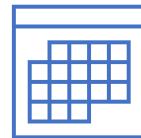


- ✓ Stock option use makes up a relatively modest portion of the LTI mix at both Canadian and U.S. companies today, with declining prevalence in recent years due to elimination of advantageous tax treatment in Canada.

Meridian Comment: The use of options in commodity companies is sometimes criticized as rewarding commodity price, rather than underlying business performance. Options are highly leveraged vehicles with long contract terms. This makes the use of options well suited for early-stage exploration and development companies that are: high growth, reasonably volatile and have very low or no dividend yield. However, once a company is generating significant free cash flow and returning cash to investors through dividends, options are generally less aligned (as they do not participate in dividends directly).

8. Should we consider longer than 3-year vesting RSUs?

- ✓ ISS and Glass Lewis and the investors they represent have signaled that longer dated vesting restricted share units may be considered similarly to 3-year performance share units, effectively treating long term RSUs more like "performance contingent" awards for purposes of their analysis.



Meridian Comment: Given the longer duration of expected returns from capital-intensive mine projects, longer vesting periods may be a reasonable design choice for mining and metals companies. In Canada, given tax restrictions, this type of design requires a shareholder-approved treasury share unit plan. Treasury plans continue to grow in prevalence in the Canadian market as a long-term alternative to stock options.

9. Do our executives own enough real equity?



- ✓ Investors and governance advocates like the Canadian Coalition for Good Governance are pushing for greater real share ownership by key executives.

Meridian Comment: Investors and governance advocates are both increasingly focused on real common share ownership (or alternatively, equity with redemption delayed to retirement, such as deferred share units). Committees should expect their executive teams to build real share ownership over time, by using at least a portion of the proceeds of their long-term incentive grants to purchase shares or by settling equity awards with real shares. The end goal is to have executives well aligned with investors, while also being practical about the needs for financial diversification as executives near retirement.

10. How are we doing on succession planning?

- ✓ Do we have appropriate bench strength behind the CEO and other critical senior roles?
- ✓ How should compensation support robust succession planning?

Meridian Comment: While not a core compensation topic, the issue of succession planning for the CEO and senior executives is a key business imperative. This is particularly true with precious metals stock prices at all-time highs – long-tenured senior executives may be thinking now is the optimal retirement window. Strong compensation programs and process generally lead to more positive succession planning outcomes. Committees should review retirement provisions regularly to ensure late career executives are properly incented to continue making long term decisions as they near retirement and to transition leadership of the company to the next generation.



This is the first article in a series of industry-focused client insights for the compensation committees of mining and metals companies. For questions about the content of this article, please contact your Meridian engagement lead or Matt Seto, a Partner based in Toronto and Head of Meridian's North American Mining and Metals Group, at mseto@meridiancp.com.