A glass half full for SA for SA exploration and Mining

As I looked into the future, I started thinking about exploration projects in South Africa. It made me curious since exploration has an immediate socio-economic impact on our country's development. Every R1 billion spent on exploration by mining companies potentially contributes about R1.2 billion to the gross domestic product through direct, indirect, and induced impacts. For example, in 2019, mining contributed 7.8% to the gross domestic product, was the largest earner of foreign revenue, and directly employed 454 921 people. During March 2022, the mining industry marked the second most significant quarter-on-quarter increase of 2% in employment. Commentary in the literature suggests that for each mineworker employed, ten people are directly dependent on mining activity.

Without a vibrant exploration sector, the life of our industry will be finite. Even so, it seems that exploration activities in South Africa face quite a few challenges, among which financial challenges are mentioned the most. I would like to quote Roger Baxter, outgoing Minerals Council CEO.

> '*In the Toronto stock market, they've got 1600 listed junior resource companies. On the Sydney stock market, they've got about 600, and on the JSE, there are only about 12. Why the difference? Canadians have got a set of specific incentives that encourage the flow-through of venture capital funding from people from a tax perspective to invest in junior resource mining and their listing requirements are generally small and they raise capital, and they go and find deposits. In South Africa, our investment community are generally conservative and favour big mutual funds. Our return on a liquidated company is about 20c in the rand, whereas in a country like Canada, their liquidation and business rescue rules are quite different, so you get a much higher rate of return if you go into a failed company, even if it's a junior resource company, which is venture capital funded. For some of the smaller companies, to list on any stock exchange is a very expensive business and the cost-benefit of listing on a stock exchange versus raising private equity capital may be a lot more to do on a stock market, so that's why many are going the private route, but I think there are lessons we can learn from both Canada and Australia. South Africa's fiscal framework still does not have the same incentives around encouraging junior resource companies to set up in South Africa or to look for capital in South Africa.*'

Corroborating these statements, the literature often mentions lack of exploration investment as a key barrier to greenfield exploration activities in South Africa. Specifically, that the lack of listing of exploration companies on the Johannesburg Stock Exchange (JSE) limits access to resources underpinning exploration activities. The lack of diversity of available fiscal/financial instruments for junior miners is a major risk. The literature also has ample commentary on regulatory and policy matters, very specifically mentioning the existing timeframes for exploration and the principle of 'first come, first served' as barriers.

So, what is necessary to move forward and create more opportunity and support for greenfield exploration in South Africa?

Figure 1 shows that our Minerals Council is interacting directly with Government to promote very important initiatives in our industry. First of all, increasing global market share through a cadastral system that would make it easier to apply for the relevant rights designated in the Mineral and Petroleum Resources Development Act (MPRDA). During March 2023 the Department of Mineral Resources and Energy (DMRE), in collaboration with the State Information Technology Agency, issued a Request for Bids in respect of the design, implementation, maintenance, and support of an online mining licencing system to replace the SAMRAD system. If successful, this system could enhance regulatory certainty in the context of applications, speed, and efficiency of processing and dealing with issues of overlapping applications.

Also, tax incentives are necessary to attract investors into exploration ventures. The Canadians have been highly successful in developing these specialist junior exploration companies, largely by using the flow-through share tax incentive model to attract equity investors into the sector. During October 2020 the Minerals Council, in collaboration with advisors including Fasken, one of the largest business law firms in Canada, submitted a

President's Corner *(continued)*

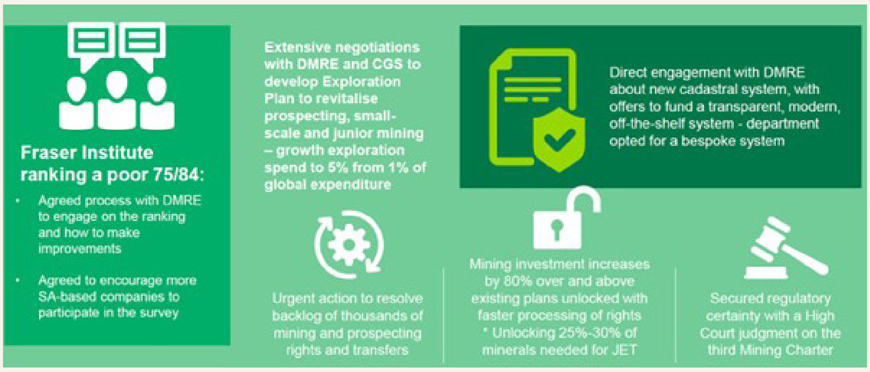

Figure 1–Taken from Roger Baxter, Minerals Council, Q4 2022

proposal to the National Treasury regarding the introduction of a local tax incentive based on the Canadian flow-through shares model, proposing tax incentives for purchases of equity in entities undertaking exploration activities.

To address regulatory barriers, there are recommendations on the table for appropriate amendments to the regulatory framework to allow for adequate data collection to enable a qualitative-based system (as opposed to 'first come, first served'), whereby the processing of applications will be determined based on how best applicants will achieve the objectives of the MPRDA.

In summary, there is plenty of positive activity in our industry at the moment. The Minerals Council has been very active in facilitating engagements between the JSE and its junior, emerging, and exploration members and associations. Samuel Mokorosi from the JSE is attempting to make it easier for companies to get onto, and remain on, the exchange, while ensuring that investor protection is of the highest calibre. For example, the Junior Mining Accelerator Programme, aimed at introducing the smaller companies to financial markets and taking the complexity out of listing on the JSE. Two small black entrepreneurial exploration companies are already on the programme, and both have reported that it has really been beneficial. The Exploration Strategy for South Africa's Mining Industry (Exploration Implementation Plan), published by the DMRE on 14 April 2022, is intended as a roadmap for us to achieve our objective of reviving South Africa's appeal and market share in the global minerals sector. South Africa's share of global exploration activity stood at 5% in 2003, but has now declined to below 1%. This comes at a time when the race for rare earth minerals and minerals of the future is at a critical point, thus making the strategic placement of mineral-rich countries a key focus.

At the time of doing this literature survey, there were some major new projects on the horizon, for example, a project by Hive Hydrogen (a partnership between UK-based Hive Energy and South Africa's Built Africa) to establish a green ammonia export facility. The plant will be developed for an estimated US$4.6 billion (R70.5 billion) at the Coega Special Economic Zone in the Eastern Cape. The facility is expected to produce approximately 780 000 t of green ammonia per year from hydrogen through a process using renewable energy and nitrogen extracted utilizing an air separation unit. The first phase should start operation in 2025, with full operation planned for 2026. An Australian exploration and development mining firm, West Wits Mining, is looking at an underground gold mine in Gauteng. The DMRE approved the mining right application in July 2021. A scoping study estimates total resources at about 29.1 Mt, an average steady-state annual production of 80 000 ounces for 18 years, and a 22-year life-of-mine. The project will be implemented in five stages. The first, development of the Qala Shallows mining area, is underway following the completion of a feasibility study in September 2021. It is expected to provide a 40% of the total output. The estimated peak funding requirement for this stage is US$50 million (R767 million). In renewable energy, the DMRE has announced 25 projects as preferred bidders, of which 19 projects are led by or include foreign investors, as part of the Renewable Independent Power Producer Programme (REIPPP). These projects have a total estimated investment value of R38 billion and involve four major foreign firms.

I choose to focus on these very positive initiatives and I'm choosing to see a bright future for exploration in the South African mining industry.

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President, SAIMM