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Africa Edition

Steadily Advancing the Buckreef Gold Project

– Tanzanian Gold Corp

Financing the Next Generation of Mines in Africa

with Joe Mazumdar

Champions of ESG: Financing Sustainable Development in Today's Industry

with Nivaash Singh

Q&A

ESG STRATEGIES FOR INVESTING IN AFRICA

With Scot Sobey, Investment Director, Pacific Road Capital

What types of investments are Pacific Road Capital looking for in the region?

Today is an interesting moment in time, geopolitically. Over the long term, we see substantial opportunities in critical minerals and materials which facilitate low emissions and decarbonization. Yet currently, there is a large tug-of-war around who will control those resources. We believe that Africa will have a very important role in providing materials for the future and the continent will benefit from a massive, rapidly growing consumer base.

As we begin 2021, investing in Africa is a challenge for us, especially for concentrated investments. The high frictional costs and uncertainty around travel are very real barriers to the due diligence and company building that we would typically undertake in a concentrated investment. We are currently screening select investments in existing producers as we seek to provide transformational growth equity into strong platforms.

What are the main criteria you look for in an investment?

Every investment is different, yet in our investment framework we have some key considerations, which are as follows:

- **Establishing a value and catalyst-driven investment thesis**
  We look for opportunities that are selling at substantial discounts to the intrinsic value of the asset. We also look for close sibling of value, the catalyst, where changing a company's direction can lead value realization. Sometimes, the changes are operational or strategic: a critical resource expansion, growth equity to recapitalize a balance sheet, or the acquisition of a logical target. Other times, the catalysts are more external: the exit of a large, concentrated owner or the restructuring of the company's balance sheet. Last, we consider the macro environment and think about how commodity prices and industry momentum can change or accelerate the likelihood of revaluation.

- **Fitting the opportunity with the right ownership and liquidity parameters**
  Concentrated investments are typically time-intensive and highly illiquid. In these situations, our first goal is to acquire sufficient ownership to control the value creation process. We also want to begin the investment cycle with enough capital on hand, either ours or with partners, to complete whatever business transformation is required. We are working on a handful of these opportunities today, but there is a high bar when due diligence and travel are so difficult. We are also evaluating some much more

liquid investments in smaller sizes that would enable us to realize value at the time of our choosing.

- **Proactive management and disclosure of ESG risk factors**
The emergence of ESG is a topic that has been very front and centre over the last four years, and often means something quite different to different investors. At Pacific Road, we have defined a number of ESG focus areas that we consider upfront in our investment process and, typically, they equate to a proactively well-run resource company. As a first step, we look for and review the publicly available ESG disclosure and fill in the blanks as we interact with management teams and boards. When we deem them to be a material risk factor, we look for strong systems and thought processes around anti-corruption, human rights, safety, tailings, air/water/ carbon emissions, indigenous people, broader community relations, and diversity.

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- **Jurisdiction and political risk**
Particularly in Africa, as commodity prices rise there is risk that local governments will seek to alter terms to collect additional revenues. As a result, both political and

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social stability are key to our investment decisions. We also consider the location of the project across several dimensions, including the broader mining district, proximity to other producing mines, availability of key infrastructure and resources, and regional and intra-project geology. We are especially interested in projects that can scale well beyond their existing lease boundaries.

- **Familiarity**
  Today, due to the aforementioned constraints on travel and due diligence, we are mainly focused on jurisdictions where we have invested before and/or people and projects that we have known for some time.

How does ESG play into your investment decision-making?
We believe that the best predictor of long-term success in the resource sector is how you run your business. This involves how you interact with your stakeholders, the footprint you leave on the environment, and how you identify and manage risk. We know that being proactively engaged in these issues is both essential and profitable. Pacific Road is leading the conversation around bringing best-in-class ESG standards to small and mid-sized metals and mining companies.

During the pre-investment phase, we look at ESG performance and risks as a key part of our due diligence. Our assessment of ESG status, risks, and management's commitment to strong ESG are key in our evaluation of individual opportunities. When we do invest, our decision includes our own commitment to deliver on identified ESG outcomes, and during the investment period, we leverage the channels of influence available to us as an active investor, including using our own network of operating partners and other subject matter experts.

What are some of the ESG barriers you have come up against in doing investments in the region and how do you work with them?

Typically, we find that junior and mid-tier mining companies are undercapitalized, with relatively small and stretched management teams whose primary focus is on driving tangible production outcomes. The investor universe, however, is increasingly focused on driving improved ESG outcomes by ensuring that new money invested comes with certain conditions and standards of ESG.

As an active investor, we have the ability to control and influence board and management decision-making, which is part carrot and part stick. We use our in-house pre-investment decision-making process to assess ESG performance, risk, and opportunity for a targeted investment, while recognizing that not all companies will have a well implemented or even well-defined ESG roadmap. As such, prior to any investment being made, we establish an ESG commitment roadmap with the board and management team with clearly articulated milestones. We then link these milestones to specific incentives and remuneration to ensure delivery of the desired ESG outcomes. A

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