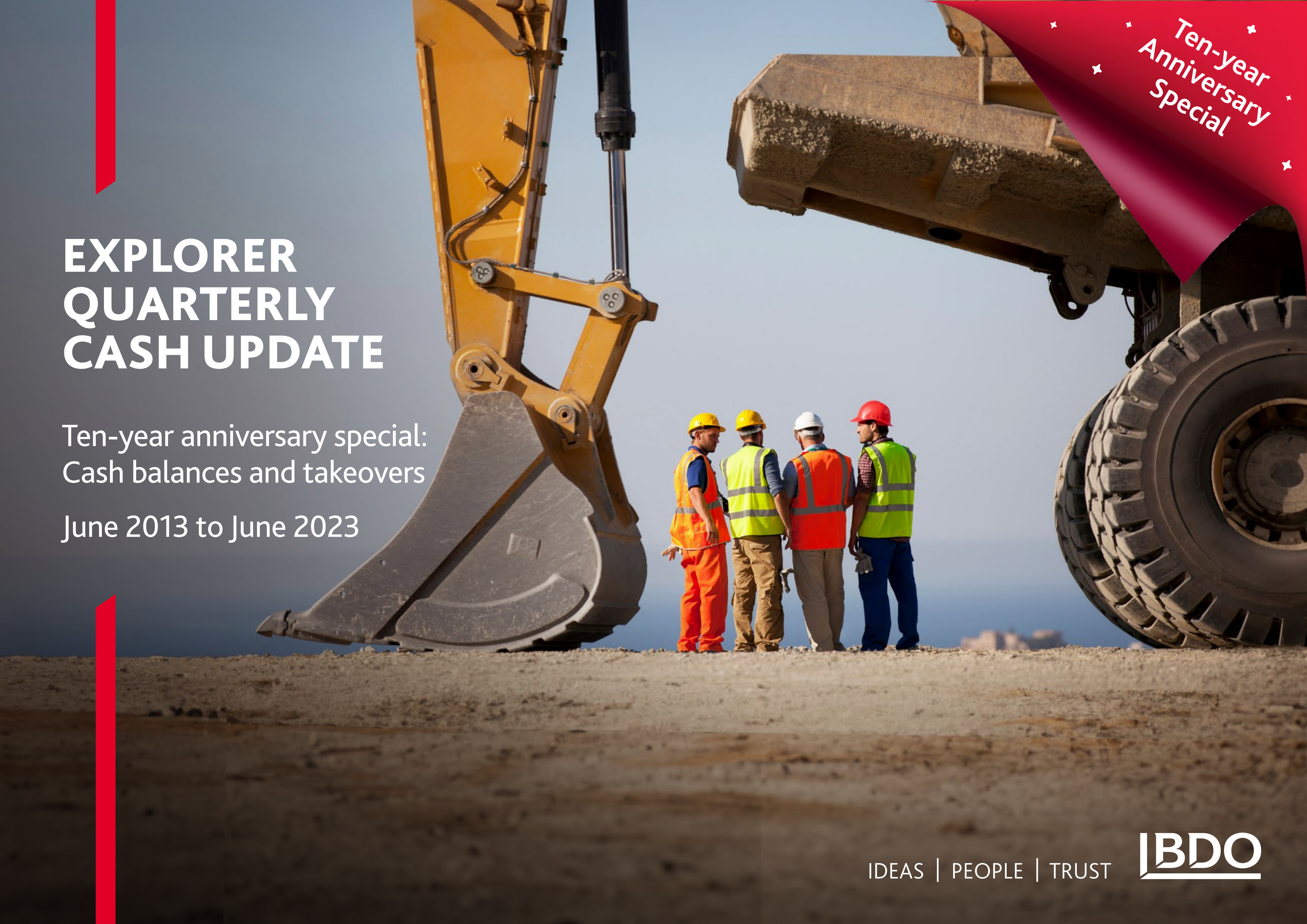


Ten-year Anniversary Special

EXPLORER QUARTERLY CASH UPDATE

Ten-year anniversary special:
Cash balances and takeovers

June 2013 to June 2023

IDEAS | PEOPLE | TRUST

BDO

FOREWORD

Every quarter since June 2013, BDO has analysed the financial health of the Australian exploration sector based on cash flow data from Appendix 5B reports lodged with the Australian Securities Exchange (ASX) by listed exploration companies.

The June quarter of 2023 marks the 10-year anniversary for our analysis of this data, and over the course of this period, we have had the privilege of witnessing how the sector has grown and evolved against the wider backdrop of the business cycle, capital market movements, geopolitical events and trends in commodity markets.

Cash, as we know, is the lifeblood of exploration companies. Our quarterly analysis has always sought to understand how cash is moving in and out of the sector, and aims to answer questions such as, "how much cash is being raised?", "by whom?" and "how is it being spent?".

When reflecting on the history of Australia's junior exploration sector, I enjoy Paydirt Media's Dominic Piper's quote (in the July 2022 issue of Australia's Paydirt), describing Australia as having always "*drawn the lucky commodity card*". This relates to Australia's timely abundance of key commodities, such as gold in the 1870s, nickel in the 1960s, iron ore in the 1970s and 2000s, gas in the 2010s and now battery minerals for 2020s and beyond. Indeed, Australia has been dealt a good hand, and the diversified nature of its exploration sector has certainly contributed to the sector's resilience throughout the years.

Completing this analysis for the last decade represents a significant milestone for BDO as a leading expert in the Australian exploration space. We celebrate this achievement and are looking to release more interesting findings and articles based on our 10-years of data over the coming months - keep a look out!

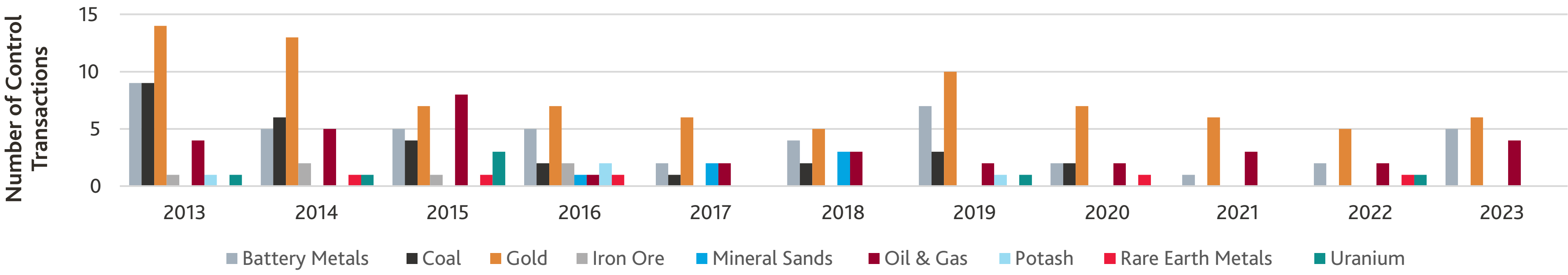
SHERIF ANDRAWES
Partner and BDO's Global and National Head of Natural Resources
Corporate Finance

sherif.andrawes@bdo.com.au
Direct +61 8 6382 4763
Mobile +61 412 902 444

CONTROL TRANSACTIONS BY COMMODITY

Our classification of 'control' reflects the interpretation of control per the Corporations Act, being greater than a 20 per cent interest. We have assessed the number of control transactions that have occurred over the 10-year period from the start of our analysis of exploration companies in the June 2013 quarter up to the most recent June 2023 quarter, within the energy and metals and mining industry in Australia. Overall, there has been a downward trend of control transactions over the assessed period, peaking at 39 transactions in 2013 and declining to a low of 10 in 2021. The control transactions by commodity and some commentary on industry trends over the past decade are set out below.

Number of transactions by commodity



BATTERY METALS

- The demand for battery metals, inclusive of lithium, nickel, copper, cobalt, zinc, lead and magnesium, has surged over the last decade.
- Subdued commodity prices in the 2013 to 2016 period and the demand for battery metals saw several control transactions, primarily in the copper industry.
- Battery metal transactions dipped in 2017, coinciding with improved capital flows to the industry, as evidenced by the point in time where lithium began to gain prominence in our fund finder analysis (raises of $10m or more).
- A correction to the oversupply and delay in demand across the industry played out over 2018 and 2019, with many juniors exiting the space with some consolidation taking place.
- Since the COVID-19 pandemic, carbon emission targets and more recently tight capital markets has seen an increase in the level of M&A activity in battery metals.

GOLD

- Dominant commodity for control transactions and fund raisings over the 10-year historical period. With gold considered to be a safe haven asset, demand for gold increases in times of economic uncertainty.
- Early 2010's was characterised by a post mining boom economic slowdown, with generally lower prices and reduced demand for commodities. Consolidation occurred over 2013-2015, with large producers replenishing gold reserves through acquisitions of smaller miners at subdued valuations.
- 2016 saw an increase in the demand for gold in light of Brexit and the US Presidential election causing political and economic uncertainty. This was a contributor to the fund raising and M&A activity in the sector.
- Chinese and US trade tensions, rising interest rates and increasing gold prices contributed to an uptick of gold transactions in 2019. Control transactions remained strong for gold in 2022 and into 2023 with high interest rates impacting the availability of capital and inflationary pressures leading mid-tier gold miners to look to consolidation as a means of reducing unit costs, through scale

OIL & GAS

- Traditionally a sector with a high number of control transactions due to the high costs of drilling a well and the benefits of project/well diversification.
- Depressed crude oil prices in 2015 resulting from increased US supply, saw a consolidation in the sector with industry players looking to capitalise on supressed market prices.
- China halting US oil imports in late 2018, caused an oversupply of US oil which suppressed prices. Subsequently, consolidation activity occurred in late 2018 and early 2019.
- Future energy transition strategies of WA's major mining houses has seen an increase in natural gas transactions post COVID, with the aim of integrating renewable energy solutions into their operations.

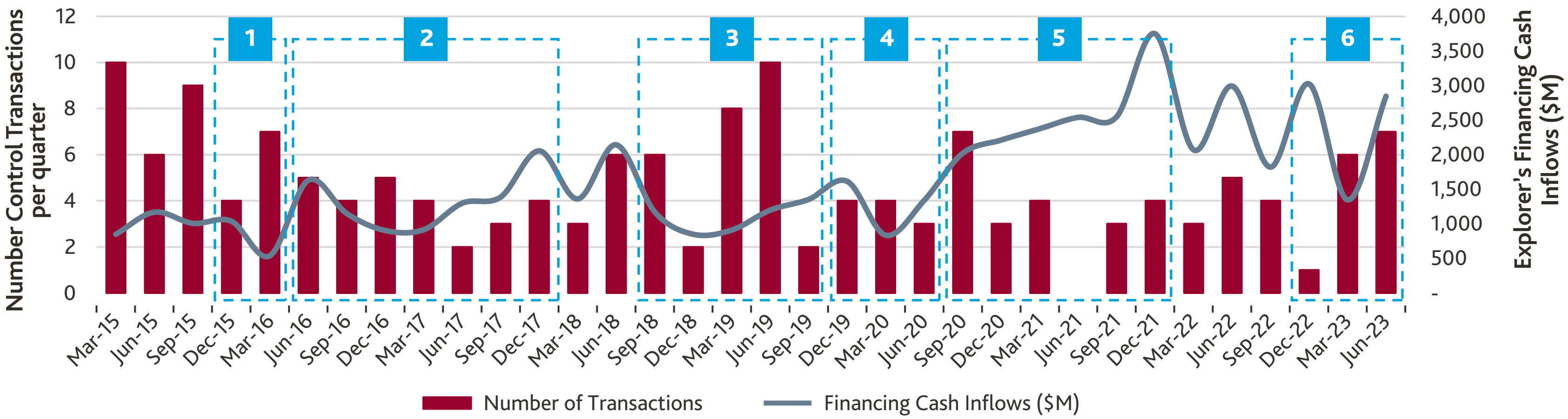
COAL

- Depressed coal prices post the mining boom, resulted in several coal transactions over 2013-2015, with many companies divesting loss making mines and focusing on low carbon objectives.
- Transactions in the coal space post-2020 occurred largely in the private sector as listed companies tended to shy away from coal assets.
- The Russia/Ukraine conflict caused an uptick in capital flows to the industry, with financing inflows close to doubling between the March and June quarters of 2022.

EXPLORER'S CASH BALANCES, NET FINANCING CASH INFLOWS AND CONTROL TRANSACTIONS

The long-term graph below outlines the financing cash inflows of exploration companies and the number of control transactions over our assessed period.

ASX EXPLORER'S FINANCING CASH INFLOWS AND CONTROL TRANSACTIONS



1 Contraction of financing inflows to explorers due to generally depressed demand for commodities and commodity pricing. M&A activity uptick, particularly for gold companies.

2 Brexit and the US presidential election were sources of uncertainty which saw an increase in funding for the gold sector. M&A activity was consistent over the period.

3 Global trade tensions and rising interest rates weigh on the sector, but the availability of financing gradually improves. Financing inflows for the December 2018 quarter was $848m, compared to the $1.7 billion average over the previous four quarters. The reduced ability for explorers to raise capital saw a spike in M&A activity in the following two quarters.

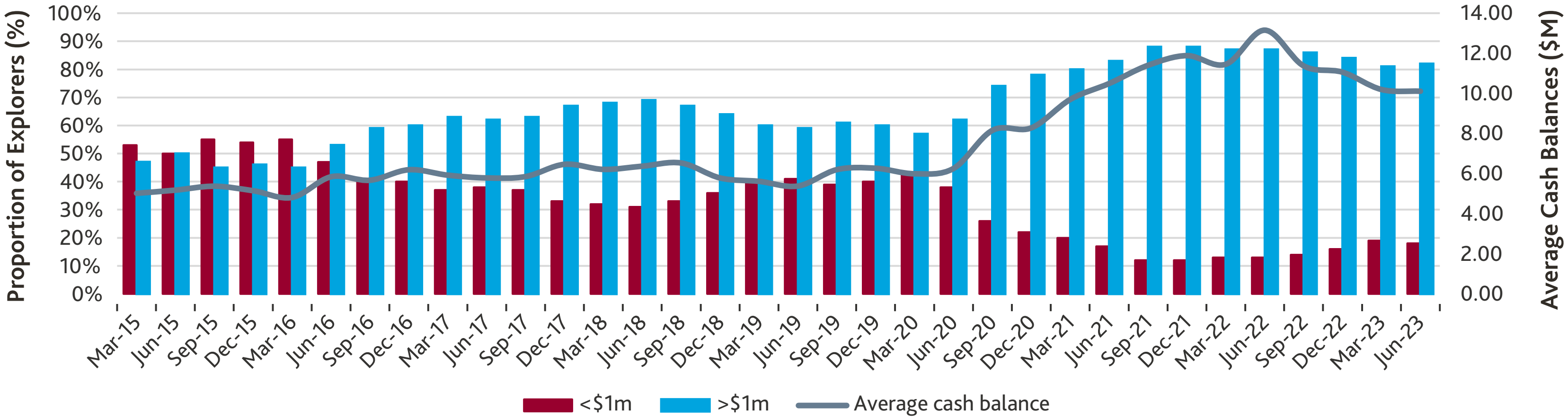
4 COVID-19 pandemic crash and beginning of the recovery. M&A activity over the first half of 2020 was subdued with lockdowns and uncertainty.

5 Post initial COVID-19 market dip, capital markets boomed with explorers raising large amounts of cash aided by low interest rates and suppressed market prices. After an initial spike in September 2020, this period saw a low number of control transactions.

6 Capital markets have tightened amongst interest rate rises and economic uncertainty. M&A activity has surged in 2023.

The long-term graph below outlines explorer's average cash balances and proportion of explorers with cash balances over and under $1 million over our assessed period.

ASX EXPLORERS' CASH POSITIONS



EXPLORERS' CASH BALANCES, NET FINANCING CASH INFLOWS AND CONTROL TRANSACTIONS

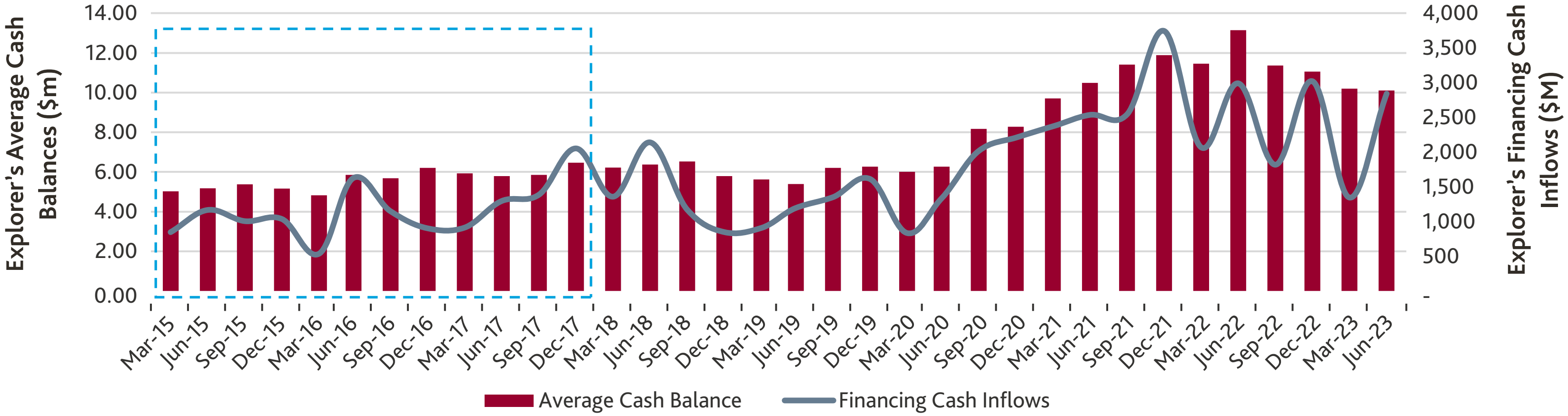
Cash is the lifeblood of exploration companies, and the availability of financing has a strong correlation to exploration companies' capital decisions. Although our analysis commenced in June 2013, specific financing cash flow data was only available from the March 2015 quarter onwards. Over this historical period, we have observed an inverse relationship between explorers' cash balances and net financing inflows and the number of control transactions.

The broad trend over the period is how 'cashed up' explorers are currently when comparing against historical cash balances, following the surge of funds into the sector post onset of the COVID-19 pandemic. The trend has started to taper off over the year to June 2023, as capital markets have cooled amongst interest rate rises and economic uncertainty. As such, we have observed a lagged uptick in M&A activity in the most recent two quarters as the availability of the next capital raise becomes more uncertain.

KEY TRENDS

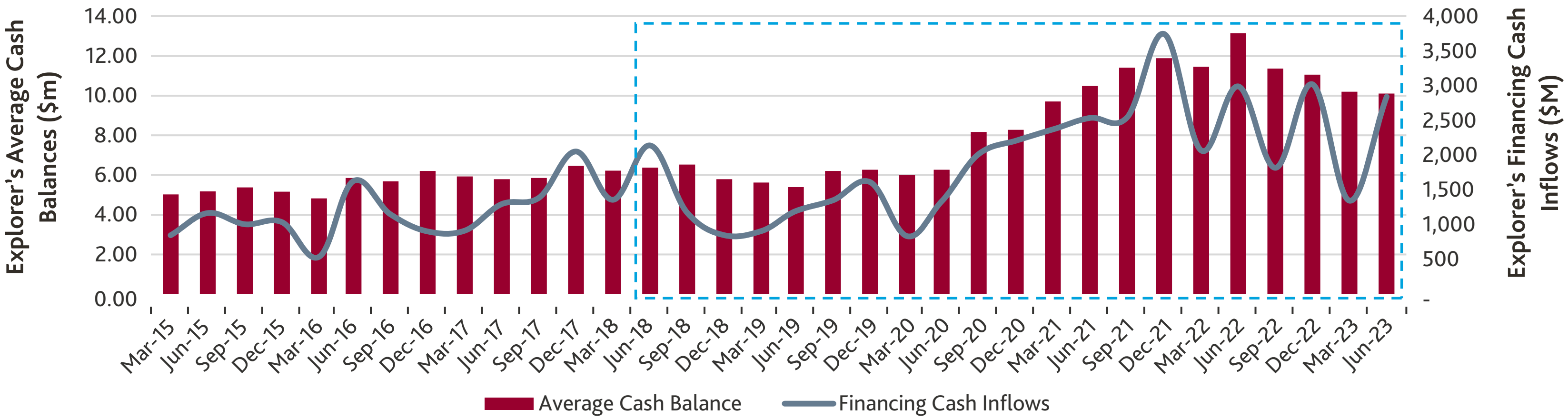
- The early part of the 2010 decade was characterised by a post mining boom economic slowdown. Challenging market conditions for ASX listed exploration companies, resulted in funds flowing towards other sectors and explorers' cash balances trending downwards. We saw heightened levels of M&A activity over the 2013-2016 period, which corresponded to subdued commodity prices and tight capital markets making it difficult for explorers to attract funding. Gold was the pre-eminent commodity in light of the challenging economic environment. Whilst the oil and gas sector was experiencing a period of consolidation and the onset of the hype around battery metals saw several control transactions, primarily in the copper space.
- The period from mid-2016 and throughout 2017 saw financing inflows bounce back, primarily driven by funding in gold, oil and gas and lithium companies. Gold saw a significant increase in investment, amongst the political and economic uncertainty caused by the announcement of Britain's proposed exit from the European Union (Brexit) as well as the US Presidential election of 2016. The election of Donald Trump who began promoting oil and gas production in the US and the movement towards decarbonisation saw investor sentiment improve for the oil and gas and lithium sectors. Although explorers had access to capital, explorers' cash balances remained subdued largely due to increased levels of exploration expenditure. The ability for explorers to obtain funding from equity capital markets meant that M&A activity was steady over the period, with gold remaining the commodity of interest. Lithium first started to gain prominence in our fund finder analysis in March 2017.

ASX EXPLORER'S FINANCING CASH INFLOWS AND AVERAGE CASH BALANCES



- Financing remained strong up to mid 2018, before declining in late 2018 due to volatile capital markets caused by concerns about the impact of global trade tensions (US and China) and rising interest rates on economic growth. The concerns continued to weigh on the sector in 2019, but increased confidence of financiers combined with a shift in investor sentiment saw explorers' financing inflows gradually climbing throughout the year. Explorers' cash balances remained consistent over 2019 and the first half of 2020, despite the gradual increase in financing inflows. The March and June quarters of 2019 had significant M&A activity, within battery minerals and gold industries, as a lagged reaction to the tighter financing conditions.
- The COVID-19 pandemic saw financing inflows plumet to a four-year low of $834 million in the March 2020 quarter. At the time, the outlook for the sector was extremely uncertain and we saw a temporary pause in all financing, investing and operational activities. M&A activity over the first half of 2020 was subdued as lockdowns were an impediment to negotiations and due diligence, as well as the general uncertainty created by the pandemic. There was however a spike in the number of completed control transactions in the September 2020 quarter, which may have been reflective of a number of deals coming back to life after stalling during the depths of the pandemic.
- The economy rebounded sharply from the COVID-19 pandemic, with the low interest rate environment and government stimulus seeing investors pour funds into the exploration sector. Financing inflows reached historically high levels, peaking at $3.75 billion in the December 2021 quarter. Following the September 2020 quarter, as post-COVID 19 financing spiked so did cash balances, which have remained healthy (relative to historical levels) since. Average cash balances continued to increase as companies took advantage of the favourable capital markets to raise funds, whilst maintaining the cash preservation habits particularly in relation to administration expenditure.
- Financing cash inflows have been more volatile over 2022 and into 2023. Rising interest rates, inflation and geopolitical events (e.g. Russia's invasion of Ukraine) has led to much more turbulent market conditions, and although funds are still flowing into the sector in waves, we observe that this is primarily for more advanced development projects, particularly for gold and battery metals. Explorers' cash balances have remained at historically high levels, as a result of the favourable capital markets in previous years. The noticeable slowdown of financing activities has seen a significant pick up in control transactions in 2023. This is in line with our historical observations, that when funding becomes less readily available due to higher cost of debt and investor uncertainty this tends to lead to an increase in M&A activity.

ASX EXPLORER'S FINANCING CASH INFLOWS AND AVERAGE CASH BALANCES



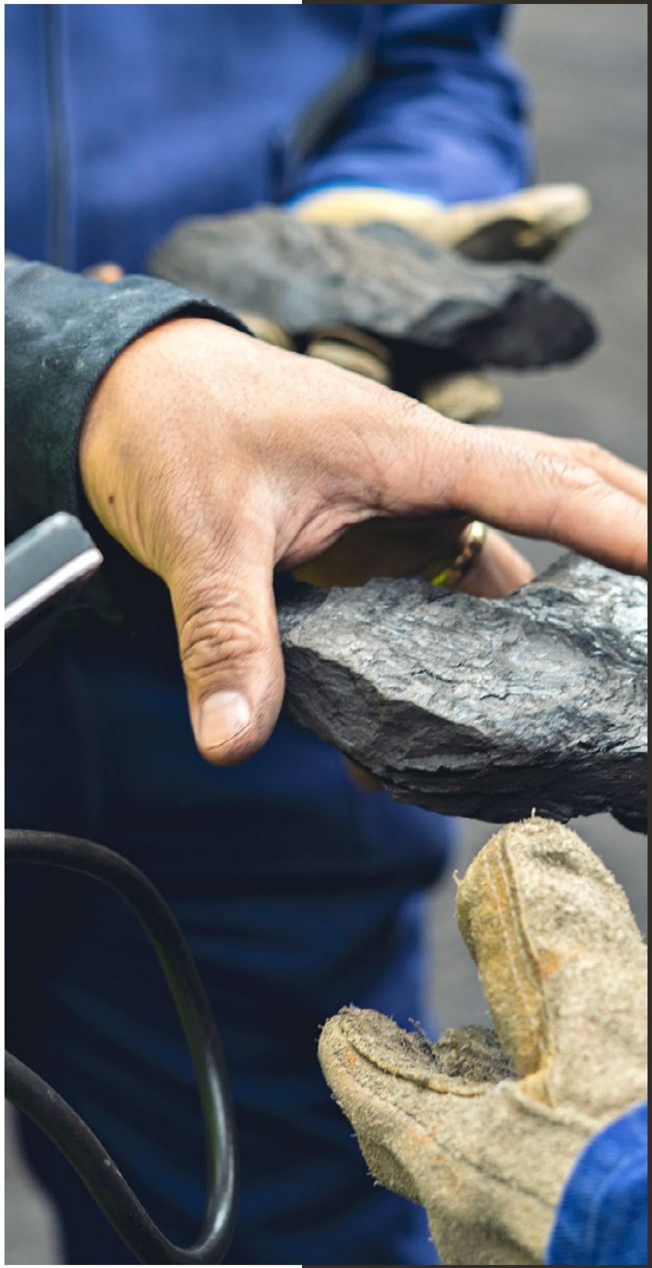
BDO INSIGHT – WHAT DOES THE FUTURE HOLD?

Whilst the historical trends and analysis is interesting, we all want to know what to expect in the future. We certainly don't claim to have psychic abilities, however we have been analysing the market long enough to have seen these market conditions before. So, what better way to leverage our existing explorer cash flow analysis and our knowledge as industry specialists, than to dust off the BDO crystal ball and provide some expectations for the future?

Historically, we have observed an inverse relationship between the number of control transactions and the net financing inflows received by explorers. There are obviously lags and as with all trends, there are exceptions, however we certainly consider that in periods where the capital markets dry up, we tend to see an increase in the level of M&A activity, as explorers and junior miners look to consolidation rather than capital raising for scale. This relationship has been evident over the decade of our analysis and there is no reason why this should change over the next ten years!

BDO'S EXPECTATIONS

- There has been an increase in the number of control transactions in the first half of 2023. This has corresponded to a reduction in financing cash flows for the March 2023 quarter and a general cooling of the capital raising and specifically the IPO market in 2023. With high interest rates relative to historical levels, cost pressures persisting and a decline in explorers' ability to raise capital, we see this providing a perfect storm for heightened M&A activity over the remainder of 2023 and into 2024.
- A look back on the last 10 years of data shows that explorers are still cashed up relative to historical levels, however with the cost pressures faced by the industry, these cash balances may not stretch as far when it comes to investing in the ground or for covering corporate costs. Again, we see this as being conducive to the level of M&A activity across the sector.
- Gold has always a been a dominant commodity when it comes to listed explorer and mining M&A, as evidenced by the number of control transactions in gold in our commodity analysis. Given the current cost pressures faced by mid-tier gold miners and the rising cost of drill programs, explorers particularly in the gold space are likely to continue to look to M&A to expand their resource base and achieve economies of scale. We have already seen the start of a regional consolidation of the Leonora district with Genesis Minerals acquiring St Barbara's Leonora assets and Silver Lake Resources snapping up 11% of Red 5 Limited, and as current economic conditions persist, we wouldn't be surprised if the consolidation in the gold sector continued. Watch this space!
- We are expecting to see a wave of M&A activity to continue sweeping through the lithium and battery minerals space. Recently, Hancock Prospecting Pty Ltd acquired a strategic 7.7% stake in Liontown Resources Ltd (following a bid by Albemarle), Mineral Resources Limited ('MinRes') acquired a 17.4% stake in Delta Lithium Limited and MinRes also struck a deal to buy the Bald Hill lithium mine, adding to its portfolio of lithium interests and strategic investments such as its 9.6% interest in Global Lithium Limited. Further, Chile's lithium heavyweight SQM, acquired a strategic 19.99% stake in Azure Minerals earlier in the year and subsequently made a conditional bid for Azure Minerals, which was rejected by the Board. With this interest from key players with strategic investments in a number of ASX listed lithium explorers and the level of future demand for these commodities, we view the battery metals space as a sub-sector that is ripe for M&A activity.
- Although we haven't yet seen a flurry of M&A transactions in the rare earths space, there are a host of rare earths companies with suppressed market values. We draw some similarities to the lithium industry in 2018/19 where valuations of lithium companies took a significant hit and the sector underwent a degree of consolidation. Whilst there still remains uncertainty around the economic extraction and processing of rare earths, we view it as a commodity of the future and given current valuations, consider it likely that it becomes a source of M&A activity.
- With MinRes' takeover of Norwest Energy and Hancock Energy (PB) Pty Ltd's takeover of Warrego Energy Limited both in the latter half of 2022 and early 2023, key players in the mining and exploration sectors may continue to look to natural gas to power the clean energy transition for their own operations. It is likely that these two players are the first movers in this space and so we expect similar M&A activity to continue to play out over the next couple of years.



CONTACT US

SHERIF ANDRAWES
Head of Global Natural Resources
+61 8 6382 4763
sherif.andrawes@bdo.com.au

ASHTON LOMBARDO
Director, Corporate Finance
+61 8 6382 4917
ashton.lombardo@bdo.com.au

DAVID FECHNER
Partner, Tax & Advisory
+61 8 7421 1413
david.fechner@bdo.com.au

GARETH FEW
Partner, Audit & Assurance
+61 2 9240 9744
gareth.few@bdo.com.au

RICHARD SWABY
Partner, Audit & Assurance
+61 7 3237 5806
richard.swaby@bdo.com.au

ADAM MYERS
Partner, Corporate Finance
+61 8 6382 4751
adam.myers@bdo.com.au

CATHERINE DEAN
Partner, Corporate & International Tax
+61 2 8221 2243
catherine.dean@bdo.com.au

DAVID OCELLO
Partner, Tax
+61 8 6382 4778
david.ocello@bdo.com.au

JAMES MOONEY
Partner, Audit & Assurance
+61 3 9603 1796
james.mooney@bdo.com.au

SCOTT BIRKETT
Partner, Corporate Finance
+61 7 3237 5837
scott.birkett@bdo.com.au

FOR MORE INFORMATION

Twitter:
@BDOglobalNR
@BDOAustraliaNR

LinkedIn Groups:
BDO Global Mining
BDO Global Energy