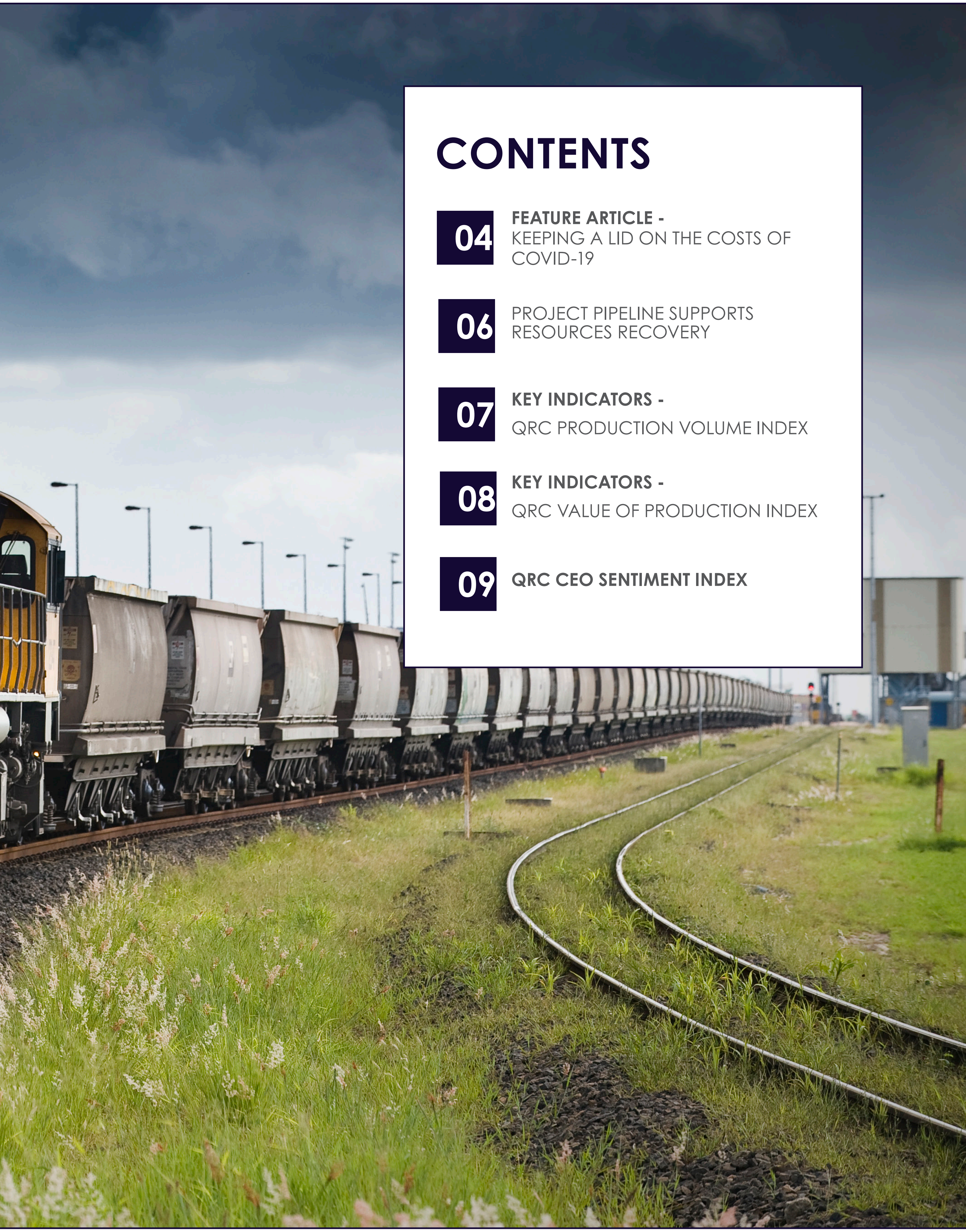
QUEENSLAND resources COUNCIL

QRC STATE OF THE SECTOR

MARCH QUARTER 2020


2333
2333



CONTENTS

KEEPING A LID ON THE COSTS OF COVID-19

On 14 March Australia recorded its 100th COVID-19 case. Seven weeks later, 7.3% of all Australian jobs had vanished — with as much as a quarter of all jobs disappearing in some industries.[1]

The resources sector didn't escape the pain. Australian mining jobs including upstream oil and gas decreased by 6% over the same period. A disturbing result in normal circumstances, but in this COVID context, making resources one of the least-affected industries so far. The Queensland result was slightly improved too, with 5% of mining jobs lost in the same period.

Through a 'people first' approach, the Queensland resources sector has managed to limit the impact of COVID-19 on its workers and their local communities. The sector has worked to stop the spread of COVID-19 through staff education programs, enforcement of social distancing measures, charter flights for staff, temperature testing before travel, and offering opportunities to live locally.

The Queensland Government's efforts to protect public health and the economy have also been warmly welcomed by the sector. According to the latest QRC CEO Sentiment Survey, 72% of QRC member CEOs said the Queensland Government had performed well or exceptionally well when compared to other Australian jurisdictions. When compared to international jurisdictions, 83% of CEOs said the Queensland Government has performed well or exceptionally well.

> *On the road ahead, a close partnership between the public and private sectors is absolutely vital to success."*
>
> Premier and Minister for Trade, The Hon. Annastacia Palaszczuk, 19 May 2020

> *The declaration of mining as essential and the timely provision of suitable protocols to support activity has been extremely useful"*
>
> QRC member CEO, May 2020

The resources sector and government working collectively has meant operations have maintained production, supporting the Queensland economy through the lows of the pandemic. Queensland's Treasurer, Cameron Dick recognised the sector's contribution:

> *There are some parts of our economy that have not stopped – mining, agriculture, manufacturing. All of those industries have stepped up for our state"*[2]
>
> Queensland Treasurer, The Hon. Cameron Dick, 11 May 2020

The resources sector accounts for over 80% of Queensland's goods exports and supports the jobs of one in seven Queenslanders.[3] Much of Queensland is therefore relying on the resource sector's ability to remain a step ahead of the competition.

Each year the QRC asks member CEOs to rate their Queensland operations against their global competitors. Based on the 2020 results, much of the Queensland resources sector has taken the lessons of previous financial crises by maintaining their focus on costs and efficient production.

[1] ABS, Weekly Payroll Jobs and Wages in Australia, Week ending 2 May 2020 [2] AFR [3] Qld Treasury

Queensland coal and mineral miners are in a substantially better position going into the COVID-19 crisis than the previous commodity price lows of 2015. In 2020, 50% of CEOs expect their Queensland operations to remain in the lowest quartile of the global cost curve, with close to 90% sitting in the bottom half of the cost curve.

In contrast, Queensland's oil and gas producers have crept higher up the cost curve since 2015. According to this year's survey, all of Queensland's oil and gas operations remain in the top half of the cost curve, with three quarters in the highest cost quartile. A strong deterioration from five years ago when 60% of producers felt they were in the low half of the cost curve.

QRC member CEOs have said COVID-19 has introduced several new and significant cost pressures on their businesses. Despite many producers remaining in the lower half of the cost curve, 16% of QRC member CEOs expect their cash margins to remain negative for the next 12 months and a further 26% of CEOs are unsure whether they will achieve positive margins over the same period.

Some sources of the impact include:

> "access to parts and spares Is more difficult and social distancing is adding significant time and cost to shutdowns"

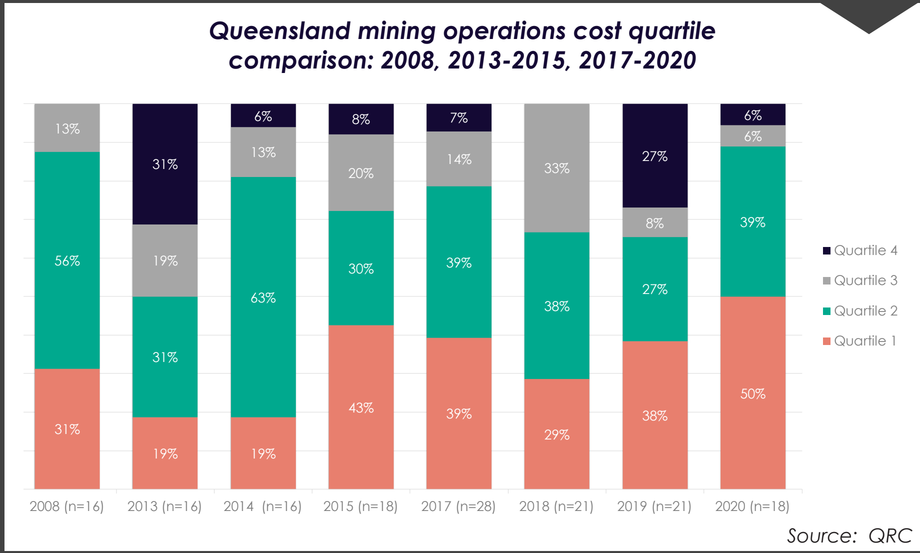
> "our mine has not been affected by COVID directly but the new protocols we have all had to implement have added cost and increased administration"

> "closures of local accommodation is a serious issue in terms of being able to undertake activities"

> "cash costs are under the microscope. The only saving grace is the soft Australian dollar"

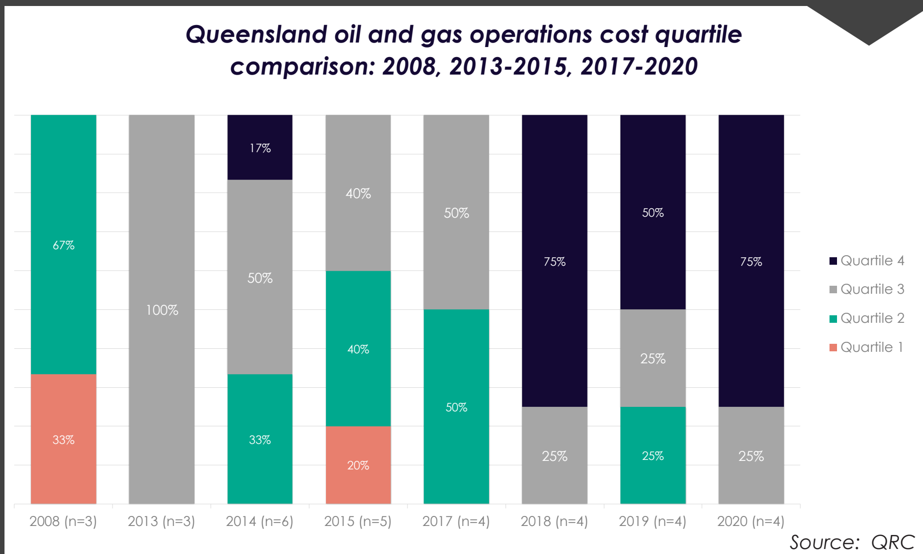
QRC member CEOs, May 2020

CHART 1: QUEENSLAND MINING OPERATIONS COST QUARTILE COMPARISON



Source: QRC

CHART 2: QUEENSLAND OIL & GAS OPERATIONS COST QUARTILE COMPARISON



Source: QRC

But QRC members recognise they will remain operating in their communities for the long term and have sought to support local communities despite the cost pressures. Glencore recently donated hundreds of PPE and a COVID-19 testing machine for the North West region. BHP's Vital Resources Fund provides $50 million to help support regional Australian communities through COVID-19, while AGL and Origin Energy have both worked to support their residential and small business customers by pausing disconnections, waiving late payment fees and extending payment terms.

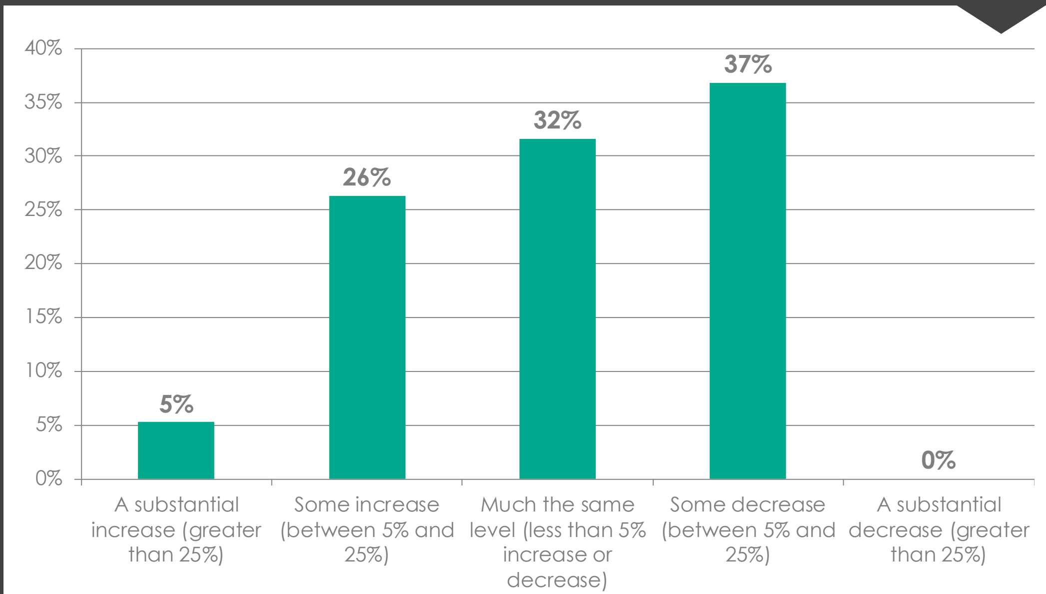
PROJECT PIPELINE SUPPORTS RESOURCES RECOVERY

COVID-19 has delivered a temporary hit to commodity prices, yet QRC member CEOs have said the industry is likely to maintain strong employment over the next 12 months. According to the latest QRC CEO Sentiment Survey, 63% of CEOs expect to maintain or grow their workforces over the next 12 months—with 5% of CEOs expecting to grow their workforce by more than 25%. An astounding result in a challenging labour market.

Looking ahead, there's more employment growth on the way. In April 2020, Shell announced its decision to develop the Arrow Energy Surat Basin Gas project, which will deliver 200-plus construction jobs and 1000 jobs over the life of the project. The Australian Government also approved Pembroke's Olive Downs metallurgical coal mine near Moranbah, which will deliver more than 1000 new jobs for Queensland.

There are opportunities to keep the jobs pipeline flowing over the medium term. A growing South East Asia and booming demand for low emission technologies will drive future demand for Queensland's resources. The major challenge remains ensuring the sector has the policy and financial support necessary to continue investing in Queensland.

CHART 3: QRC MEMBER CEO 12-MONTH WORKFORCE EXPECTATIONS



Source: QRC

KEY INDICATORS

QRC PRODUCTION VOLUME INDEX -
PRODUCTION STEADY OVER THE QUARTER

The QRC's quarterly Production Volume Index tracks changes in the total production of Queensland's major commodity exports—alumina, aluminium, bauxite, coal, copper, gold, lead, LNG, silver and zinc.

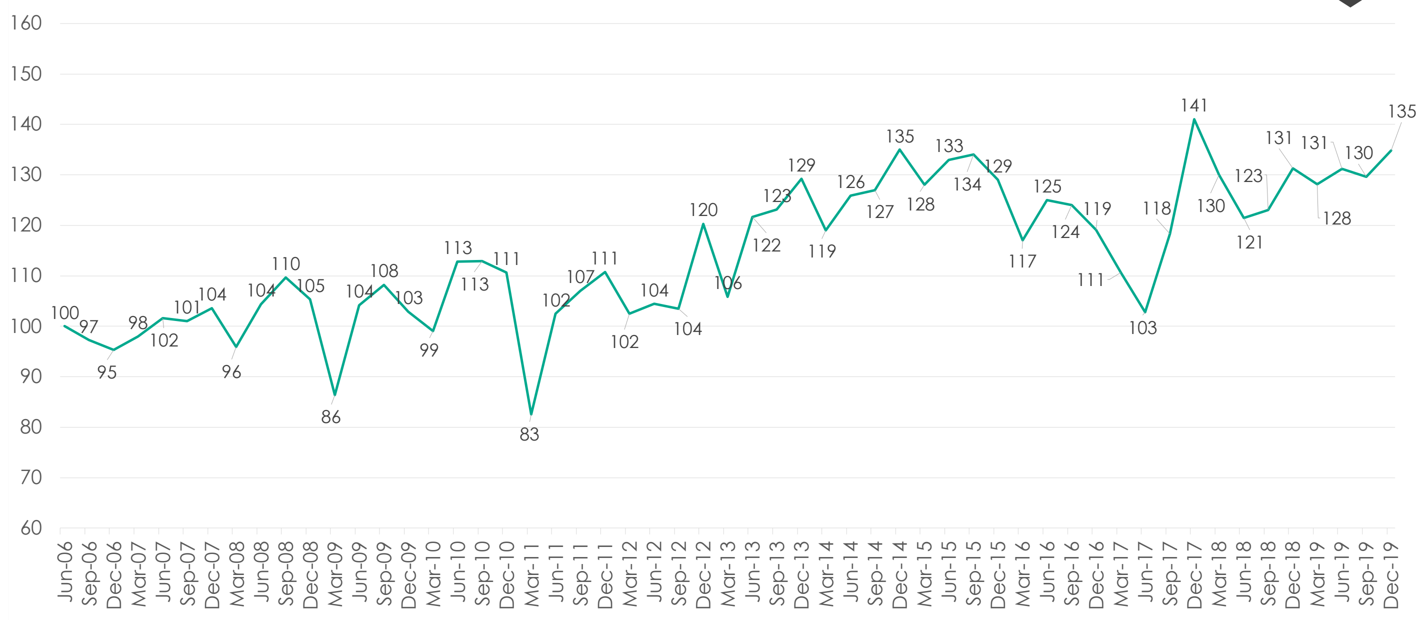
The Production Volume Index is weighted by the value of each commodity. This means changes in the volume of coking coal (which is over half of the total index value) has a larger impact on the quarterly index result than, for example, changes in thermal coal volumes (representing approximately 10–15 % of total value).

For this quarter, the QRC's Production Volume Index increased to 135 points, five points up on the September 2019 quarter to its highest level since the December 2017 quarter. The latest increase means Queensland's resources production is now 35% higher than when the index first began in 2006.

Queensland's diverse portfolio of resource exports shone through over the quarter. Bauxite and alumina production again led the pack achieving 13% and 16% production increases over the quarter. LNG also achieved strong growth to round out 2019, with exports increasing by 7% across the quarter. Gold was the only commodity to experience a production decrease, with production sliding 9%.

The production data used in the Index is published with a lag, so the impact of COVID-19 is yet to appear in the Production Volume Index. However, early ports data suggests production volumes have not experienced a repeat of the Global Financial Crisis, where the QRC's Production Index plunged to 86 points between the September 2008 and March 2009 quarters.

CHART 4: QRC PRODUCTION VOLUME INDEX - DECEMBER 2019 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



Source: QRC, OCE, EnergyQuest, IHS

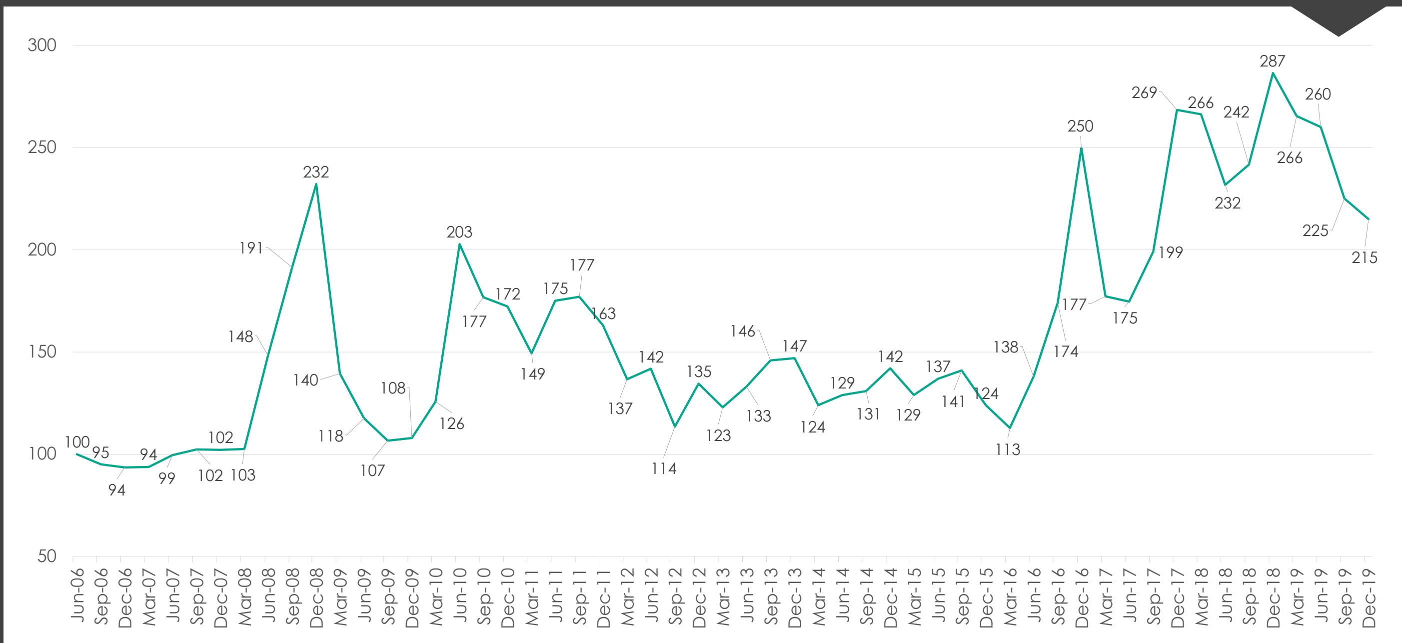
QRC VALUE OF PRODUCTION INDEX

QRC's Value of Production Index reflects changes in the prices of the resources that Queensland produces. The weighted index reflects the same mix of commodities as the QRC production volume index, which includes LNG production from the December 2016 quarter.

Over the December 2019 quarter, the QRC's Value of Production Index decreased 10 points —from 225 to 215 points. For the December quarter, strong price increases in silver (14%), gold (13%) and LNG (8%) were more than offset by declines in coking coal (21%), zinc (15%) and thermal coal prices (15%). Despite the drop in the value of production, this index result shows Queensland's resources production value is still over twice the size it was in 2006.

Like the Production Volume Index above, the full impact of COVID-19 is yet to appear in the QRC Value of Production Index, which relies on lagged production and price data. Production volumes have remained steady during the pandemic to date. However, spot prices for many of Queensland's commodities have weakened, suggesting further declines in the Index can be expected in the March and June 2020 quarters.

CHART 5: QRC VALUE OF PRODUCTION INDEX - DECEMBER 2019 QUARTER (A$) (QUARTERLY) (INDEX BASE JUNE 05/06=100)



Source: QRC, OCE, IHS

QRC CEO SENTIMENT INDEX

Each quarter, the QRC prepares its CEO Sentiment Index by surveying its full member CEOs. The survey typically receives between 20-35 responses from mining and energy, minerals processing, contracting, exploration, electricity generation and oil and gas extraction members in Queensland.

Each survey asks CEOs to nominate the extent they expect a series of eleven factors to impact on the objectives of their organisation over the next 12 months. For this edition, the QRC has also included "Public Health Impacts of COVID-19 as an additional sentiment factor.

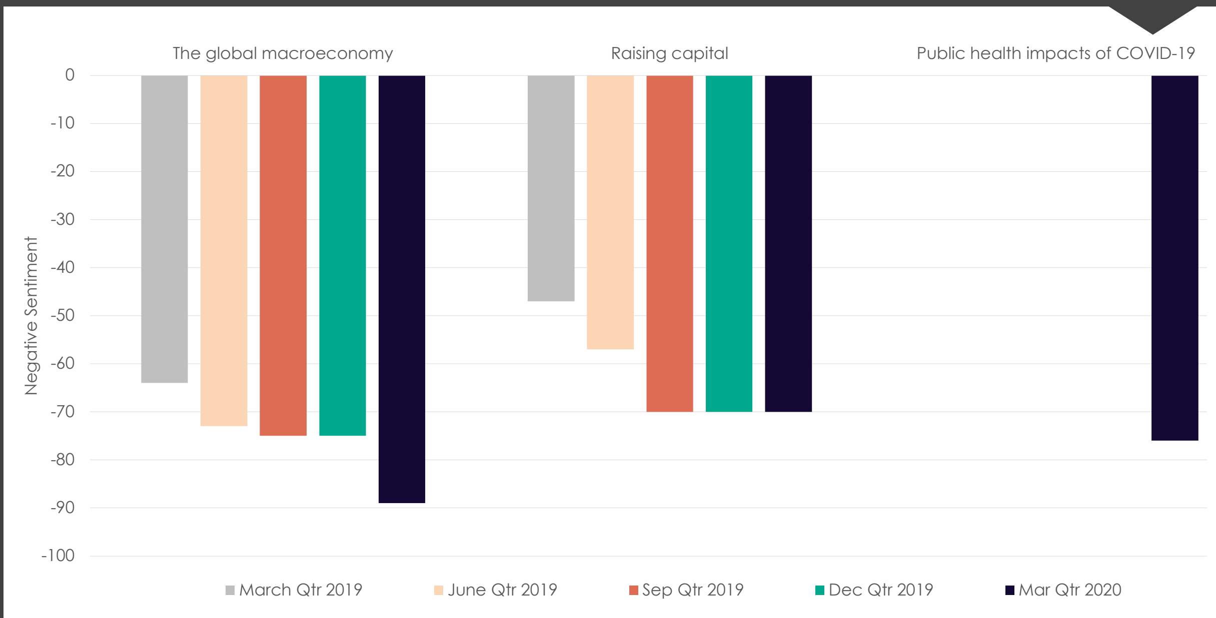
The QRC weights the responses to create a single sentiment value for each of the sentiment factors. The weighting means the factors generating the greatest concern receive the lowest scores and are lower down on the negative axis.

Last quarter's CEO survey was a turning point for sentiment in the sector. QRC member CEOs pointed to the global economy as their number one concern for the first time in four years as trade tensions rose and COVID-19 appeared on the horizon.

Now, in the March 2020 quarter, the full impact of COVID-19 is clear, with CEO sentiment falling on several fronts. The global economy is again the top concern for CEOS, followed closely by the new sentiment factor, public health impacts of COVID-19. CEOs pointed to the clear link between COVID-19 outcomes and the health of the global economy.

In the March 2020 quarter, CEO sentiment towards the global economy has dropped a further 19% to a record low for the QRC Sentiment index. This result is not a surprise given the impacts of COVID-19 were preceded by global trade tensions that continue to attract headlines.

CHART 6: CEO SENTIMENT INDEX RESULTS-TOP 3 CONCERNS FOR QRC MEMBER CEOS



Note: Public health impacts of COVID-19 is a new sentiment factor for the March 2020 quarter.
Source: QRC

> *The oil price collapse in combination with COVID-19 is a 1 in 100-year event for us (hopefully)"*
>
> QRC oil and gas member, May 2020

Raising capital came in as the third-highest concern for CEOs this quarter although for different reasons than the last quarter. In December 2019, CEOs pointed to social licence difficulties and growing shareholder activism as major drivers of their capital challenges. This quarter, growing global uncertainty has made access to capital increasingly difficult with CEOs pointed to the link between all three sentiment factors:

> *Uncertain financial markets render capital raising and allocation at a premium. The global macro environment may eventually impact on demand for commodities"*

Chart 6 illustrates the change in sentiment over recent quarters for our member CEOs' top three concerns.

QUEENSLAND RESOURCES COUNCIL

LEVEL 13
133 MARY STREET
BRISBANE 4000
QUEENSLAND
AUSTRALIA

T (07) 3295 9560
F (07) 3295 9570
E info@qrc.org.au
W www.qrc.org.au

PUBLISHED JUNE 2020