



Trading Update for the Third Quarter (FY2020)

Padenga Holdings Limited hereby issues its trading update for the third quarter ending 30 September 2020.

Trading Environment

The trading environment continued to be challenging. Persistent liquidity shortages adversely impacted the already short local money market. A majority of local suppliers have resorted to cash-based transactions with many now demanding payments upfront. Credit terms were near impossible to negotiate as suppliers sought to lock in value at the time of transacting.

Volume Performance

Zimbabwe Crocodile Operation

In the Zimbabwe operation, skin sales volumes were down 42% compared to prior period (8,286 skins vs 14,321 skins) as a result of the lockdowns. By the end of Q3 22,796 crocodiles had been harvested and the skins were awaiting sales grading to be convened when international travel resumed. The size and quality of the harvestable crop in the pens was consistent with expectations to achieve the budgeted harvest by year-end.

After the lifting of the travel restrictions in October, a total of 18,629 skins were graded and invoiced. Of those 6,260 skins were shipped in October and the remainder are to be shipped in November. The next sales grading is scheduled for early December.

Demand for crocodile meat in Europe remained subdued despite restaurants opening towards the end of the second quarter. At the end of Q3 European export stocks amounted to 68.1 tons. Initiatives are in place to develop the local market to absorb this product until the international export market returns.

United States Operation - Tallow Creek Ranch

At Tallow Creek Ranch, skin volumes were up 29% compared to the prior period (16,916 vs. 13,130). The total harvest to date for 2020 is 14,015 skins and the total harvest for the year is expected to be 18,149 skins.

The market for watchband size skins remains very weak because of over-supply and reduced demand in this sub-sector of the market. The situation is slightly better for medium and large skins but prices being offered are not viable.

Dallaglio Mining Group

Dallaglio's gold sales volumes for the nine months to September 2020 increased by 20% to 544.2kgs from 452.8kgs in the prior

comparable period. The spot price of gold firmed by 27% from an average of US\$1,364 per ounce to an average of US\$1,735 YTD. The effective real average selling price jumped significantly aided by the introduction of the interbank auction which saw convergence of the parallel and interbank rates.

Capital Expenditure

Commissioning of the second 470kWp phase of the renewable solar energy plant was extensively delayed due to the lockdown throughout the period under review but finally occurred on the 4th of November 2020 thus bringing total solar power generation to 745kWp. Equipment for the final phase 3 installation was caught up in Spain during port lockdowns and has only been shipped in late October. The final 455kWp intended to bring the full solar generating capacity to 1.2mW will now be completed during Q1 2021. These installations reinforce the Group's commitment to sustainability through the application of alternative and renewable energy solutions.

Construction of the consolidation phase of the proposed effluent treatment plant for the crocodile division in Kariba commenced in May 2020. This initial phase collects all wastewater discharge from multiple drain points around the farms and delivers it to a single collection point from which it will be delivered to the proposed effluent treatment plant. It is 60% complete with all civils works due for completion on the 6th December. Design options for the treatment plant continued to be reviewed and solutions sought that will allow the treated water to be used for agricultural purposes to achieve improved cost/benefit outcomes from an investment of this magnitude.

Dallaglio's capital expenditure for the period under review was focused on the rehabilitation project at Delta Gold's Eureka Mine in Guruve. In the nine months to September 2020, a total of US\$15,189,745 was spent on this project. This is in addition to the US\$7,886,026 spent in 2019 bringing total project cost to date to US\$23,075,771. A further US\$26,300,658 is budgeted to be spent on this project before commissioning.

Financial Performance

Performance in the period under review was enhanced by the consolidation of the Dallaglio mining business with effect from 1 January 2020. Revenue was up 221% with the mining business contributing 70% of that. Covid related disruptions impacted the sales of crocodile and alligator skins with no meaningful turnover being recorded since April, 2020. Notwithstanding this, revenue from skin sales was only 5% below prior period.

Total expenses for the period to September 2020 were 8% below budget and 27% above prior year. Prior year figures did not include the Dallaglio mining business, hence the distortion in the cost increase comparison against prior period.

Publication of H1 Financial Statements

As previously reported, publication of the financial statements for the half-year ended 30 June 2020 has been further delayed, and will now occur on or before the 30th of November 2020. The delay in publishing the Group financial statements has resulted from the consolidation for the first time of financials for the 50.01% investment in Dallaglio Investments (Private) Limited. The external auditors for both Padenga and Dallaglio are on schedule to complete the audit of Dallaglio and the review of Padenga within this revised timeline.

Impact of COVID-19 on the business

The Covid-19 pandemic continued to pose an ongoing threat to business continuity as it impacted traditional markets in those countries that the business trades skins into. However, with the easing of lockdowns the two main retailers of high-end leather goods both reported improved sales volumes across all product categories in Q3 in their trading updates. Covid related lockdowns prevented the scheduled skin sales gradings during Q2 and Q3 from occurring. Tanneries in France and Italy have remained open in the quarter after Covid shutdowns with emphasis on processing skins exclusively for their top-tier customers. Strong retail sales have since been recorded across Asia as those regions recovered following lockdowns. The full impact of the Covid pandemic remains difficult to assess in the short term and the business is responding to the needs of its primary customer in order to sustain sales volumes and margins.

PHL continues to manage stock levels for its critical inputs such as feed, chemicals and other consumables, ensuring a stock cover of between three and six months depending on the perishability of the commodity. Although international supply chains have been volatile, sufficient orders have been placed to ensure business continuity through to mid-2021.

All employees continued to observe and adhere to the Covid preventive measures implemented by the company. These include social distancing, washing of hands, wearing of washable face masks and partaking in rapid testing at specified intervals for vulnerable groups of employees and anyone re-entering the "workplace bubble" established in line with the Covid policy adopted by the Company.

Lockdown restrictions are being continuously reviewed across the globe and management is confident that the skins sales targets for the year will be achieved.

Market outlook

The Group is well positioned to meet the current challenges and generating sustainable long-term growth across all its business units, which should in turn drive enhanced shareholder returns. The current market is demanding defect-free skins and prices are holding for that quality of skin. Grading stringencies are anticipated to be tightened as the supply of skins currently exceeds demand. This will over time see fewer skins being sales graded as Grade I's but the Company has anticipated this and is revising its production strategies to produce skins of higher quality at reduced volumes. Skin prices and contract volumes for 2020 Nile skin sales were successfully negotiated and agreed before sales grading commenced recently.

The alligator skin market is particularly weak as a consequence of cyclical over-production compounded by the market depression resultant from the Covid pandemic. However, depressed demand for alligator skins generally will adversely impact volumes and prices for the next two to three years. Production is being adjusted to produce the exact sizes and numbers that customers still in the market require and cost containment is being practiced to sustain liquidity. The Alligator business is unlikely to meet its financial targets for the year.

Gold production volumes at Pickstone Peerless mine will exceed prior year. This coupled with the increased gold spot prices, means that the gold mining subsidiary will help the Group ride the difficult trading conditions in the Crocodilian business.

The rehabilitation of Eureka Mine is on schedule for completion mid-2021 and will significantly increase gold production volumes and profits for the Group. The firming of gold prices on the world market will enhance both turnover earnings and profits from the Dallaglio mining operation, and this will provide increased value to Padenga shareholders.

T N Sibanda
Chairman

13 November 2020