

## STRATEGIC INCENTIVES ROLLOUT FOR LUNNON METALS STAFF

13 DECEMBER 2022

Lunnon Metals Limited (**ASX: LM8**) (the **Company** or **Lunnon Metals**) is pleased to provide the following update. As part of the remuneration review at the end of the 2021-2022 financial year, the Board of Lunnon Metals (the **Board**) resolved to create a Short-Term Incentive (**STI**) and Long-Term Incentive (**LTI**) scheme under which employees and, subject to shareholder approval, directors may receive performance rights. The objectives in creating an incentive scheme for the Company include:

- Ensuring employee alignment with the strategic goals of the Company and long-term retention of the current team;
- Generating long-term shareholder value by setting significant performance hurdles that will have a beneficial and material impact on the Company's enterprise value; and
- Ensuring that Lunnon Metals is a preferred employer and is able to attract and retain professionals in the future in an increasingly competitive employment market.

The Board approved scheme involves the issue of performance rights, with each performance right representing the right to subscribe for, for no further consideration, one fully paid ordinary Lunnon Metals share. The performance rights will vest incrementally on the achievement of specified vesting criteria. The Company's Employee Awards Plan (the **Plan**) will govern the terms of the performance rights. The adoption of the Plan for the purposes of Listing Rule 7.2 Exception 13(b) received shareholder approval at the recent 2022 Annual General Meeting. The Managing Director, Mr. Ed Ainscough, will be invited to participate in the Plan subject to shareholder approval. The key milestones to be achieved by the Company that will form the vesting criteria for Mr. Ainscough's performance rights have now been approved by the Board and are as follows:

### STI VESTING CRITERIA

Achievement within 18 months from 1 January 2023 of:

- First time Proven and Probable Ore Reserve delineated for the Baker deposit (and any subsequent extensions) of at least 15kt contained nickel metal;
- Finalisation of commercial terms for ore tolling and concentrate purchase agreement, and grant of regulatory approval to commence development at the Baker deposit;
- Discovery of a new nickel deposit on any of the Company's properties; and
- Grant of regulatory approval of the Mining Proposal or plan for the Foster Nickel Mine including the dewatering programme.

### LTI VESTING CRITERIA

Achievement within 42 months from 1 January 2023 of:

- Absolute total shareholder return equivalent to 20% per annum or better;
- Relative total shareholder return at the 75th percentile or better (to be assessed against a minimum 10 strong peer group of ASX listed companies);
- Annualised Company production rate of at least 10kt nickel metal; and
- Delineate >150kt of contained nickel metal (above a 1.0% Ni cut-off) in total Mineral Resources, after any depletion.



Commenting, Lunnon Metals' Chair, Liam Twigger said: *"Lunnon Metals has had a fabulous start to life as a listed Company under the leadership of Ed Ainscough and the team he has assembled, delivering the Baker discovery among a host of other achievements. Now it is time to strive for greater success, set our goals higher and deliver significant increased value for the Company's shareholders. Incentivising the management team and staff to deliver this value is a key ingredient for all successful companies seeking to transition from discovery, to development and production."*

The Company intends to seek shareholder approval at an Extraordinary General Meeting for the issue of the performance rights to Mr. Ainscough in accordance with ASX Listing Rule 10.14 and Chapter 2E of the Corporations Act 2001.

## INCENTIVE SCHEME STRUCTURE

The number of performance rights issued to any participant, including the Managing Director, will be determined based on their annual total fixed remuneration (**TFR** being base salary plus superannuation) multiplied by a total incentive opportunity (**TIO**) factor and finally divided by the 30-day volume weighted average price of the Company's shares prior to the commencement of the STI/LTI performance period.

- The first tranche of STI awards will relate to a period commencing on 1 January 2023 and be assessed over an initial 18-month performance period to align with the Company's financial year (and thereafter a 12-month performance period), with awards paid 100% in performance rights.
- The first tranche of LTI awards will also relate to a period commencing on 1 January 2023 and be assessed over an initial 3.5-year performance period to align with the Company's financial year (and thereafter a 3-year performance period), with awards paid 100% in performance rights.

In setting the TIO available for current and potential future Company staff, the Board engaged external, independent consultants to benchmark a group of Lunnon Metals' peers to determine an appropriate level of TFR, TIO factors and thus number of STI/LTI incentives to be awarded to participants at each level of the Company.

## MANAGING DIRECTOR'S PARTICIPATION IN THE PLAN

Subject to shareholders approving the terms of the Managing Director's incentive package at the first available General Meeting, the Managing Director's TIO will be derived by multiplying his TFR by 130%, to be split equally between STI and LTI incentives (i.e. 65% each), as illustrated in the table below.

Annual TFR	Maximum Annual STI Opportunity (as a percentage of TFR)	Maximum Annual LTI Opportunity (as a percentage of TFR)	Total Maximum Annual TIO Opportunity (as a percentage of TFR)
\$400,000	65%	65%	130%

The TIO applicable to the Managing Director's TFR was also determined with reference to the external and independent benchmarking exercise noted above.

## VESTING CONDITIONS

The key milestones and targets that must be achieved to determine how many, if any, of the Managing Director's STI and LTI performance rights will vest, have been generated following a strategic planning process undertaken by the Board and executive management of the Company.

The STI will also contain an environmental social governance (**ESG**) performance hurdle gateway, namely: *"No ESG catastrophic consequence at a Company managed operation in the period. In the event of a catastrophic ESG related event, the Board has discretion to reduce the whole or part of the STI and/or LTI based on consideration of the individual's accountability and responsibility in mitigating the impacts to the Company."*



## STI TARGETS

For the **maximum** number of STI performance rights to vest, the following performance hurdles must be achieved during a period commencing 1 January 2023 (with each individual performance hurdle's percentage weighting to the maximum shown; performance hurdles to be achieved by end of 30 June 2024):

Performance Hurdle	Weighting
First time Proven and Probable Ore Reserve for Baker deposit (and any extensions) of 15kt contained nickel metal	30%
Finalise commercial terms for ore tolling and concentrate purchase agreement, and regulatory approval to commence development at the Baker deposit	35%
Discovery of a new nickel deposit on any of the Company's properties	20%
Grant of regulatory approval of the Mining Proposal or plan for the Foster Nickel Mine including the dewatering programme	15%
<b>Total</b>	<b>100%</b>

## LTI TARGETS

For the **maximum** number of LTI performance rights to vest, the following performance hurdles must be achieved during a period commencing on 1 January 2023 (with each individual performance hurdle's percentage weighting to the maximum shown; 42-month targets to be achieved by 30 June 2026):

Performance Hurdle	Weighting
Absolute total shareholder return equivalent to 20% per annum or better	35%
Relative total shareholder return at the 75th percentile or better (to be assessed against a minimum 10 strong peer group of ASX listed companies)	35%
Achieve annualised Company production rate of at least 10kt nickel metal	15%
Total Mineral Resources > 150kt of contained nickel metal, after depletion, above a 1.0% Ni cut-off	15%
<b>Total</b>	<b>100%</b>

The performance hurdles above are the performance hurdles to achieve the **maximum** weighting. As is consistent with peers' remuneration practices, the Board will establish lower threshold performance hurdles, where a result below that hurdle will result in a zero achievement. For a result between threshold and maximum, the achievement will typically be a pro rata percentage of between 50% and 100% (on a linear scale) of the weighting.

Vesting of the performance rights under the Plan will also be conditional on the holder remaining an employee or director as at the date the vesting condition is satisfied (subject to the exercise of any discretion by the Board to waive a vesting condition or to allow an employee or director who retires in certain circumstances to retain their performance rights as provided for by the rules of the Plan).



## INDICATIVE NUMBER OF PERFORMANCE RIGHTS THAT MAY BE ISSUED TO THE MANAGING DIRECTOR

The recent Notice of Meeting to the Annual General Meeting held on 15 November 2022 included Resolution 4 which stated that, pursuant to and in accordance with Listing Rule 7.2 Exception 13(b) and for all other purposes, shareholders approve any issue of up to a **maximum** of 30,000,000 securities under the Plan for employees and directors.

**Indicatively** under the Plan, the number of performance rights proposed to be issued to the Managing Director, would be as follows:

**STI:** TFR (\$400,000) x 65% x 18/12 = \$390,000 divided by a notional price of \$0.95<sup>1</sup> per share (by way of example for what the 30-day volume weighted average price per share prior to the commencement of the performance period may be) = 410,526 performance rights

**LTI:** TFR (\$400,000) x 65% x 18/12 = \$390,000 divided by a notional price of \$0.95<sup>1</sup> per share (by way of example for what the 30-day volume weighted average price per share prior to the commencement of the performance period may be) = 410,526 performance rights

Note, as the next tranche of the STI and LTI will only be issued in 18 months' time and not 12 months, the STI and LTI figure above has been multiplied by 150% (18/12) to ensure an annual equivalent TFR amount. The intention is that STI and LTI incentives will be issued annually, and the 150% factor will not apply to those subsequent annual issues.

Within the 3-year term of the Plan, the Managing Director may be eligible for at least two further tranches as illustrated below (each subject to shareholder approval) in addition to the proposed performance rights mentioned above:

Intended Tranches of Performance Rights to Managing Director	STI Performance Period	LTI Performance Period
First Tranche (130% of 18-month TFR)	1 January 2023 – 30 June 2024	1 January 2023 – 30 June 2026
Second Tranche (130% of TFR)	1 July 2024 – 30 June 2025	1 July 2024 – 30 June 2027
Third Tranche (130% of TFR)	1 July 2025 – 30 June 2026	1 July 2025 – 30 June 2028

The balance of the performance rights will be available to be issued to employees, and directors (subject to shareholder approval), on a similar basis to the above structure but with the TIO lowering at each level of the Company (e.g. the TIO for executives reporting to the Managing Director will be lower than the TIO of the Managing Director), which is consistent with the remuneration practices of peers.

**Accordingly, the proposed maximum number of securities under the Plan of 30,000,000 securities, is unlikely to be reached during the term of the Plan based on the current share price of the Company and the size of its workforce.**

As stated above, the Company received shareholder approval at the 2022 Annual General Meeting for the adoption of the Plan. A General Meeting will be scheduled in the New Year seeking shareholder approval to issue the incentive package as outlined above to the Managing Director. The Notice of Meeting to that General Meeting will include all requisite further detail necessary under the ASX Listing Rules and Corporations Act to provide shareholders with all relevant details for consideration of the proposal.

<sup>1</sup> This is not the actual price that will be used to determine the number of Performance Rights to be issued to the Managing Director, nor any Company employee. For the First Tranche, the actual price will be the 30-day volume weighted average price per share for the period ending on 31 December 2022.



This announcement has been authorised for release by the Board.

~Ends~

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