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📅 1-4 February 2021 📍 CTICC, Cape Town

The Impact of COVID-19 on African Mining

Opinions, findings and commentary from the most senior stakeholders across the African mining sector

Providing clarity on what the short, mid- and long-term effects of the pandemic might be

Six months since the World Health Organisation declared a global pandemic, governments, businesses and households are still grappling with the virus that brought most of the world to a virtual standstill.

The mining sector, relative to many others, has fared reasonably well with many governments prioritising the reopening of their mines as an 'essential service' given their reliance of the sector for their nation's economic health. Mining companies, for their part, have also been quick to act and have updated their operating models, particularly in regard to supply chain disruptions and new health and safety regulations.

Gold has been the standout performer over the past 6 months, increasing in value by 17% during the period, briefly topping \$2,000 an ounce in August. Other commodities, owing mostly to supply disruptions, have also performed well during the period but the medium- to long-term forecasts remain clouded in uncertainty as the virus continues to impact economic activity.

This is the second in a series of reports we launched to provide the African mining community with greater clarity on the short-, mid- and long-term effects of the pandemic on the sector. We again reached out to over 3,000 senior executives from across the mining sector. The participants were hand-selected and included investors, financiers, CEOs and other senior decision-makers from junior, mid-tier and major mining corporates, as well as top-executives from key service providers. This cross-section of the sector consequently allows for a holistic representation of the impact on industry to be presented.

This report compares the results of our first survey and details the ongoing impact the pandemic has had on African mining businesses and operations. The report also provides forecasts on investment levels, procurement levels and commodity prices over the next 6-12 months as well as commentary and analysis from leaders within the African mining space.

We hope that the findings and expert opinions included in this report helps you to make more informed investment and business decisions moving forward as the sector enters a new phase in a post-COVID-19 world.

To stay up to date with all things African mining, follow #MILearnandShare on your preferred social media channel.

Kind regards,



Simon Ford

Portfolio Director

Investing in African Mining Indaba



Kael O'Sullivan

Director of Investor Relations

Investing in African Mining Indaba

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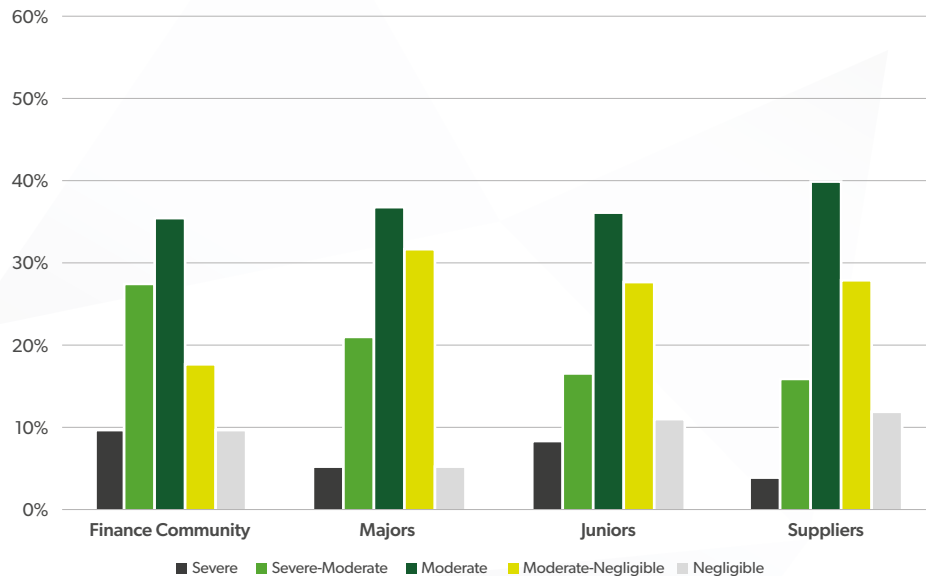
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COVID-19 Impact

What impact, if any, has the COVID-19 outbreak had on your usual business operations?

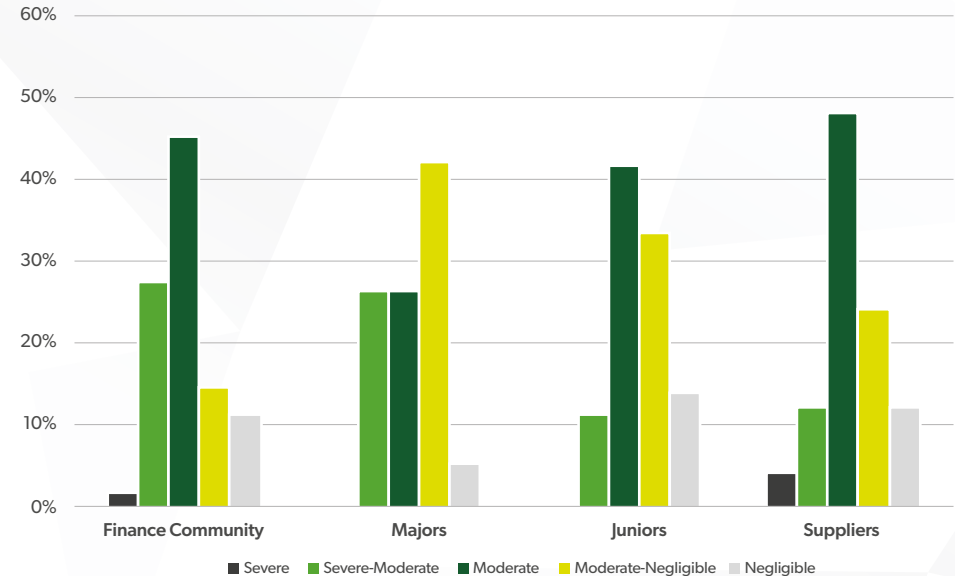
COVID-19 impact on business operations to date



While much of the world still grapples with the lingering presence of coronavirus including second surges in jurisdictions where it was thought it had mostly been evicted, mining companies, particularly those producing gold, have been sheepishly enjoying the effects of record high prices. The HUI Gold Index having climbed 117% (as of 10th September) since bottoming out after the World Health Organisation declared a pandemic on the 11th March.

This may go some way to explaining a slightly more optimistic tone with less survey participants across the four categories reporting a severe/severe-moderate impact on their business interest when asked

COVID-19 expected impact on business operations 3 - 6 months



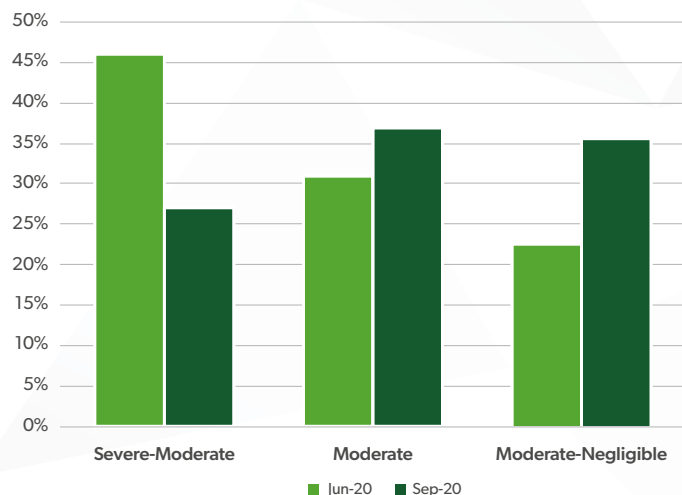
the same question back in June and this despite many assets operating below capacity¹.

Despite this slight shift, the impacts of ongoing travel restrictions will be particularly detrimental to exploration and development activities as well as to the investors, consultancies and engineering firms who need to physically assess these projects on-the-ground as part of technical studies and due diligence processes.

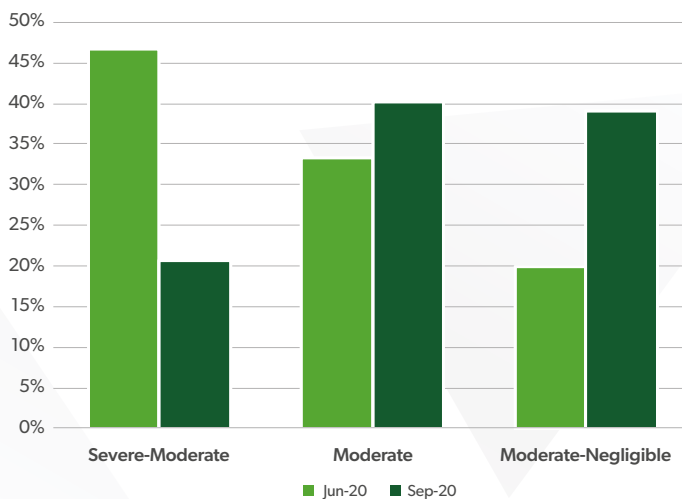
¹Lessons from the past: Informing the mining industry's trajectory to the next normal, McKinsey & Company

COVID-19 Impact *Cont.*

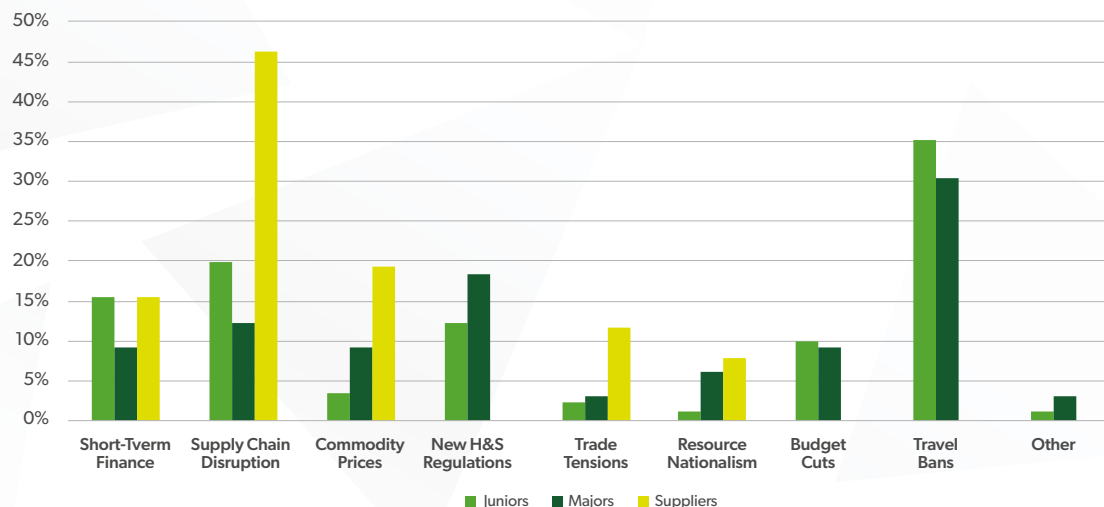
Business impact to date - June vs September comparison



Business impact 3 - 6 months - June vs September comparison



Main business challenges since the outbreak of COVID-19



Opinions from the industry

"Ongoing travel restrictions are having a detrimental impact on work programmes that were already in process. This is leading to increased time to complete physical work to advance projects. This, while overheads remain the same is leading to pressure on existing budgets and a push to reduce costs, including salaries."

Executive, **African PE Fund**

"Exploration and development activities in particular will be affected while external consultants/ engineering firms have restrictions on travel. Conversely there are strong reasons to believe a continued pandemic will support a new normal for gold prices that will unlock many previously stranded projects over time."

Managing Director, **Edison Group**

"Mining & Metals-related businesses have been resilient but not bullet-proof during and post the global pandemic. Recovery in operations and deal pipelines have been robust."

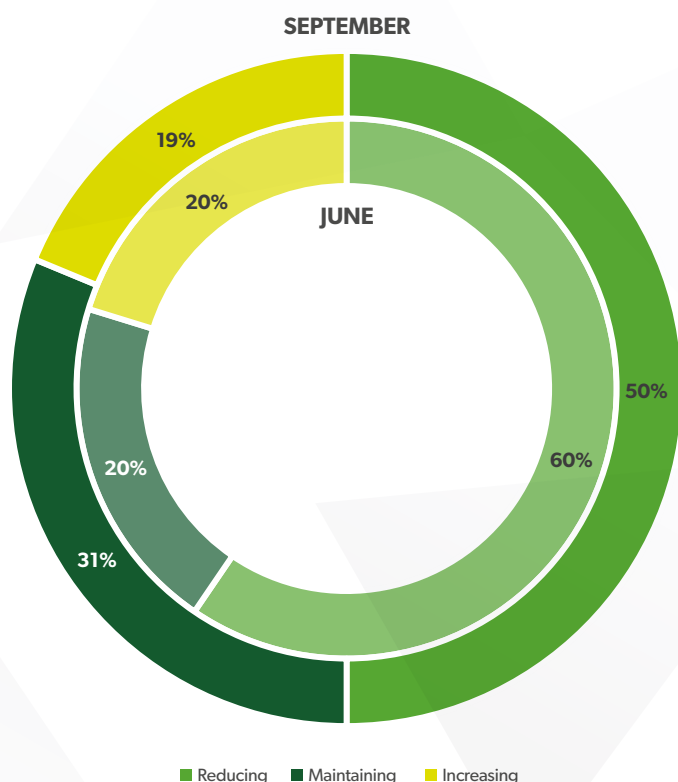
Divisional Executive: Mining & Metals, Infrastructure and Energy, **Industrial Development Corporation**

Operational Expenditure

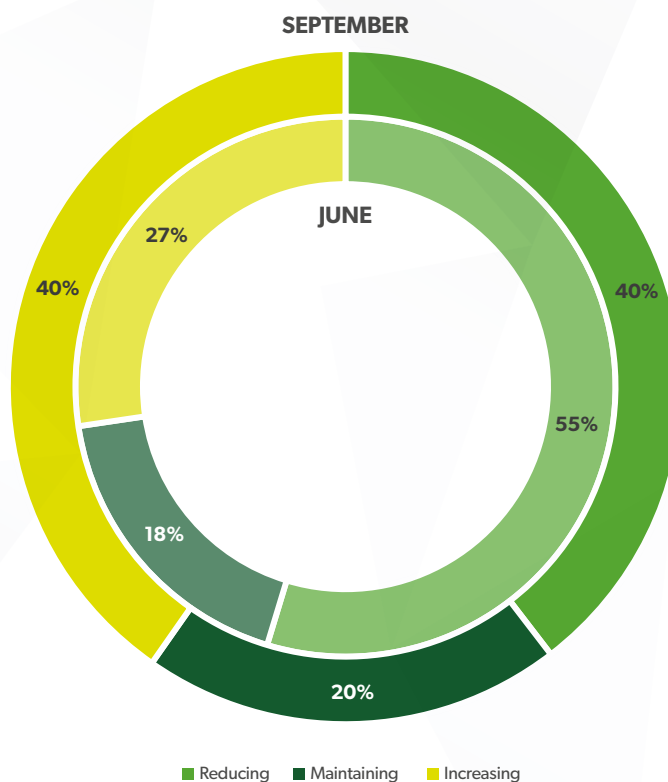
Mining Companies

By what percentage do you expect your business unit's procurement/spending to increase or decrease over the next 12 months in response to the COVID-19 outbreak?

Operating expenditure next 12 months vs pre-COVID-19 budget
Majors - June vs September



Operating expenditure next 12 months vs pre-COVID-19 budget
Juniors - June vs September



Six months on from the onset of the pandemic on a global scale, half of the survey respondents representing major and mid-tier miners as well as 40% of junior and small-cap executives expect to reduce their operating expenditure over the next 12 months.

While this might make for uncomfortable reading for suppliers and host governments, there is marked improvement from the survey results of 3 months ago. Majors and mid-tiers looking to either maintain or increase their operational expenditure when compared to pre-COVID-19 forecasts is up from 40% to 50%. Explorers and Developers, perhaps looking to take advantage of potentially lower costs, are even more bullish with 40% expecting to spend more to advance their projects over the next 12 months compared to only 27% from the June survey.

The pre-COVID-19 trend of producers focusing on optimising and expanding current operations is set to continue with 58% of respondents still expecting to spend between 25% - 75% less on exploration and development over the course of the next 12 months compared to their pre-COVID-19 forecasts.

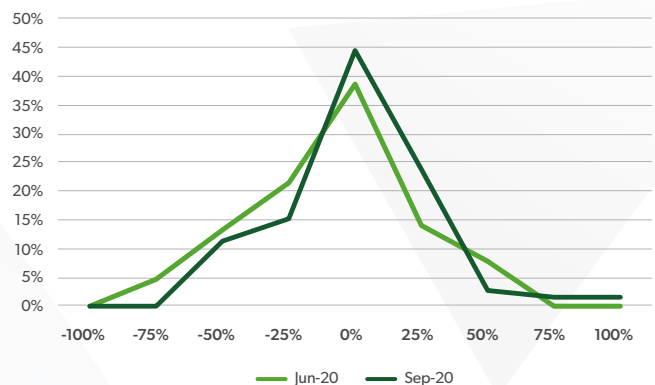
Operational Expenditure

Mining Companies *Cont.*

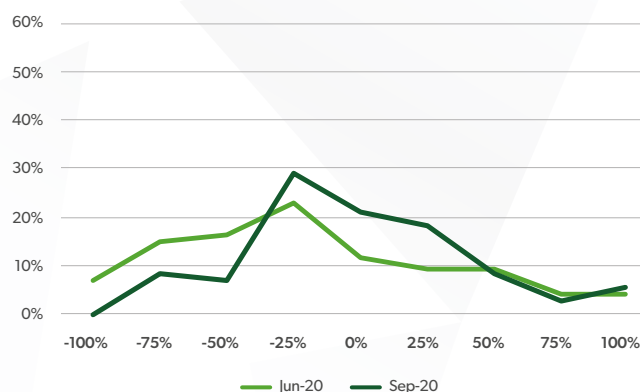
Onsite operational spending



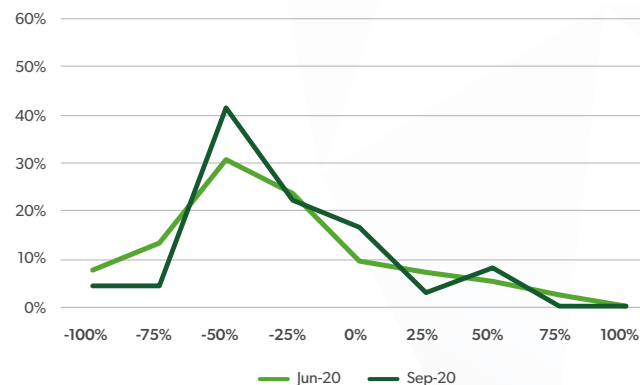
Exploration / Development



Salaries / Wages



Marketing / IR / Travel



Opinions from the industry

"As leaders we need to lead through uncertain times. Our company and strategy as well as spend in these areas will not change."

C-Level Executive, **Copper Development Company**

"The pandemic has been costly, but it has exposed us to new opportunities regarding organisational design and how we work."

C-Level Executive, **South African Mining Company**

"Having been impacted in supply lines and international travel, we will be looking to redundancy in suppliers and supply lines. As well, local manufacturing and local service and good supply have shown more robustness. This should feed into the mining industry's desire to localise and this aligns well with the aspirations of the local businesses and host governments."

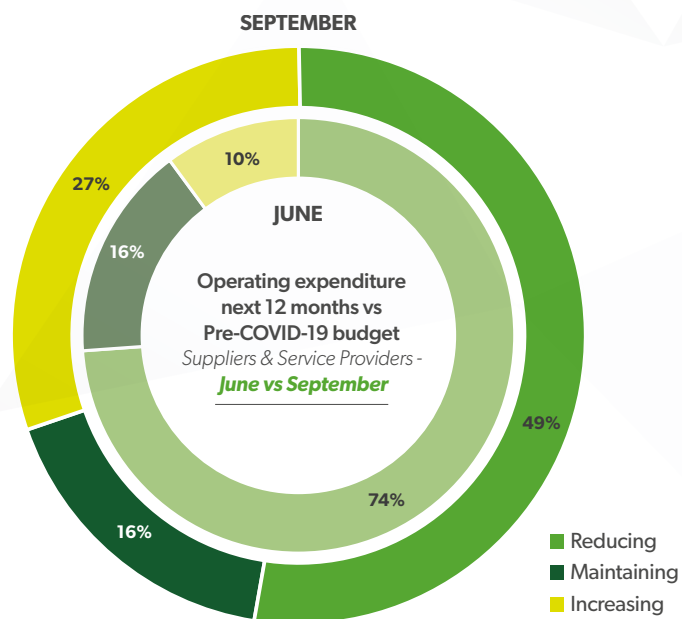
Senior Executive, **Pan-African Gold Mining Company**

"While further worsening of movements could have a negative impact on our projects, we see this as a remote possibility. Given the positive impacts, we will be conscious of further developments and may consider further fast tracking our developments."

C-Level Executive, **Graphite Development Company**

Operational Expenditure

Service Providers & Suppliers

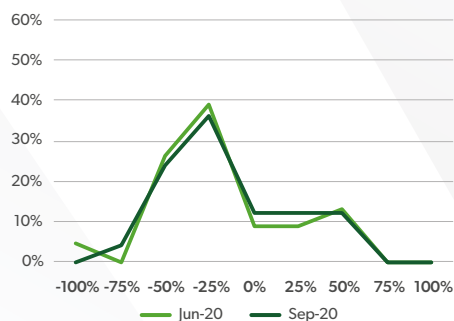


By what percentage do you expect your business unit's procurement/spending to increase or decrease over the next 12 months for existing operations/ongoing projects in response to the COVID-19 outbreak?

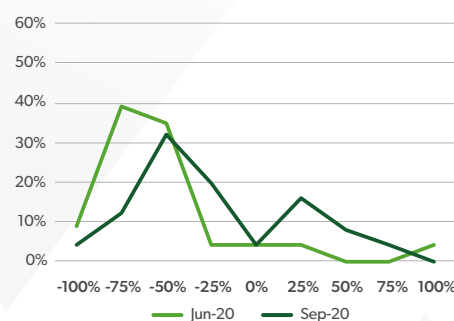
In June, suppliers and service providers were prepared to cut the deepest out of the four segments surveyed with 74% of respondents anticipating anywhere between a 25% - 75% reduction in their operating expenditure in the 12 months to June 2021. Marketing, sales efforts and travel taking the relative brunt of these cuts with 87% of suppliers and service providers reducing their spend in these areas.

Either these anticipated cuts in operating expenditure have been enacted and operating models adapted or the disruption to supply chains wasn't as bad as originally feared, with far fewer (49%) suppliers and service providers now expecting to reduce expenditure over the next 12 months. Coincidentally, there has been a significant jump in expected increase in expenditure from 10% to 27% amongst suppliers and service providers.

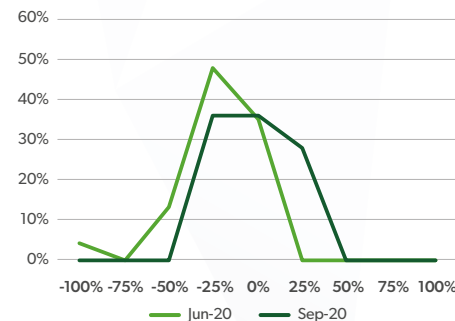
Onsite spending



Marketing/Travel



Salaries/Wages



Opinions from the industry

"...very likely to remain with far less "travel to meet" appointments in the future. Companies are likely to downscale head office space in the future, affording certain skillsets to work remotely (from home) which will reduce overheads and offer a new lifestyle that the younger generation is demanding."

CEO Americas, **AMC Mining and Crushing**

"Use of remote meetings have increased and are here to stay. Travel will return but it will be better planned, targeted and less frequent. Businesses will rely on less people in corporate offices as working from different locations becomes embedded."

Senior Executive, **Mining Technology Company**

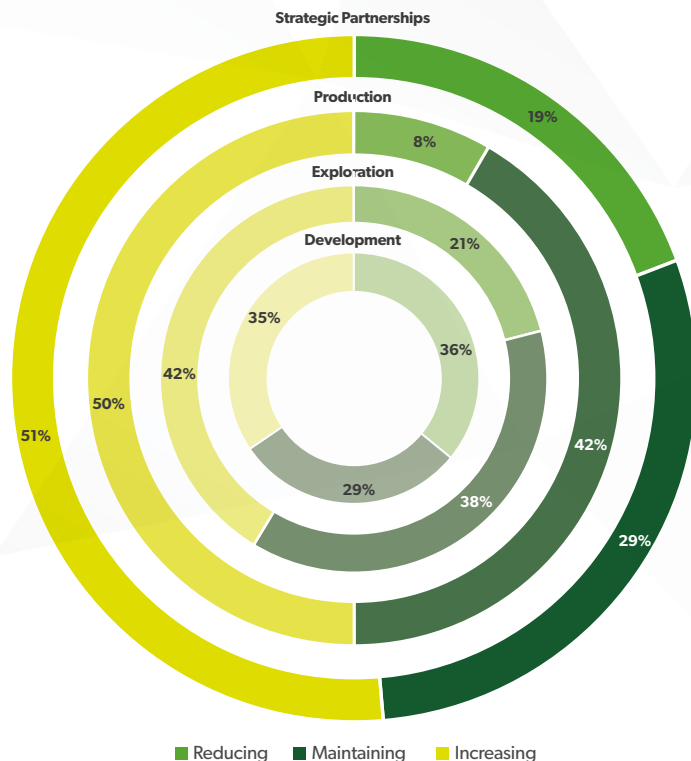
"Minimum of a two year recovery to 2019 levels. COVID-19 has accelerated the adoption of digital technologies plus increased the focus on need for operational resiliency underpinned by operational efficiency."

Senior Executive, **Mining Technology & Services Company**

"...field works still can't be done and engineers can't travel to site meetings with permitting stakeholders disrupted"

Executive, **Potash Development Company**

Investment next 12 months vs Pre-COVID-19 budget
Majors & Juniors



Forecasted Mining Company Investment Over The Next 12 Months

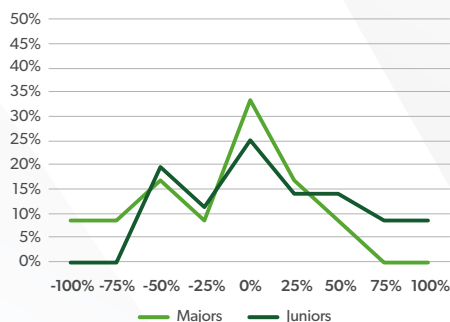
By what percentage to do you expect your company's investment levels to increase or decrease over the next 12 months in response to the COVID-19 outbreak?

Capital expenditure projections are much higher when compared to the results of the June survey. 44% of the mining executives surveyed now expect to increase investment levels over the course of the next 12 months compared to only 29% in the last quarter.

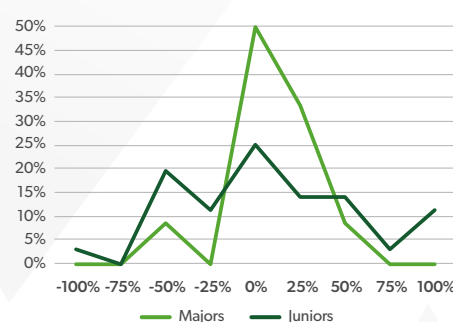
Investment in production capacity remains the priority as executives aim to bring assets back online after the pandemic-induced drop in output. These executives are aiming to take advantage of strong commodity prices forecasted over the next 6-12 months (see page 11).

Corporate development is also at the top of the agenda particularly among the producers with 50% expecting to increase investment in strategic partnerships over the next 12 months compared to only 29% back in June. Majors and mid-tiers with the financial capacity likely looking to take advantage of current circumstances to add to their production profiles and development pipelines.

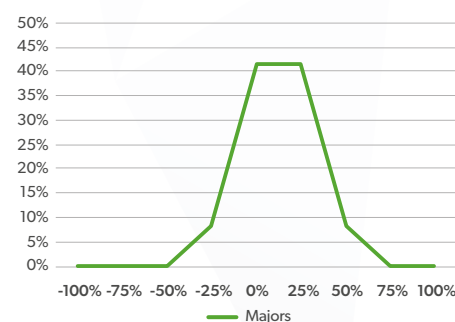
Exploration investment - Majors vs Juniors



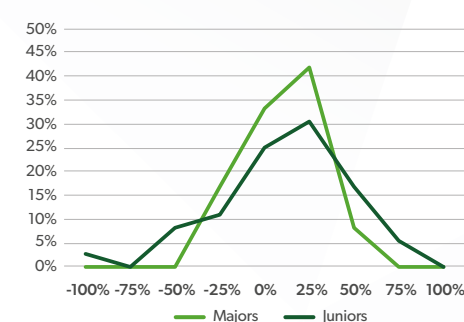
Development investment - Majors vs Juniors



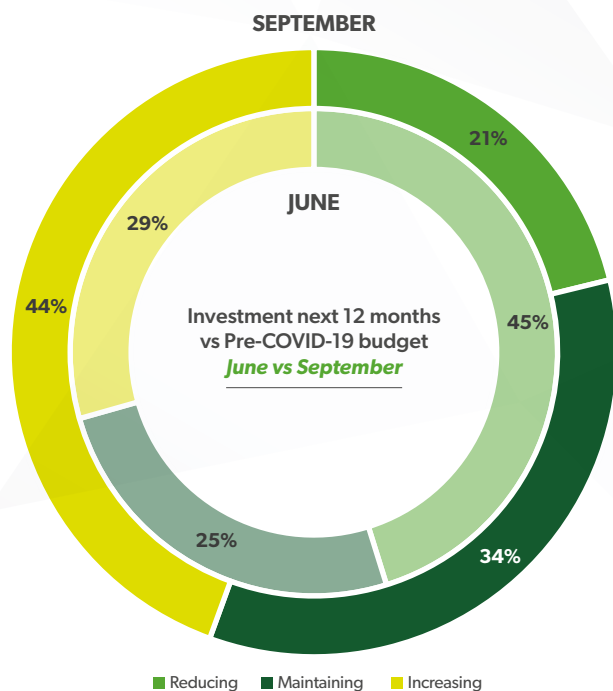
Production capacity - Majors vs Juniors



Strategic partnerships - Majors vs Juniors



Forecasted Mining Company Investment Over The Next 12 Months *Cont.*



Opinions from the industry

"While further worsening of movements could have a negative impact on our projects, we see this as a remote possibility. Given the positive impacts, we will be conscious of further developments and may consider further fast tracking our developments."

C-Level Executive, **Graphite Development Company**

"There are opportunities for undervalued assets, and companies and assets unable to survive the acute short to medium term cash flow impact. Those that have cash, will secure valuable deals."

Executive, **Diamond Mining Company**

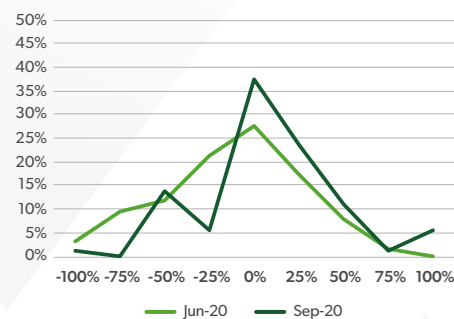
"Our exploration is likely to be delayed by 6 months or so, but we hope to catch up in 2021"

C-Level Executive, **Nickel-Copper-PGMs Exploration Company**

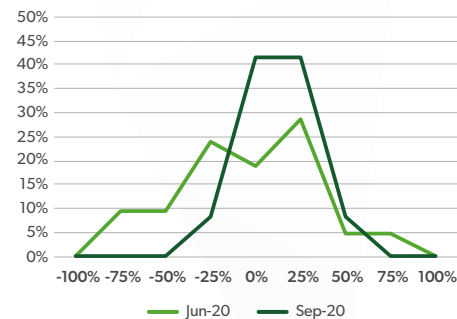
Exploration investment - June vs September



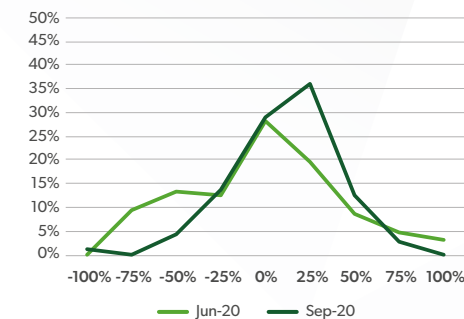
Development investment - June vs September



Production capacity - June vs September



Strategic partnerships - June vs September

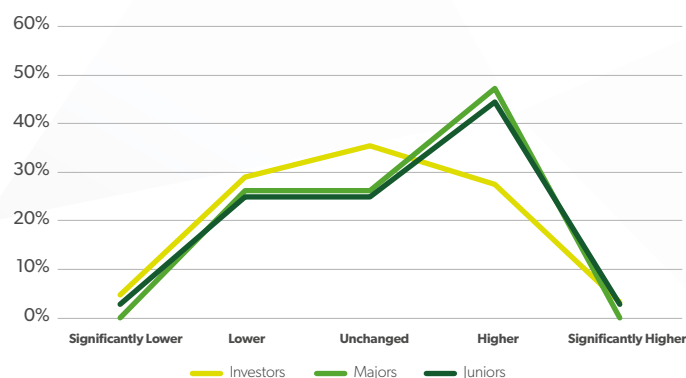


M&A Forecasts - Valuations & Volumes

When compared to pre-COVID-19 forecasts, what are your expectations for M&A valuations and volumes over the next 12 months?

In stark contrast to the results of the June survey, the majority in the mining sector expect M&A valuations to be higher than their pre-COVID-19 forecasts. This is naturally to be expected given the strong performance of certain commodity prices, particularly gold, which will inflate sellers' expectations. There is less consensus on the volume of M&A activity and consolidation amongst the industry with some arguing that the availability of cheap money and an increase in the number of distressed assets will result in more activity while others, presumably on the sell-side, anticipating less M&A activity with bullish forecasts for inflating expectations and making it difficult to reach agreement on price.

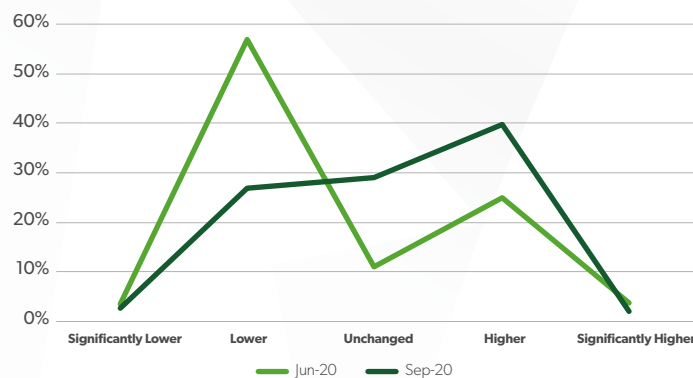
African mining M&A valuations vs Pre-COVID-19 forecasts - by segment



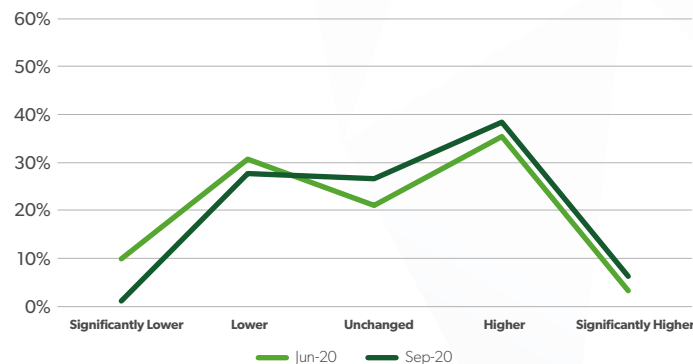
African mining M&A volumes vs Pre-COVID-19 forecasts - by segment



African mining M&A valuations vs Pre-COVID-19 forecasts - June vs September



African mining M&A volumes vs Pre-COVID-19 forecasts - June vs September



Opinions from the industry

"A significantly increased number of distressed assets, growing demand for metals, and stimulus for economy re-growth, all likely to impact M&A increase."

Principal, **Mining PE Fund**

"Cheap money owing to low interest rate environment combined with lower assets valuations present buying opportunities for industry players with strong balance sheets."

C-Level Executive, **Strategic Investor**

"Given current gold price, sellers' expectations are elevated making it very difficult to achieve agreement on price, without relaxing fiscal discipline."

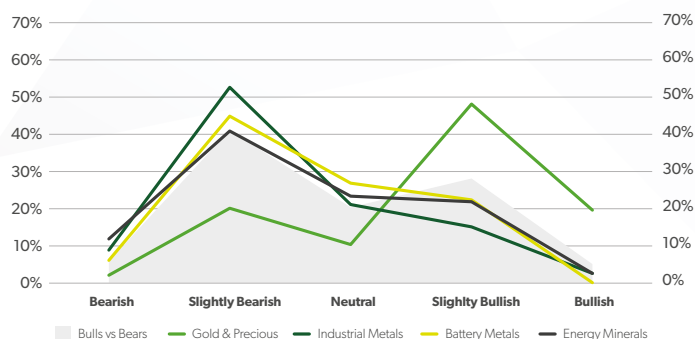
Managing Director and CEO, **Perseus Mining Limited**

Commodity Price Forecasts – 6-12 Months

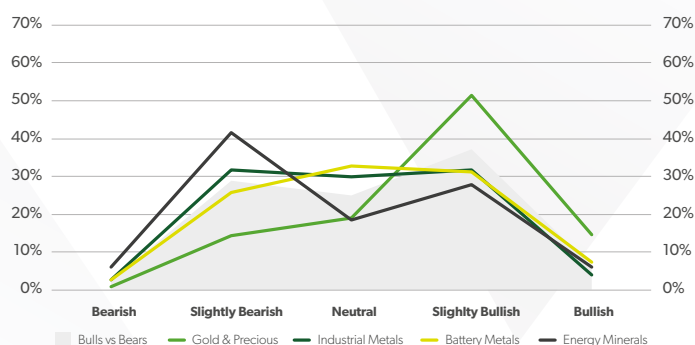
While much remains uncertain in the current global economic climate, the initial impact of the pandemic on Africa's mining leaders' forecasts for commodity prices has softened. The majority are now net bullish across the basket of commodities with large shifts in both battery and industrial metals with respondents citing supply disruptions and potential infrastructure investment as an economic stimulant as the catalyst for upward pressure on prices. Unsurprisingly, gold and precious metals still lead the pack in terms of forecasted price performances over both 6 and 12-month horizons given the ongoing uncertainty relating to COVID-19, monetary stimulus and the impending US election.

Despite the uranium price performing strongly since the declaration of the pandemic, largely in response to supply grounding to a halt in May 2020 as Kazakhstan stopped production, analysts at McKinsey & Co forecast metallurgical and thermal coal being hit hard as construction demand falls along with power requirements, in line with lower levels of economic activity. This might go some way to explain a mostly neutral outlook for energy minerals over the forecast periods.

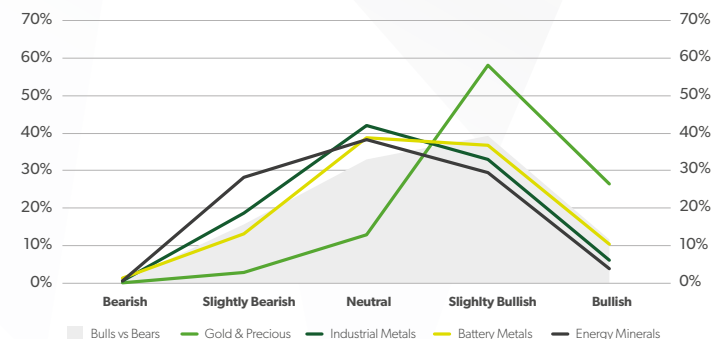
Commodity prices - 6 month horizon (June)



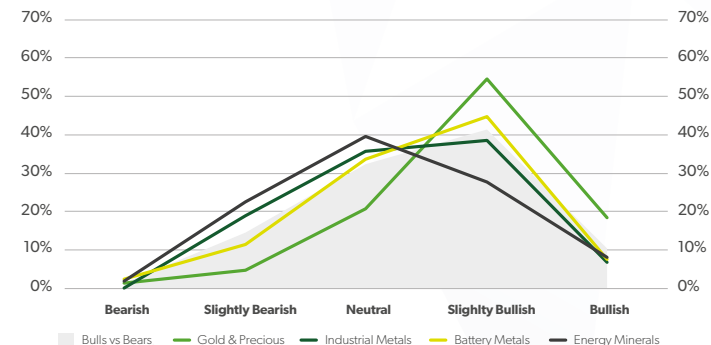
Commodity prices - 12 month horizon (June)



Commodity prices - 6 month horizon (September)



Commodity prices - 12 month horizon (September)



Opinions from the industry

"When the world is going to grow -5%, one cannot expect the need for commodities (coal, oil and gas, iron ore, chrome, manganese etc) to stay at previous levels, therefore more hard days to follow."

MD Vunani Resources

"We believe the global economic recovery, financial stimulus, infrastructure spending and automotive industry transition will be very positive for a broad range of mining commodities."

Managing Director, Tehama Capital Corp.

"The US election will determine the trajectory of many metals, but precious metals will be positively impacted by the (US and European) federal governments' continuous bailout / printing money as we head to an inflationary environment. China's need for growth will keep base metals on a positive trajectory, but again - premised on the US election."

C-Level Executive, Gold Development Company

Summary

Despite the lingering presence of COVID-19 and its ongoing impact on both the health of citizens and the global economy alike, the results of this latest survey suggest a slightly more optimistic tone amongst Africa's mining leaders when compared to those of our first survey just 3 months ago.

Mining companies operating in Africa have proven to be rather resilient to the challenges posed by the pandemic and, for the most part, have been strongly supported by governments who are very keen to see the sector resume

operations albeit within the confines of new, strict health and safety regulations.

The belief of many is that commodity prices will be supported by government spending and infrastructure investment to stimulate national economies around the world and, in the case of gold, in response to the influx of money that will be injected into these economies as a result. These bullish sentiments are clear to see in the results of this latest survey and bode well for the future health of the mining sector in Africa.

Much uncertainty remains, and many challenges will yet need to be overcome but we're buoyed by the optimism expressed by the leaders of the African mining community in the results of this survey. We will continue to seek their expert analysis and opinions through this series with the aim of providing you with another source of intelligence to better guide your investment and business decisions. In addition, we'll continue to produce industry-leading content and our website is full of useful insights, interviews and new updates to keep you abreast on the latest developments for the sector in Africa.



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CONTINUE THE CONVERSATION AT MINING INDABA

2021 will mark the 28th edition and we hope that you can join us, along with all four corners of the mining industry next February for more deal-making, and industry leading discussions where the impact of COVID-19 will surely be on everyone's lips.

For all commercial opportunities, contact fred.noce@miningindaba.com



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