EXPLORER QUARTERLY CASH UPDATE

December Quarter 2022

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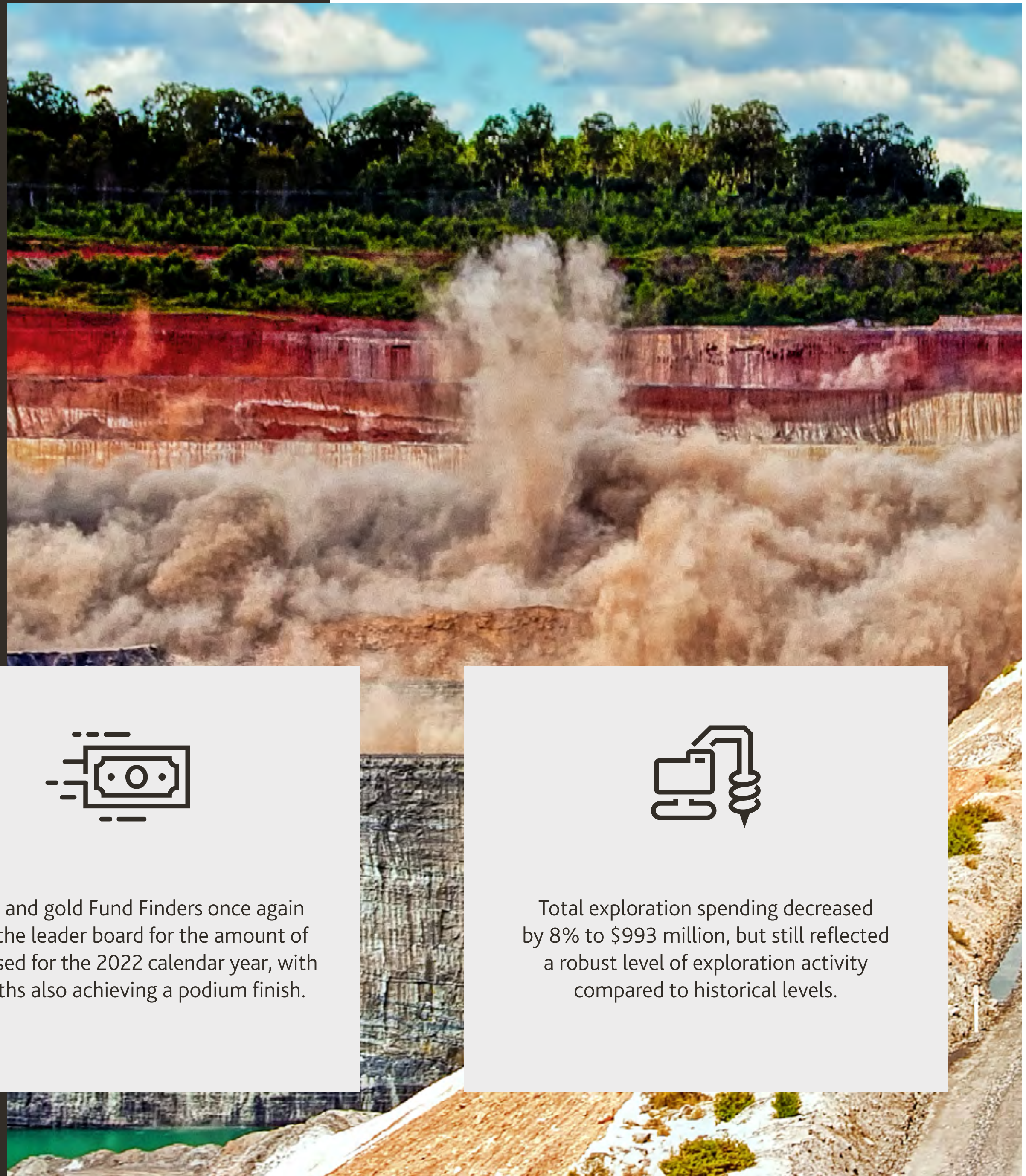
BDO

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS: QUARTER ENDED 31 DECEMBER 2022

Diamonds are forever, but lithium, gold and rare earth metals are for now.



Explorers sourced $3.02 billion of funds in the December quarter, bouncing back from the temporary dip in the September 2022 quarter.

Lithium and gold Fund Finders once again topped the leader board for the amount of funds raised for the 2022 calendar year, with rare earths also achieving a podium finish.

Total exploration spending decreased by 8% to $993 million, but still reflected a robust level of exploration activity compared to historical levels.

BDO's report on the financial health and cash position of Australian-listed explorers for the December quarter of 2022 (based on quarterly Appendix 5B reports lodged with the Australian Securities Exchange (**ASX**)) suggests that explorers remain in good stead, with financing inflows bouncing back from a temporary lull last quarter. Further, investment and exploration spending remained at some of the highest levels we have seen since the commencement of our analysis in June 2013.

Explorers raised $3.02 billion in the December 2022 quarter, the second largest amount of funds raised in a quarter since the start of our analysis. This also reflected a stark 66% increase from the $1.82 billion raised in the September quarter 2022. The return of strong financing inflows this quarter indicates that funds are still flowing readily into the sector and suggests that the 'dip' in the September 2022 quarter was merely a temporary tightening of capital markets amidst global economic uncertainty.

51 companies (which we have termed **'Fund Finders'**) raised funds of $10 million or more and made up 76% of the total funds raised. Gold explorers raised the most funds for the second consecutive quarter as growing inflation, geopolitical uncertainty and market volatility continued to drive demand. For the 2022 calendar year as a whole, lithium Fund Finders proved once again their ability to attract funding, being the leading commodity for fund raisings for the second consecutive year. We also observed other energy transition metals such as rare earths, graphite, cobalt, uranium and nickel being prominent in capital raisings in 2022, supported by favourable investor sentiment and supply concerns.

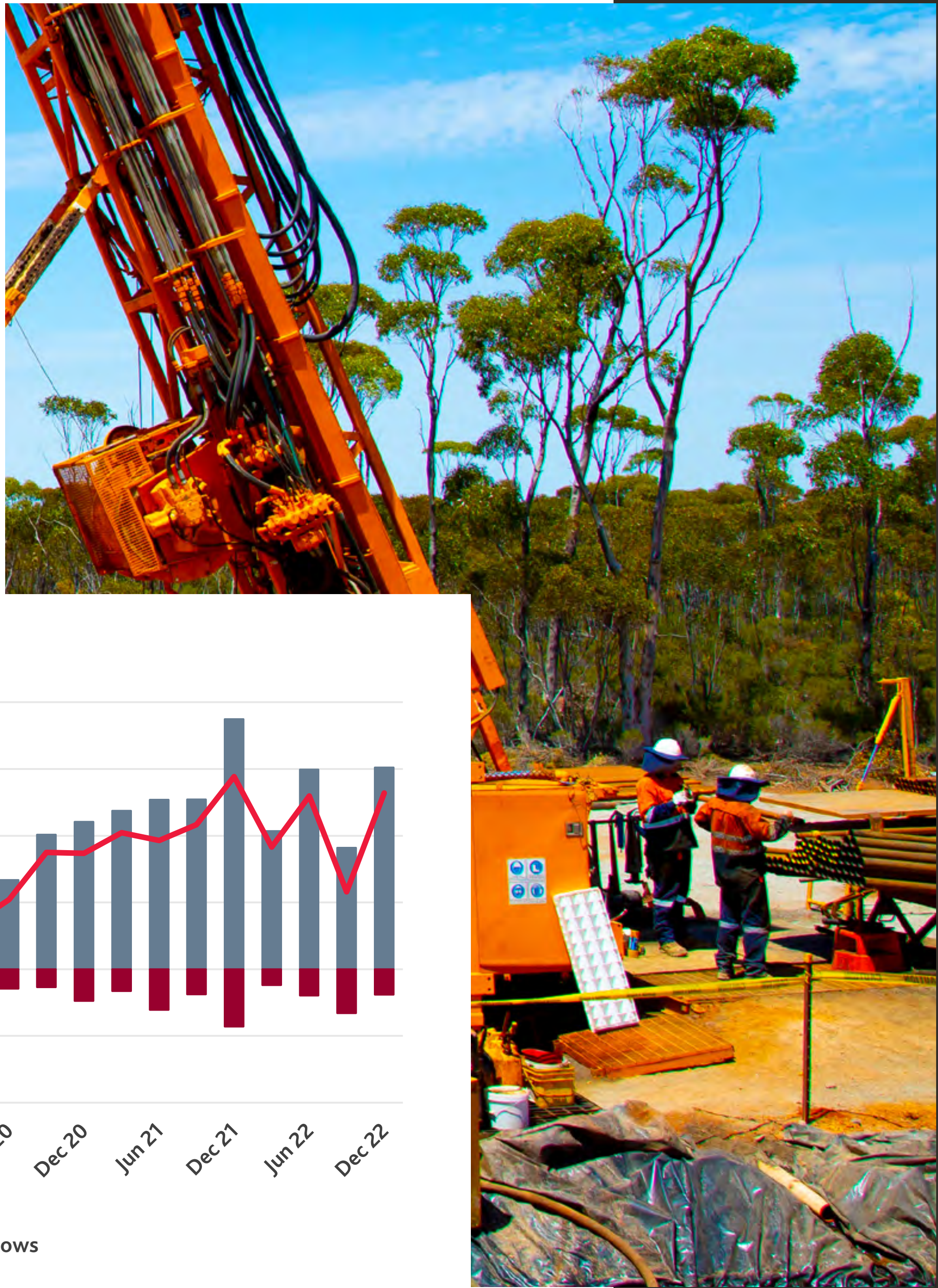
Exploration expenditure observed an 8% decline from the record $1.04 billion and $1.07 billion spends in the June and September quarters respectively. However, at $993 million, this still remained at some of the highest levels observed since 2013 and illustrated a continued strength in exploration activity. Given our Fund Finder analysis by commodity, unsurprisingly, the largest exploration spends were among oil and gas, gold and lithium explorers.

Net investment cash outflows increased by 21% to $1.04 billion for the December 2022 quarter, which is the highest net investing cash outflow recorded since the start of our analysis. The data showed that this was driven by the larger end of the market, comprising investment spends in excess of $750k. This is amidst a general trend since September 2021 of a declining number of explorers recording net investment outflows, which we consider to be attributable to cash preservation efforts amongst broader market uncertainty. Explorer cash balances on aggregate declined by 2% but still remain strong, with 84% of explorers holding a cash balance of greater than $1 million.

Throughout the quarter, we saw the turbulent mix of economic and geopolitical uncertainty reveal the true extent of the global need for resources and, importantly, underscore the need for their secure and sustainable supply. Our analysis demonstrates that compared to historical levels, exploration companies broadly are well funded, which places the mining sector in a better position to meet the future metal demand arising from the energy transition.

In the meantime, to ensure explorers remain competitive in attracting favourable investor sentiment and future funding they will need to further play a part in the transition by developing their own sustainability and climate strategy and reporting against their material environmental, and social risks.

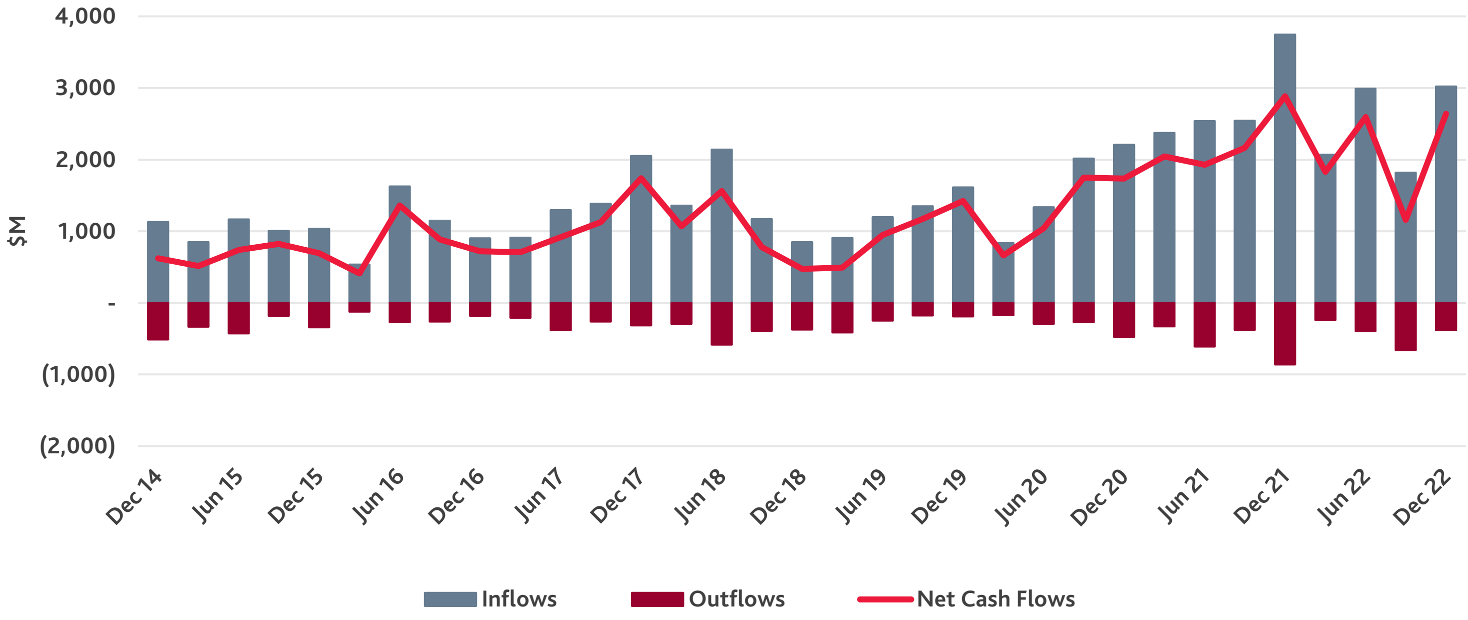
FINANCING CASH FLOWS



Financing cash inflows grew to $3.02 billion in the December 2022 quarter, the second highest amount of funds raised in a quarter since the start of our analysis in June 2013. This also represented a 66% increase on the $1.82 billion of funds raised in the September 2022 quarter, which in hindsight we consider to have been a temporary tightening of capital markets amidst global inflationary pressures and interest rate hikes.

The increase in financing inflows, coupled with a 42% decrease in financing cash outflows, resulted in a net financing cash flow increase of 127% from the September 2022 quarter. In addition, financing inflows averaged $3.84 million per company, which is 8% higher than the two-year average of $3.55 million since December 2021.

FINANCING CASH FLOWS ($M)

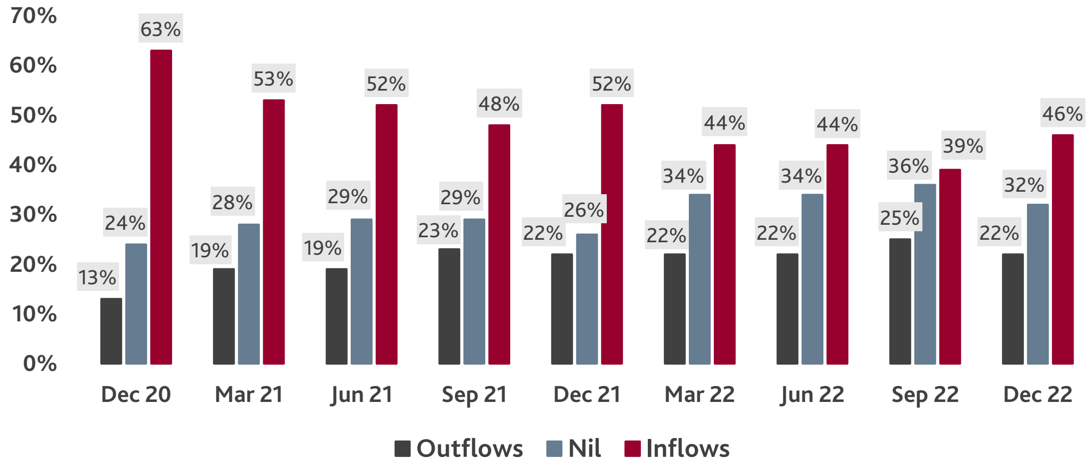


The strength in financing inflows this quarter was largely driven by the 51 Fund Finder companies, which are companies that recorded debt and equity raises of $10 million or more in the quarter. On average, the Fund Finders of the December 2022 quarter raised $45.3 million each and contributed to 76% of the total financing inflows in the December quarter of 2022. The December 2022 quarter Fund Finders were led by gold, rare earth metal and lithium explorers (see the Fund Finder section on page 6 for more details). This is the first quarter that rare earth metals have featured in the top 2 Fund Finders since we started our analysis in 2013.

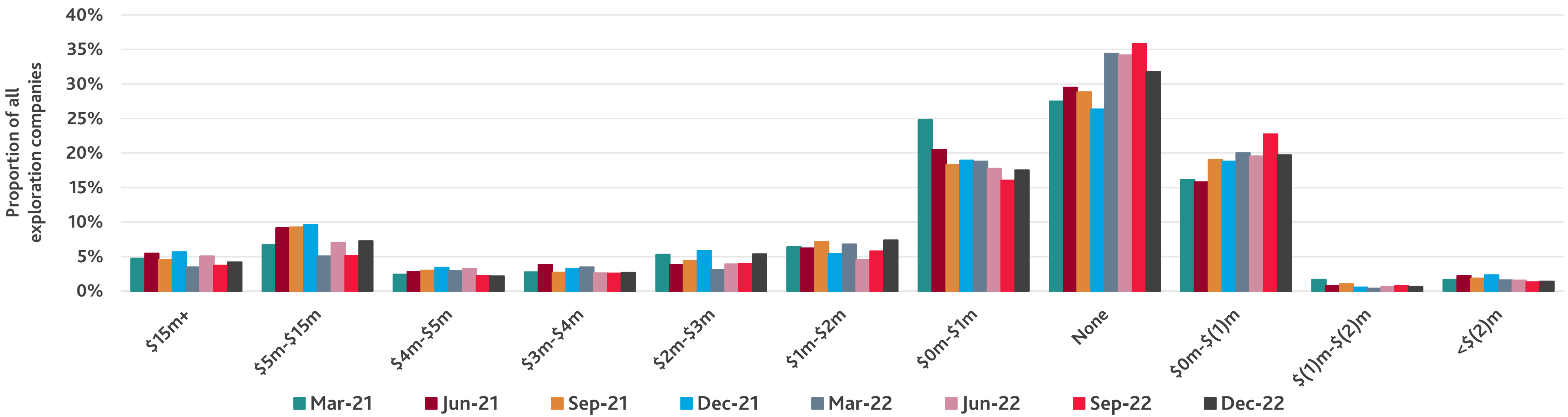
In contrast to the broad declining trend witnessed over the first three quarters of 2022, the proportion of companies reporting a financing inflow increased from 39% in the September 2022 quarter to 46% in the December quarter.

As observed below, there has been an increase in the proportion of funds raised across most inflow tranches. While our Fund Finder analysis (below) tells a positive story for explorers closer to development and production, this suggests that the improved access to capital is not constrained to the top end of the sector. As cash balances remain strong and exploration expenditure declined marginally over the December 2022 quarter, this may suggest that many explorers prioritised the raising of funds in order to sustain operations into 2023.

FINANCING CASH FLOWS (%)



NET FINANCING CASH FLOWS (%)



FUND FINDERS

In the December 2022 quarter, 51 companies raised $10 million or more, an increase from the 47 Fund Finders in the September 2022 quarter. The 51 Fund Finders in the December 2022 quarter comprised ten gold companies, seven lithium companies, five rare earth companies, four oil & gas companies and four coal companies. The remaining 21 companies were split across 13 commodities, consisting heavily of battery metal components such as nickel, cobalt, graphite and manganese.

Jervois Global Limited (**Jervois**) recorded the largest financing inflow for the December 2022 quarter, raising US$169.9 million (A$250.3 million when converted at prevailing exchange rates at 31 December 2022) primarily through a US$150 million equity raise. The funds raised were committed to funding the restart of the São Miguel Paulista Nickel and Cobalt refinery in Brazil, the Idaho Cobalt Operations in the United States and funding the bankable feasibility study (**BFS**) for the expansion of its cobalt refinery capacity in Finland. Jervois' operations are set to supply the growing global EV and battery industries and the United States' energy and defence sectors.

Hastings Technology Metals Limited (**Hastings**) reported the second largest financing inflow for the December 2022 quarter, with an inflow of $191.4 million. Hastings acquired a 19.9% strategic shareholding in Neo Performance Materials Inc. (**Neo**), a Toronto Stock Exchange (**TSX**) listed rare earths processing and magnet producer. The acquisition was funded through the issue of secured notes to Wyloo Metals Pty Ltd for $150 million during the December 2022 quarter.

The last podium position belonged to gold explorer and developer, De Grey Mining Limited (**De Grey**) which raised approximately $149.1 million primarily through a $130 million share placement (before costs) and an $18.7 million share purchase plan. The equity was raised in order to fund the completion of a definitive feasibility study (**DFS**) and extension drilling program ahead of the scheduled final investment decision in mid-2023 for the Mallina Gold Project.

Global Lithium Resources Limited (**Global Lithium**) recorded the fourth largest financing inflow for the December 2022 quarter, raising $121.5 million through a $111.4 million institutional placement and a $10.1 million share purchase plan to existing shareholders. The funds were primarily used to fund the acquisition of the remaining 20% ownership in the Manna Lithium Project (**the Manna Project**) from Breaker Resources NL (**Breaker**). Funds are also intended to be allocated to exploration at the Manna Project and Marble Bar Lithium Project, the completion of the Manna Project feasibility study, approvals, permits and required camp infrastructure.

The top ten largest fund raises of the December 2022 quarter are set out below:

Company name	Commodity	Mechanism of raising
Jervois Global Limited	Cobalt	$227.84 million* in proceeds from the issue of equity securities, $22.09 million* in proceeds from borrowings and $0.33 million* in proceeds from the exercise of options
Hastings Technology Metals Limited	Rare Earth Metals	$148.50 million in proceeds from borrowings and $42.89 million in proceeds from the issue of equity securities
De Grey Mining Limited	Gold	$149.05 million in proceeds from the issue of equity securities
Global Lithium Resources Limited	Lithium	$121.50 million in proceeds from the issue of equity securities
Bowen Coking Coal Limited	Coal	$85.00 million in proceeds from the issue of equity securities and $36.24 million in proceeds from borrowings
Core Lithium Limited	Lithium	$100.00 million in proceeds from the issue of equity securities and $1.46 million in proceeds from the exercise of options
Tamboran Resources Limited	Oil & Gas	$101.22 million in proceeds from the issue of equity securities
Australian Pacific Coal Limited	Coal	$100.07 million in proceeds from the issue of equity securities
Arafura Rare Earths Limited	Rare Earth Metals	$96.88 million in proceeds from the issue of equity securities
Bellevue Gold Limited	Gold	$60.00 million in proceeds from the issue of equity securities and $35.00 million in proceeds from borrowings

**Foreign-currency denominated inflows converted using the prevailing exchange rate as at 31 December 2022.*

Equity continued to be the primary source of investment for explorers, accounting for 82% of total Fund Finder funds raised, while debt and other funds accounted for 16% and 2%, respectively.

FINANCING INFLOW BY COMMODITY FUND FINDERS | DECEMBER QUARTER 2022

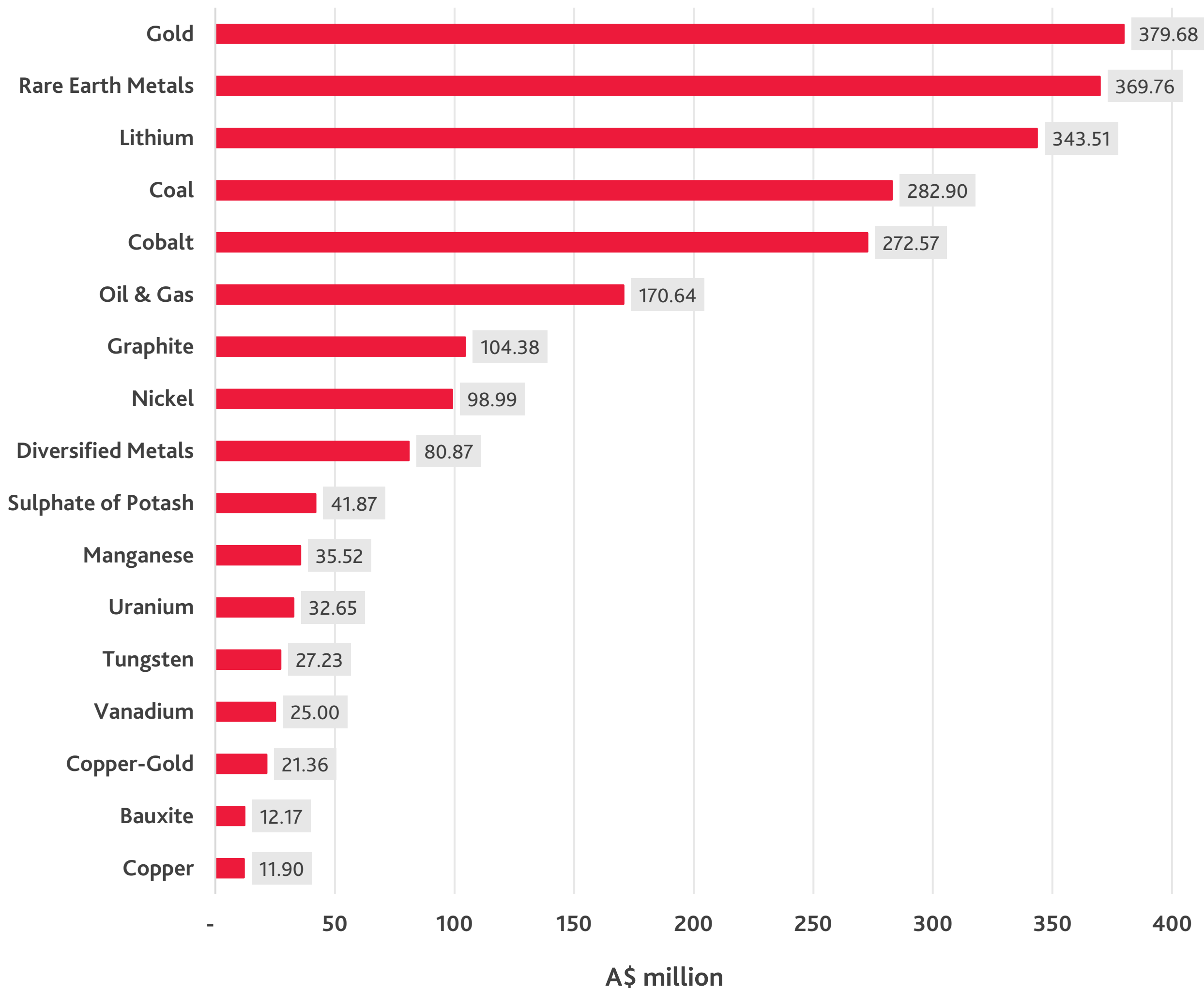
For the second consecutive quarter, gold was the leading commodity, accounting for 16.4% of the $2.31 billion raised by Fund Finders in the quarter. Gold regained top spot in the September 2022 quarter, having previously been surpassed by lithium and uranium. High inflation rates, market volatility and geopolitical uncertainty has continued to drive the demand for gold, which is conventionally considered a safe haven asset.

Continuing on from the September 2022 Fund Finder, rare earth metals once again showed their prominence and was the second leading commodity in our Fund Finder analysis. Fund Finders in the rare earths sector raised a combined $369.8 million and accounted for approximately 16% of all Fund Finder funds. Rare earth metals have faced an increased demand in recent periods due to their vital role in magnets and high technology devices. The sector has also benefitted greatly from Australian Government funding initiatives to support future supply.

In the December 2022 quarter, lithium remained a major Fund Finder with $343.5 million in financing inflows. The inflow is a significant increase from the $115.5 million raised in the September 2022 quarter, with both Global Lithium and Core Lithium Limited (**Core Lithium**) having equity raises in excess of $100 million. As detailed in our previous report, the backing of funds for battery minerals continues to demonstrate the demand from EV manufacturers who are seeking to secure the raw materials that are essential in the electrification of global transport.

Interestingly, coal Fund Finders managed to raise $282.9 million, representing 12.2% of the $2.31 billion raised by Fund Finders for the December 2022 quarter. For comparison, coal represented only 5.0% of the September 2022 quarter Fund Finder. Higher natural gas prices amidst the global energy crisis have led to increased reliance on coal for generating power amidst the energy transition. The coal Fund Finders were led by Australian Pacific Coal Limited (**Australian Pacific**), a thermal and coking coal explorer in New South Wales and Bowen Coking Coal Limited (**Bowen Coal**), a coking coal explorer and producer in Queensland, raising $121.2 million and $100.1 million respectively.

FINANCING INFLOW BY COMMODITY TOP 51 EXPLORERS | DECEMBER QUARTER 2022



FINANCING INFLOW BY COMMODITY FUND FINDERS | BY CALENDAR YEAR

In 2022 Lithium and gold once again fought a tight battle for top spot. Despite only leading the sector (within our Fund Finder analysis) for one of the four quarters of 2022, lithium companies finished as the commodity that sourced the largest amount of funds for the second consecutive year. This aligns with expectations for a strong market appetite for battery mineral investments, which has led to significant fund raises throughout the year from companies such as Sayona Mining Limited, Leo Lithium Limited, Global Lithium and Core Lithium.

After a significant 2021 calendar year (**CY21**), the flow of funds to lithium explorers decreased from $2.01 billion in CY21 to $1.20 billion in the calendar year 2022 (**CY22**). Over CY22, investors have also supported other battery minerals and related energy transition metals, such as graphite, cobalt, and nickel as investors searched for growth elsewhere within the supply chain. It is well understood that these metals are vital in achieving net zero targets, with investors looking to capitalise on the much-publicised expected global shortfall in supply of these metals on the pathway to net zero.

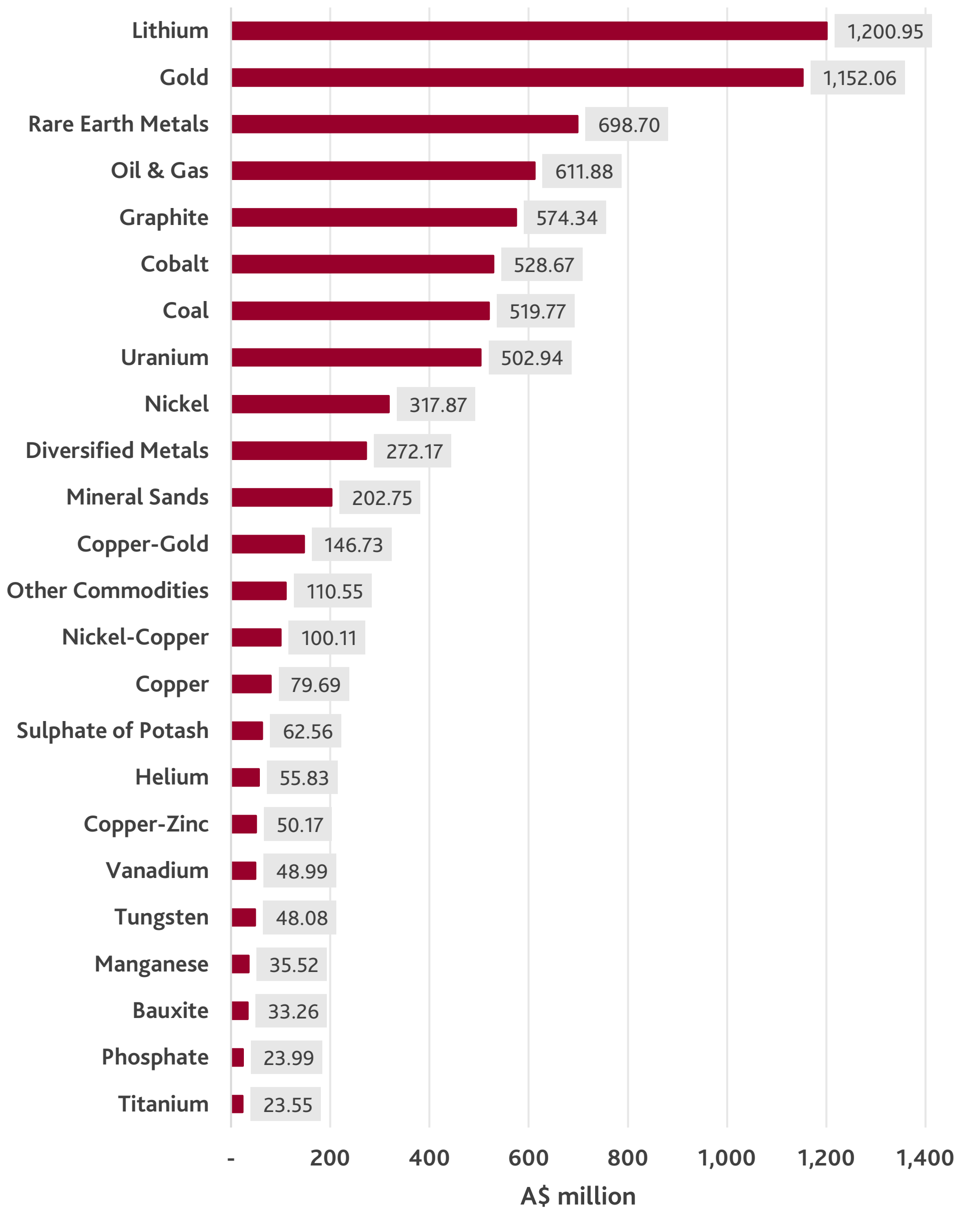
Gold remained the second largest Fund Finder commodity for CY22. Although historically a dominant commodity in our Fund Finder analysis, total Fund Finder funds raised by the sector decreased from $1.94 billion in CY21 to $1.15 billion in CY22. Although gold and battery metals have different economic drivers, explorers for these commodities are still competing for the same pool of risk capital. Therefore, the decrease in funds raised by gold explorers in 2022 compared to 2021 is likely to be more as a result of the importance of battery metals to achieving net zero targets, rather than specific negative sentiment around gold. The continuing economic uncertainty and recessionary expectations has led to bullish expectations of gold in 2023, with De Grey and Bellevue Gold Limited recording some of the largest financing inflows in the December 2022 quarter.

Historically, rare earth metals are not a main Fund Finder commodity, but they have attracted significant attention in the September 2022 and December 2022 quarters, representing 12.9% and 16.0% of the respective Fund Finders. This is a significant increase from the 4.7% in the June 2022 quarter, 3.7% in the March 2022 quarter and the 4.4% from CY21. The prevalence of rare earth metals in the renewable energy infrastructure supply chain has been highlighted in 2022 and aided by the Australian Government's $240 million funding commitment in March 2022 towards the establishment of an Australian Rare Earths Mineral industry.

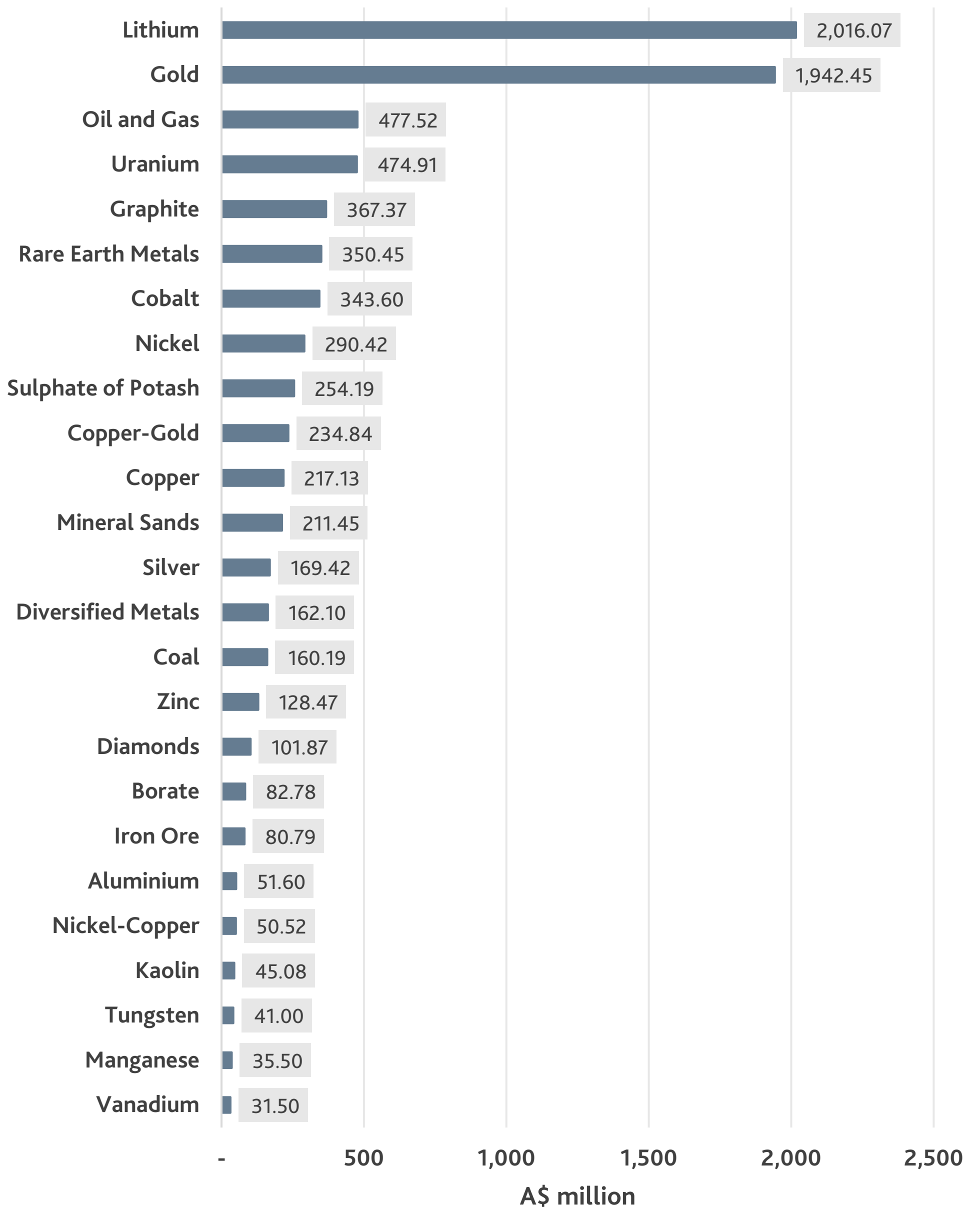
Interestingly, coal has seen significant growth over CY22, recording a total of $519.8 million for the CY22 Fund Finder as compared to $160.2 million in CY21. The Russia-Ukraine induced global energy crisis has led to higher natural gas prices for most of CY22 and has led to an increased reliance on coal for power generation. Coal consumption reached its highest historical level in CY22, which saw significant funds flowing to coal producers and explorers, such as Australian Pacific and Bowen Coal in the December 2022 quarter.

Oil and gas explorers continue to be a destination for investment capital, with our Fund Finder oil and gas companies raising an aggregate of $611.9 million for CY22, up from $477.5 million in CY21. This is likely a function of higher natural gas prices spurring additional investment as well as an evolving market sentiment which has positioned oil and gas as a vital sector to the energy transition.

FINANCING INFLOW BY COMMODITY | CALENDAR YEAR 2022



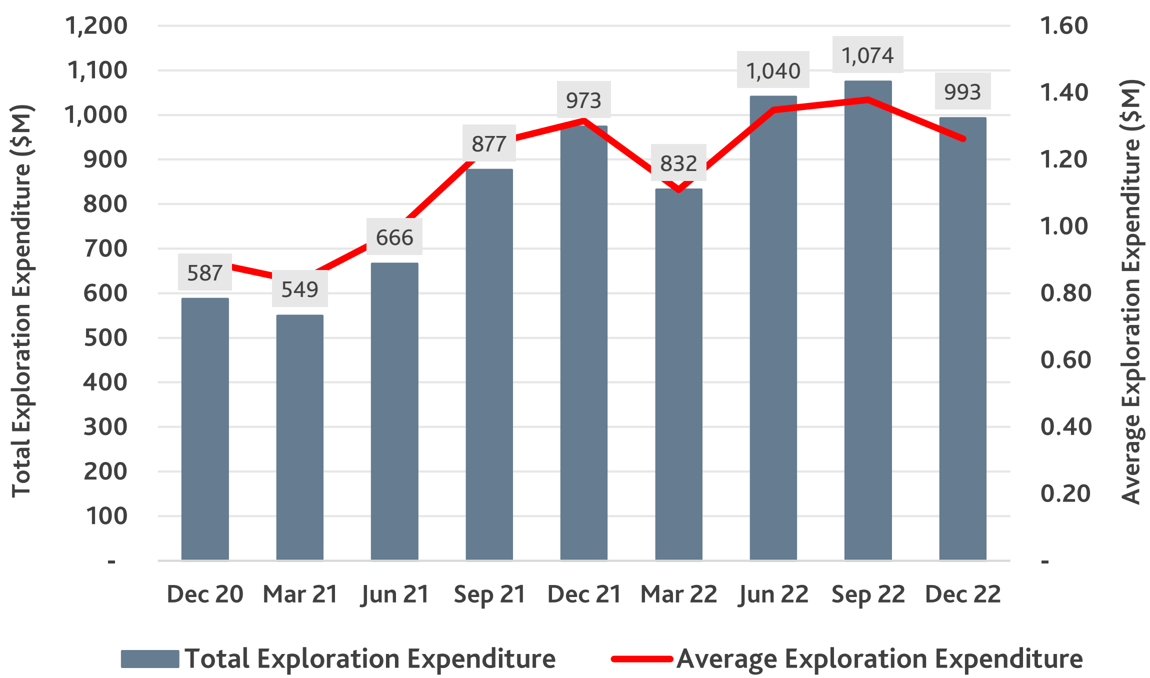
FINANCING INFLOW BY COMMODITY | CALENDAR YEAR 2021



EXPLORATION EXPENDITURE

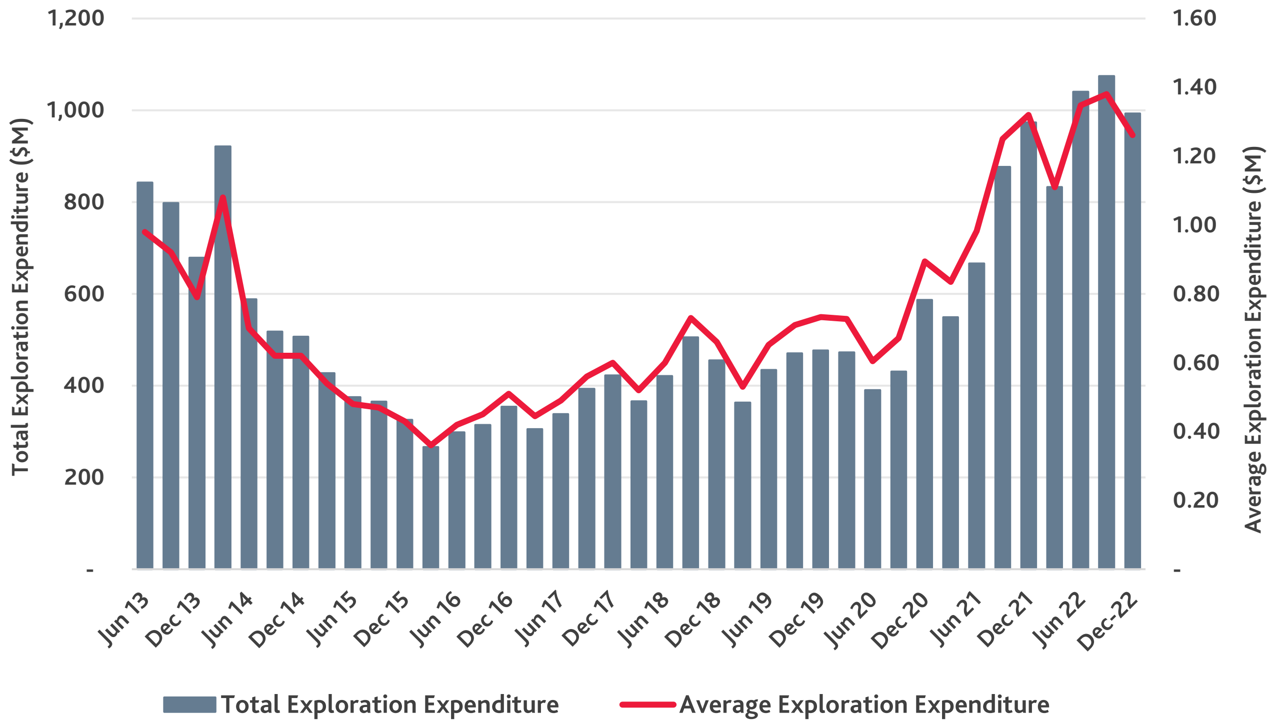
Exploration expenditure for the December 2022 quarter receded from the record billion-dollar spends in the June and September quarters of 2022, but only slightly. Although the December quarter's $993 million exploration spend represents an 8% decrease from the September 2022 quarter, it remained 20% higher than the two-year average of $825 million.

TOTAL EXPLORATION EXPENDITURE | LAST TWO YEARS ($M)



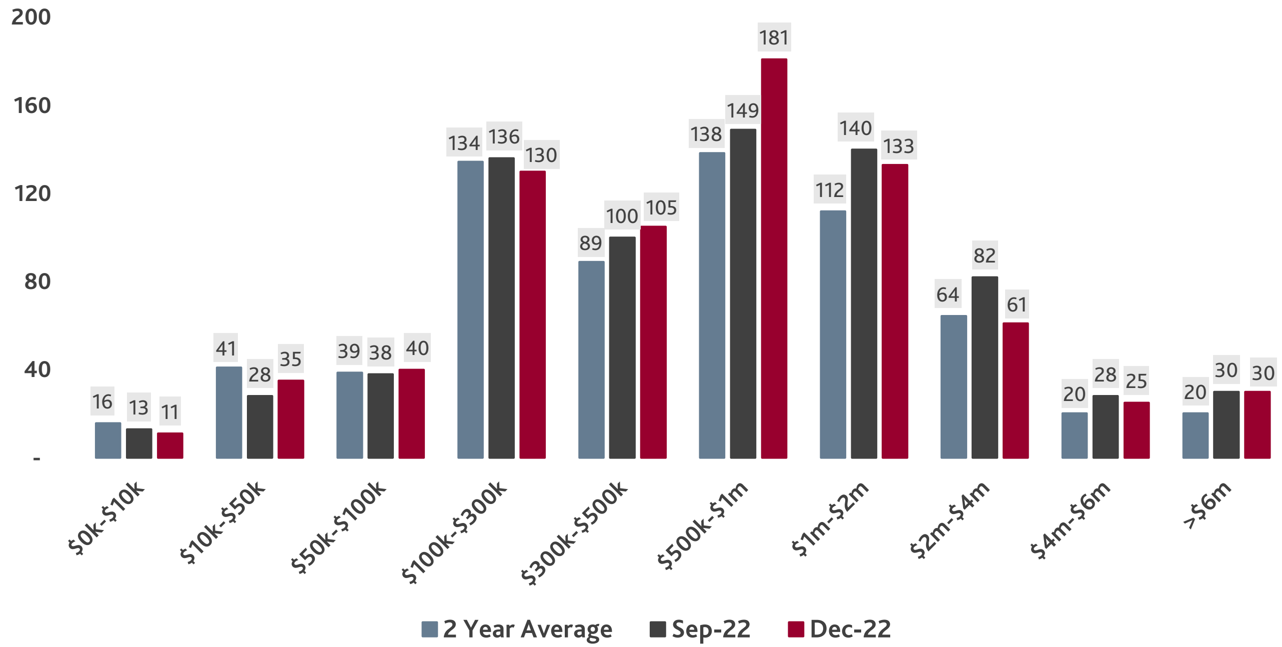
As seen from the long-term chart below, there has been an increasing trend in exploration spending since the $267 million low for the March 2016 quarter. This trend has been particularly prominent over recent quarters as explorers took advantage of the favourable capital raising conditions since late 2020. Additionally, we note that when BDO first commenced this analysis in June 2013, the sector comprised over 860 companies that lodged an Appendix 5B, 73 more than the December 2022 quarter. This illustrates the distinctiveness of current levels of exploration activity, with the average exploration spend per company ranging between $1.26 million and $1.38 million over the last three quarters.

TOTAL EXPLORATION EXPENDITURE | SINCE START OF BDO ANALYSIS ($M)



The following graph illustrates the breakdown in exploration expenditure patterns and shows a significant increase in the number of explorers that undertook exploration spends of between $500k and $1 million. This is an encouraging sign of growth in exploration spending by the small to mid-market as opposed to exploration spending being driven solely by a small number of large spends.

NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE



The top 10 exploration spends, totalling $155.2 million, comprised four oil and gas companies, three gold companies, two lithium companies and one nickel-copper company. Despite gold's noticeable presence in the top ten exploration spends, oil and gas exploration appeared to be more active in the December quarter 2022. This is likely to have been driven by continued spikes in energy prices arising from the Russian-Ukraine conflict.

Oil and gas explorer and producer Empire Energy Group Limited (**Empire**) reported an exploration spend of $19.0 million for the December 2022 quarter. The exploration expenditure was primarily incurred in relation to drilling at the company's Betaloo operations located in the Northern Territory.

De Grey, who recorded the largest exploration spend for the last four consecutive quarters, still featured in the top ten spends, recording an exploration spend of $15.7 million for the December quarter of 2022. Over the quarter, De Grey continued to focus on its 100% owned Mallina Gold Project, with expenditure focussed on progressing the company's definitive feasibility study.

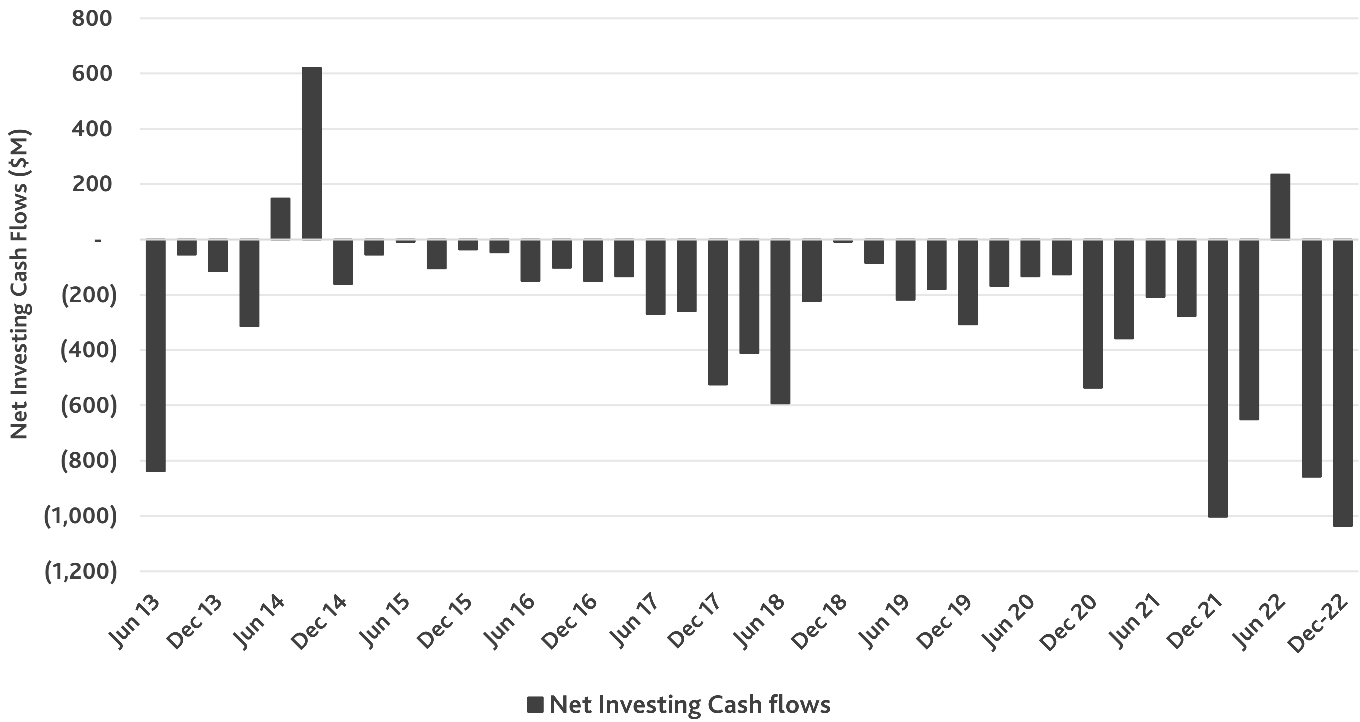
NET INVESTING CASH FLOWS

Net investing cash flows reached a record net outflow of $1.04 billion for the December 2022 quarter, representing a 21% increase from the $857 million recorded in the September 2022 quarter. This was also 3.4% higher than the prior record net cash outflow of $1.00 billion in the December quarter of last year.

A large proportion of the $1.04 billion for the December 2022 quarter was attributable to Hastings. Hastings recorded net investing cash outflows of $182 million, primarily relating to the acquisition of a 19.9% shareholding in Neo for $151 million. The acquisition was undertaken to provide Hastings with strategic exposure to global downstream processing of rare earth materials into magnets.

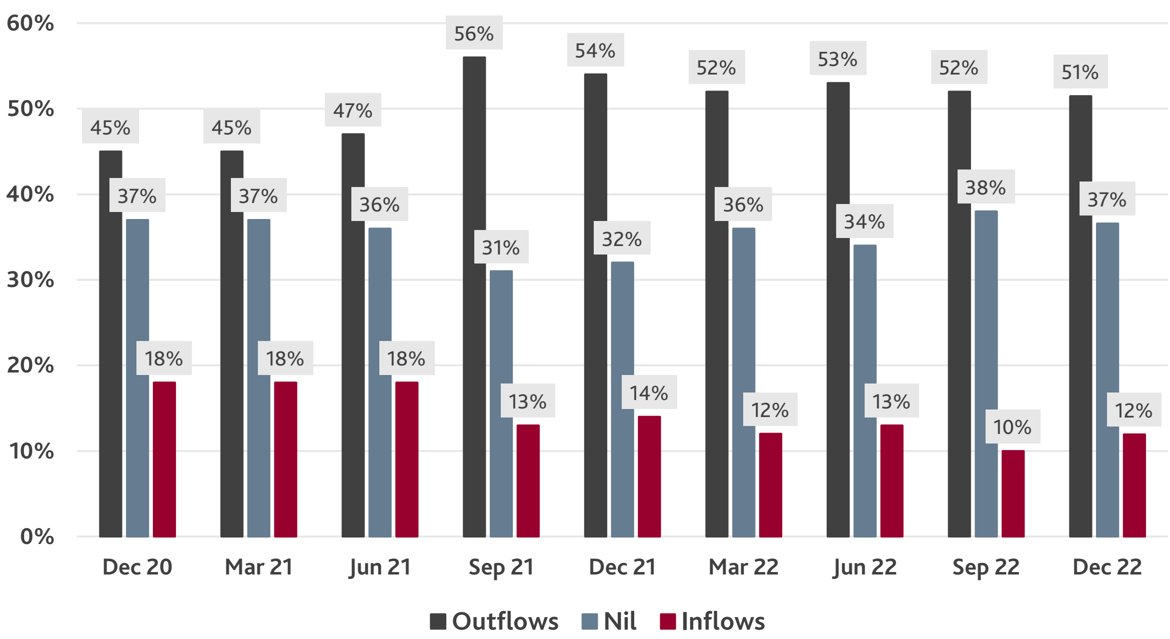
For consistency across all quarters, we note that our analysis of net investing cash flows for the December 2022 quarter excludes exploration and evaluation expenditure that is capitalised. We have instead included this under exploration expenditure.

NET INVESTING CASH FLOWS | SINCE START OF BDO ANALYSIS ($M)



The proportion of companies that recorded net investment outflows decreased slightly from 52% in the September 2022 quarter to 51% in the December 2022 quarter, while the proportion of companies that reported net inflows increased from 10% to 12%. The declining trend in the proportion of explorers reporting investing cash outflows since September 2021 may be a sign that explorers are preserving their cash amongst rising cost pressures and overall economic and capital market uncertainty.

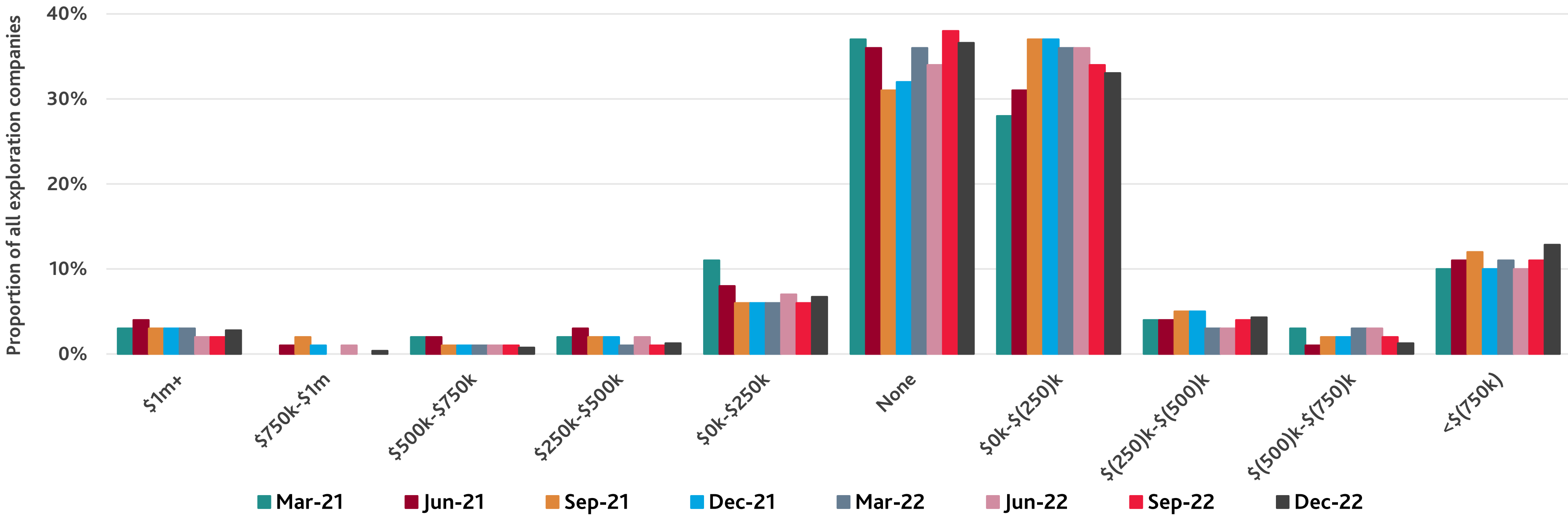
INVESTING CASH FLOWS (%)

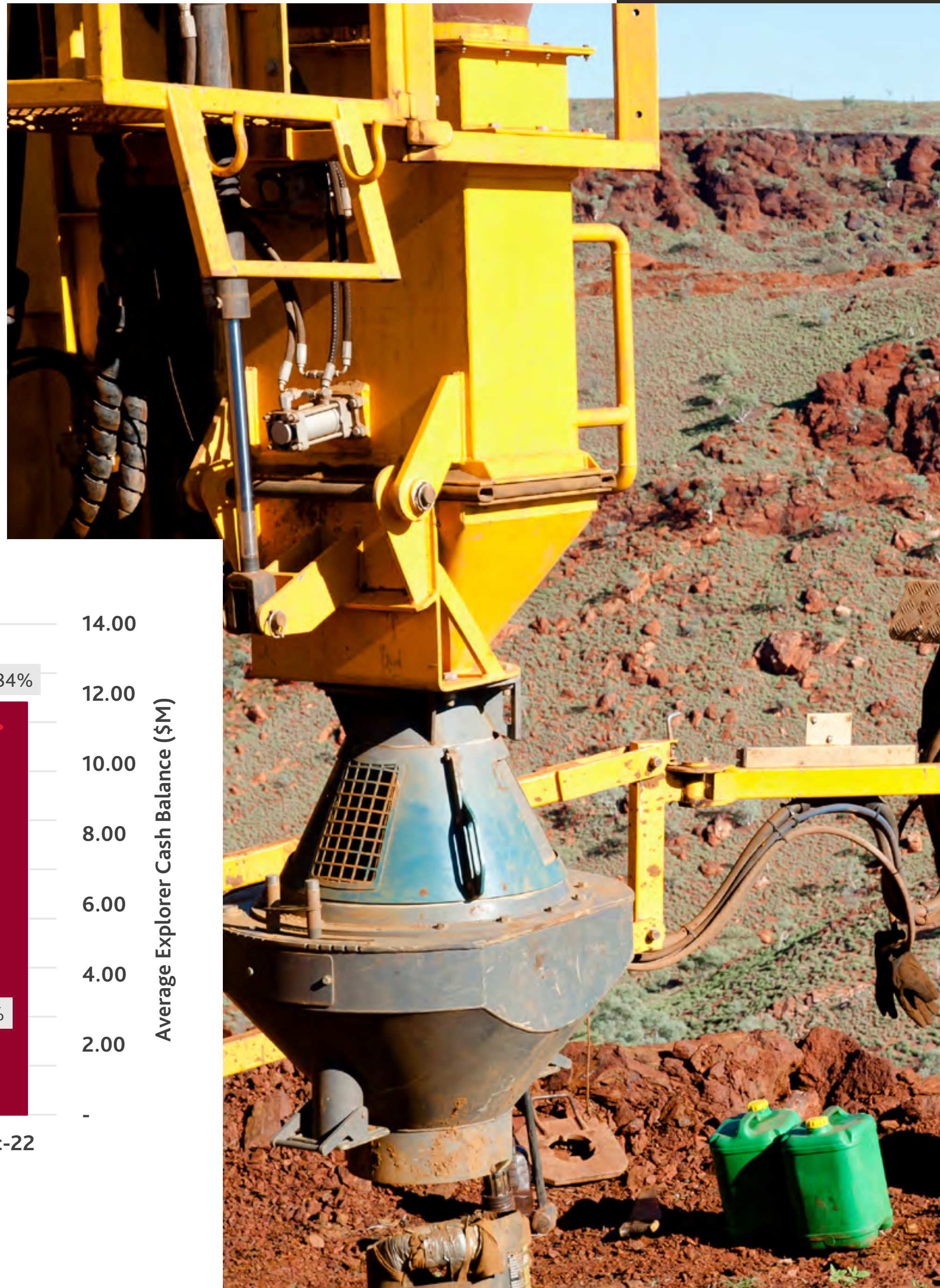


As observed in the chart below, the increase in net investing cash outflows for the December 2022 quarter were driven by the increased proportion of larger net investment outflows of greater than $750k. This level of investment spending is typically caused by companies acquiring additional tenements or advanced exploration or development companies acquiring or installing infrastructure required for production.

In terms of net investing inflows, we observed an increase in the proportion of companies with large investing inflows in excess of $750k. Upon investigation, this was largely driven by companies like Breaker, who reported a $60 million receipt for the sale of its remaining 20% interest in its Manna Lithium Project to Global Lithium Resources Limited (**Global Lithium**).

NET INVESTING CASH FLOWS (%)



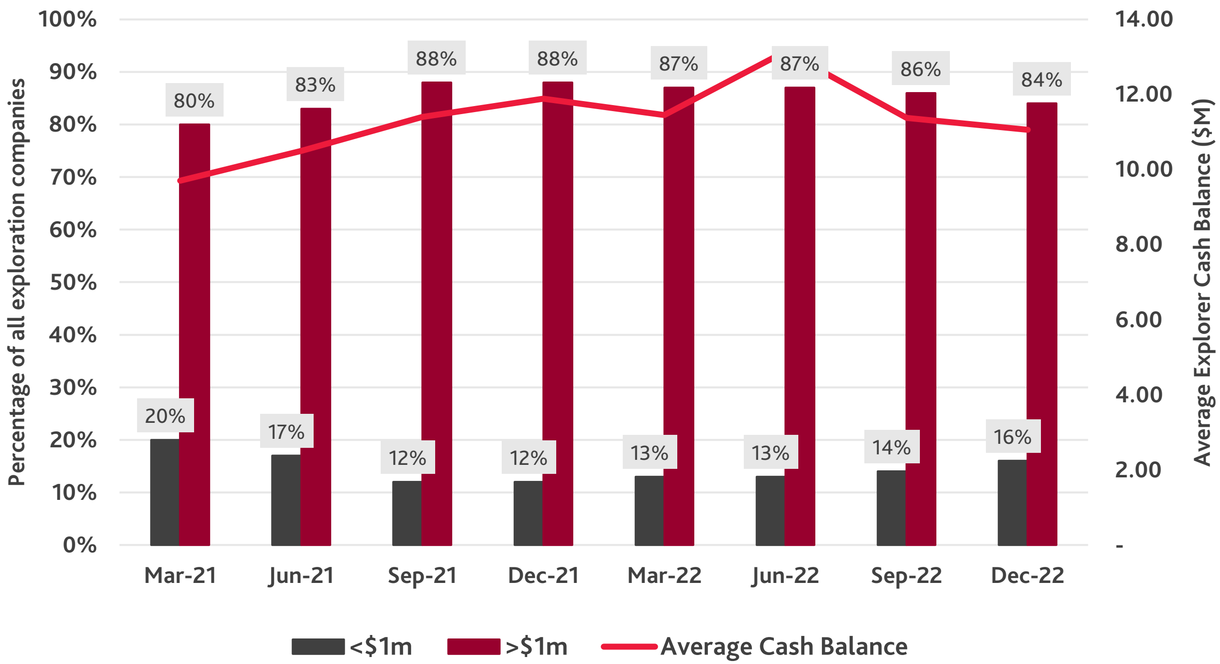


DECEMBER 2022 QUARTER CASH POSITION

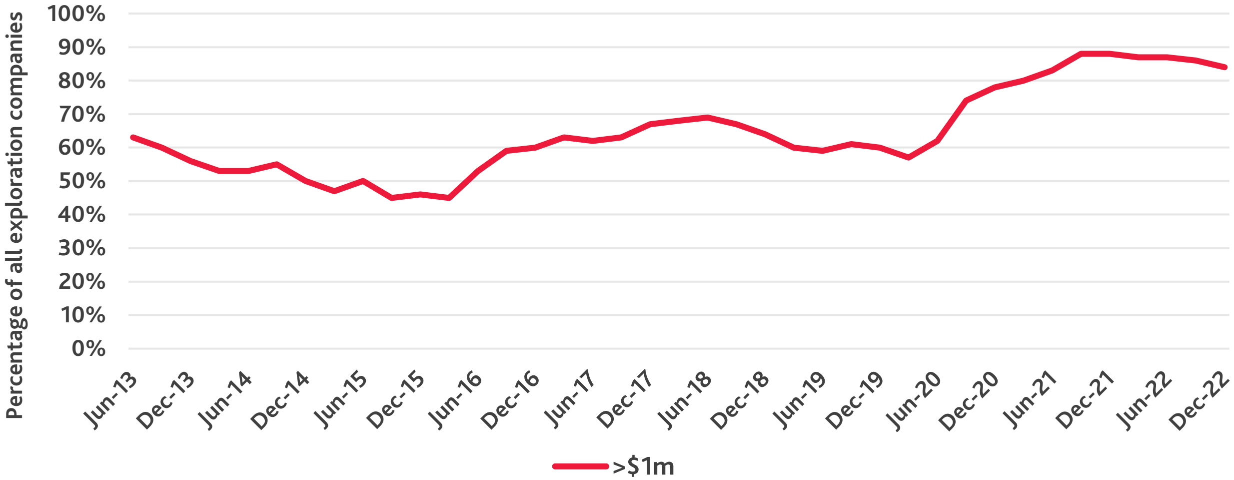
Despite the increased level of financing cash flows for the December 2022 quarter, explorers' cash balances on aggregate declined 2% from the September 2022 quarter and average cash balances decreased 3% from $11.4 million to $11.1 million.

However, the overall cash position still remains strong with 84% of exploration companies reporting a cash balance of over $1 million as at 31 December 2022, which is still significantly above the average cash position since the commencement of our analysis in June 2013.

ASX EXPLORERS' CASH BALANCE (%)

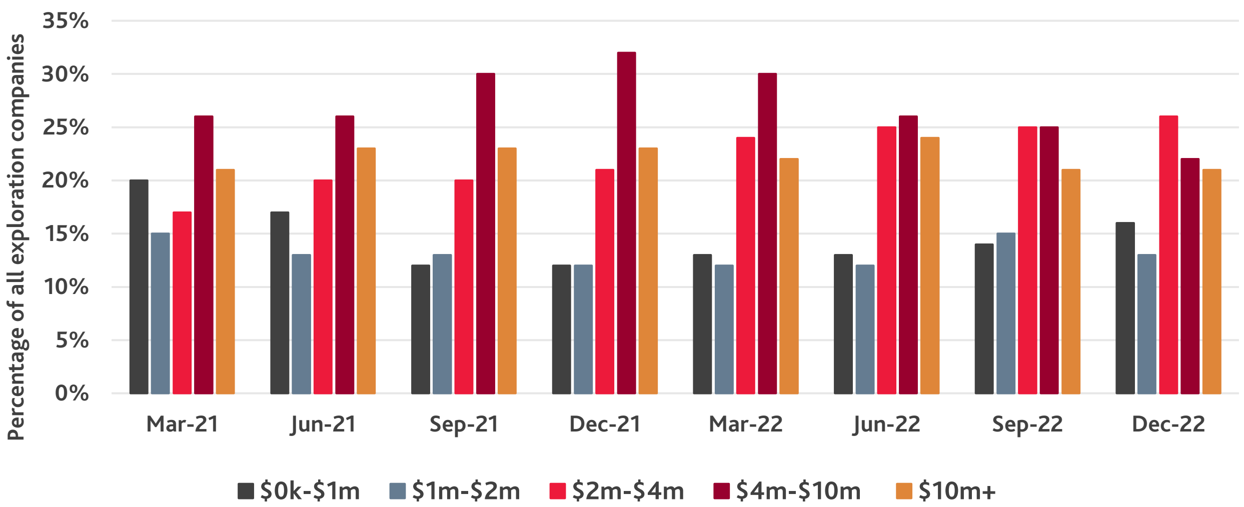


ASX EXPLORERS' CASH BALANCE (%)



We have observed a continued decreasing trend in the proportion of explorers with cash balances between $4 million and $10 million and an increase in those with a balance between $2 million and $4 million. The proportion of explorers with a cash balance of greater than $10 million has remained unchanged from the September 2022 quarter, suggesting that the large proportion of financing inflows for the quarter may have flowed to explorers with existing cash balances in excess of $10 million, such as Jervois, Hastings and De Grey.

ASX EXPLORERS' CASH BALANCE (%)



ADMINISTRATION EXPENDITURE

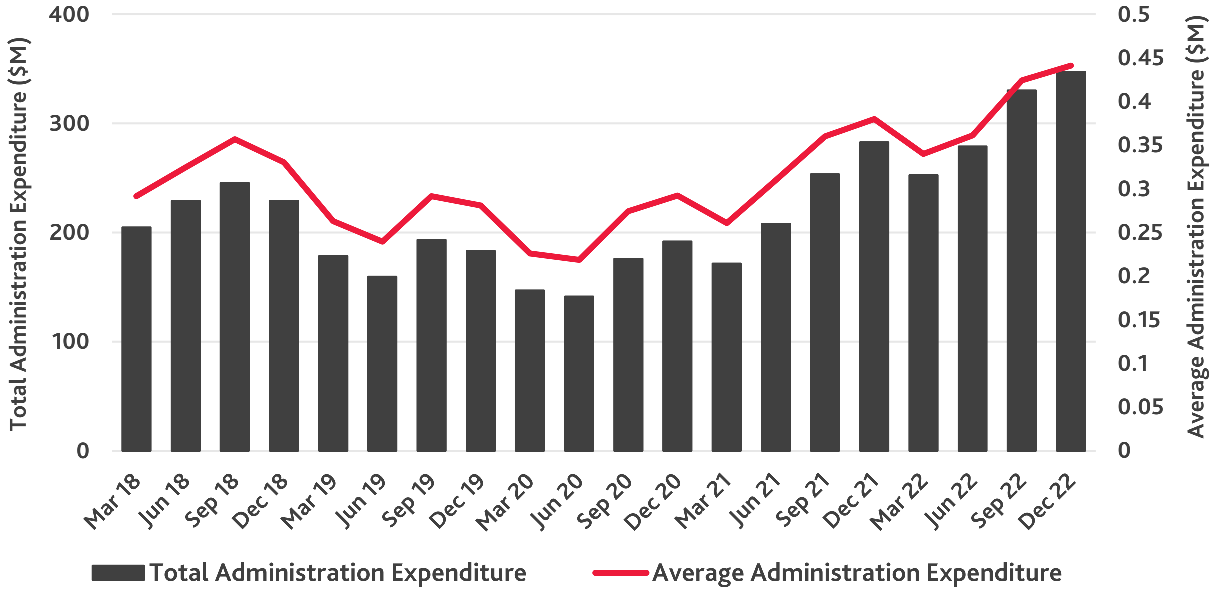
Total administration expenditure (comprising mainly of listing fees, professional fees, director fees and other corporate costs) recorded a 5% increase in the December 2022 quarter to $347 million, which is 41% higher than the two-year average of $246 million since the December 2020 quarter. Despite this, the average administration expense incurred by exploration companies remained relatively consistent with the prior September quarter, increasing marginally from $0.42 million to $0.44 million.

The high levels of administration expenditure incurred over the last two quarters is in line with the cyclical nature of administration spending observed over the past four years, for which administration expenditure tends to be lower in the March and June quarters and higher in the September and December quarters.

As noted in previous issues, the general increasing trend in administration expenditure is linked to the increased level of exploration activity, capital raises, and merger and acquisition activity, which have resulted in higher corporate expenses. In addition, the prevalence of corporate skilled labour shortages has placed upward pressure on the remuneration of corporate staff and the quantum of fees paid to external advisers.

Furthermore, administration expenditure was not immune to the impact of the current inflationary environment. Australia's inflation rate, which hit 7.8% over the year to the December quarter, represented the highest year-end inflation figure since 1990 and was spurred on by the increased cost of services and rental inflation. This however is forecast to ease in line with the easing of global cost pressures, and hence we would expect this rate of increase in average administration costs to decline, although we are likely to see inflationary pressures to impact administration expenditure for the next few quarters.

ADMINISTRATION EXPENDITURE ($M)



NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: JUNE 2013–DECEMBER 2022

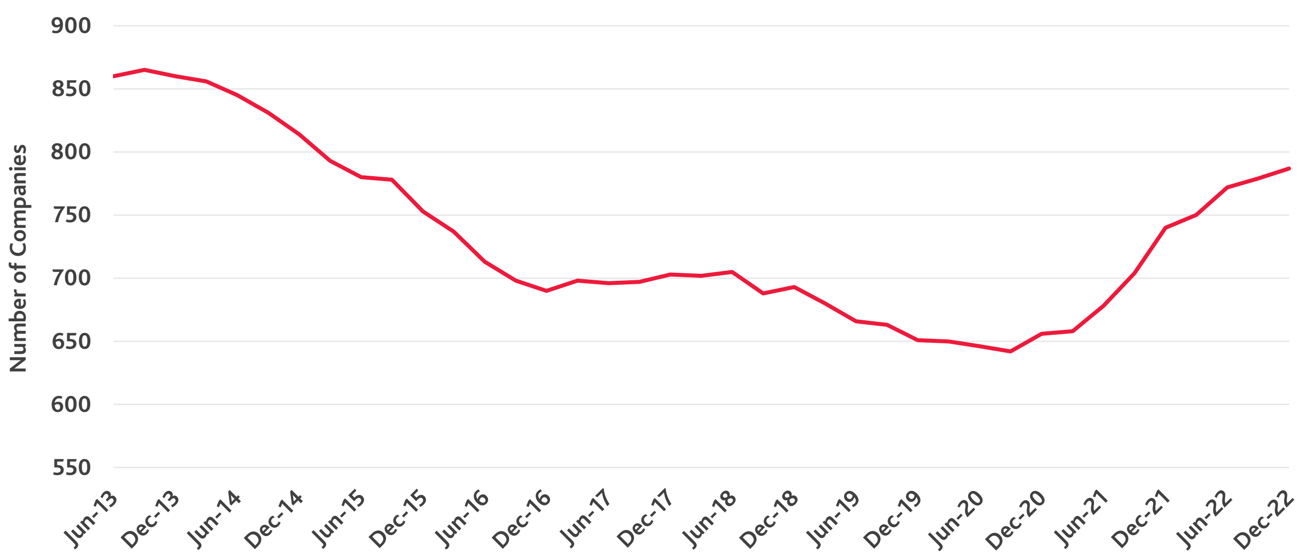
787 companies lodged an Appendix 5B in the December 2022 quarter, an increase of **eight** companies from the 779 in the September 2022 quarter. Over the calendar year of 2022, there was a total net increase of 47 companies lodging an Appendix 5B, down from the net increase of 84 companies in the 2021 calendar year.

Ten exploration companies completed an IPO and lodged an Appendix 5B in the December 2022 quarter, including:

- Bubalus Resources Limited
- Conrad Asia Energy Limited
- Desoto Resources Limited
- Gold Hydrogen Limited
- Lightning Minerals Limited
- Moab Minerals Limited
- Omega Oil & Gas Limited
- Patriot Lithium Limited
- Richmond Vanadium Technology Limited
- Taiton Resources Limited.

Of the ten newly-listed companies, we note that six related to 'clean energy' minerals, such as lithium, uranium, vanadium, hydrogen and rare earths. The remaining four comprised of three oil and gas explorers and one gold explorer.

NUMBER OF COMPANIES TO LODGE 5B REPORTS FROM JUNE 2013 | DECEMBER 2022



As noted in previous quarters, there had been a declining trend in the number of companies lodging an Appendix 5B since June 2013. In June 2013 (when we commenced our analysis), there were 860 companies that lodged quarterly cash flow reports, with a peak over the period of 865 companies in September 2013. This was before the decline from the June 2014 quarter to the December 2016 quarter, when we observed many exploration companies either being delisted or being used as listing vehicles for backdoor listings, primarily by technology and biotechnology companies.

However, since the September 2020 quarter, we have observed a reversal of this trend due to the surge in the number of IPOs by exploration companies on the ASX, which was supported by favourable financial conditions coupled with strong commodity prices. The December 2022 quarter observed 10 IPOs, down from the 12 in the September 2022 quarter. Although the rate of growth has slowed from the average of approximately 26 IPOs per quarter over 2021, this is still notably higher than the average of 7 IPOs per quarter observed over 2020.

Furthermore, we note that anecdotally BDO has observed a strengthening in its pipeline of prospective IPOs targeted for the 2023 calendar year. With funds still proving to be readily available for explorers particularly in the prime commodities such as lithium, rare earth meals and gold, we anticipate a return of IPO activity in 2023 with the possibility of some larger ones coming in the second half of the year. There is some expectation that future IPOs will need to include some form of climate and sustainability reporting because it is information that investors increasingly require.

A total of 13 companies that reported Appendix 5Bs in the December 2022 quarter were not captured in our September 2022 quarter data for the following reasons:

- Ten aforementioned companies that recently completed an IPO and lodged an Appendix 5B in the December 2022 quarter
- Two companies were not captured in the September 2022 quarter due to industry classification change
- One company lodged its September 2022 quarter Appendix 5B late and hence was not captured in our September 2022 data.

This increase was offset by five companies that did not report Appendix 5Bs in the December 2022 quarter for the following reasons:

- Three companies that were delisted pursuant to ASX Listing rule 17.11
- One company was no longer required to lodge an Appendix 5B given their position as a producing company
- One company was no longer required to lodge an Appendix 5B given their transition from a mining exploration company to a materials listing.

BDO INSIGHT – AUSTRALIAN EXPLORERS PRIMED TO MEET GLOBAL DEMAND

Against the backdrop of an uncertain economic and climate risk landscape in the December 2022 quarter, explorers once again found themselves facing a complex web of global forces. The combination of inflationary pressures, energy shortages, climate pressure and geopolitical instability, to name a few, significantly impacted the delicate equilibrium of investor sentiment. Yet, despite these challenges, explorers not only persevered throughout the quarter, but the data would suggest that they thrived. More importantly, the positive signals from this quarter's data shows the sector's potential to serve the world at a time when its need for resources is more profound and diverse than ever.

In the wake of tightening inflation and resonating recessionary concerns, gold topped our Fund Finder analysis for the second consecutive quarter. We interpret this information as gold explorers accelerating their respective development projects and expanding current resources to meet increased demand in the near future. The World Gold Council corroborates this, revealing that global annual demand for gold in 2022 surged by 18%, the most significant yearly increase in over a decade. This, in tandem with record central bank gold purchases, indicates that there may continue to be turbulent economic times on the horizon, and if this is the case, BDO anticipates that gold explorers will continue to seek to raise funds and undertake consolidations through mergers and acquisition activity in order to advance their projects.

While many of the world's largest economies face recession this year, China's countercyclical rebound and economic reopening presents a ripe canvas of investment prospects. With its sights set firmly on Australia, China is actively seeking to fulfil the exponential growth of its electric vehicle production, as evidenced by Tianqi Lithium Corporation and IGO Limited's joint venture bid for lithium explorer Essential Metals Limited. We see explorers who focus on minerals that are required for the energy transition being in demand from local and international investors alike. Moreover, in the quarter, Australia joined the Sustainable Critical Minerals Alliance – an initiative led by Canada to promote sustainable, environmentally and socially responsible mining practices for the critical minerals sector. We anticipate this will further promote Australia's position as a leading exporter of strategic minerals while also continuing to stimulate the growth of Environmental, Social and Governance (**ESG**) alignment to help demonstrate their value in the energy transition value chain and to service the needs of investors. Scope 3 emissions reporting pressures currently being experienced in the EU will need to be managed by explorers through climate strategies to ensure favourable funding, price, and investor sentiment.

The resurgence of coal on our list of Fund Finders in the December 2022 quarter has shed light on the severity of the prevailing energy scarcities, particularly as Russia continues to choke off natural gas supplies to Europe. For example, nations at the forefront of the world's decarbonisation endeavours, like Germany, have been compelled to partially veer away from their pursuit of renewable energy sources and instead, resurrect their coal operations to bridge the significant energy shortfalls across the Eurozone. While at the same time, Australia's superior coal and oil and gas reserves have captured the attention of global players seeking to meet their energy needs.

It is worth highlighting that six of the ten IPOs in the quarter reside in the clean energy space. We find it encouraging that Australia's clean energy drive has not been derailed by the geopolitical fallout stemming from the war in Ukraine. Crucially, our explorers remain well placed to supply a wide range of energy transition commodities to help meet the world's net zero commitments. As such, we expect that while coal has resurged, the long-term prospect for clean energy explorers remains abundantly bright, and we foresee energy transition minerals accounting for a significant portion of IPOs in the coming quarters. The challenge for these companies will be ensuring they also have a reasonably based climate strategy and can report this as mandatory climate-related financial reporting draws closer.

Security of alternative supply of the rare earths that are required to produce the high technology devices that the western world depends upon will also likely see increasing volumes of funds flowing into this part of the exploration sector in 2023.

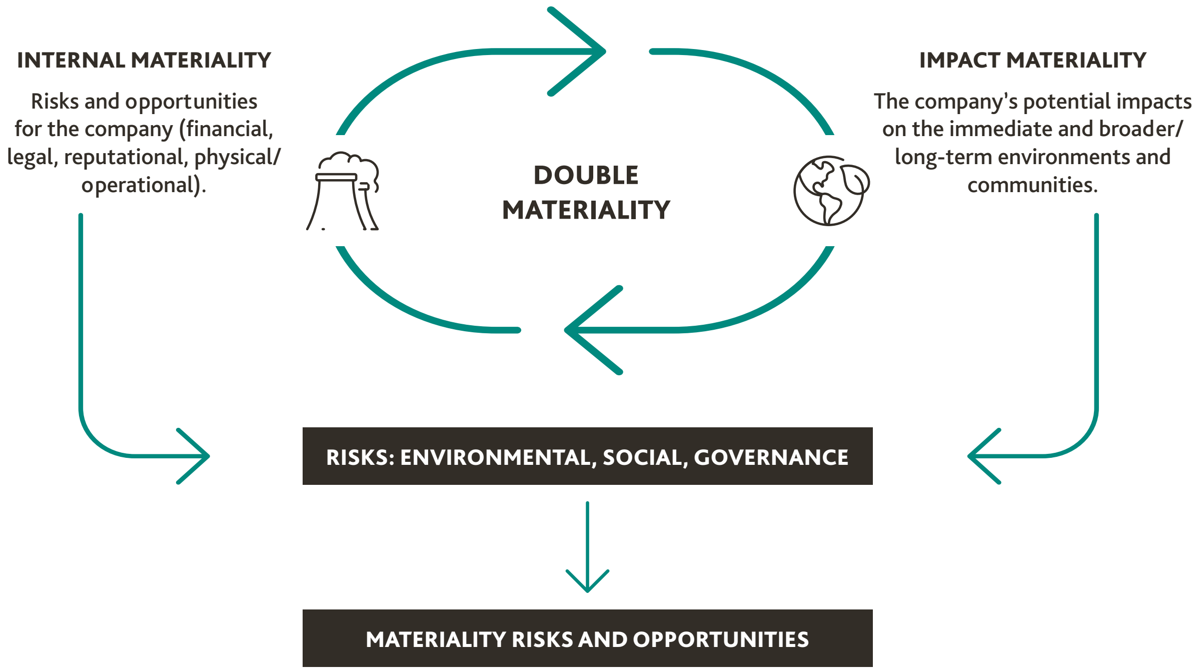
SUSTAINABILITY AND CLIMATE RISK REPORTING FOR JUNIOR EXPLORERS

Mandatory reporting of sustainability and climate risk is currently being introduced into Australia and pressure from investors and regulators is already driving a need for explorers to address material sustainability risks and opportunities within corporate disclosures such as annual reports and IPOs.

Activating sustainability can be challenging for ALL companies, given the pace in which reporting expectations is moving and the breadth and complexity of sustainability reporting metrics. The move to sustainability reporting by mining is generally quite seamless, given their existing knowledge of environmental and social issues, many which are already reported on.

BDO supports clients in managing this challenge by accompanying them through the following materiality risk assessment process (below).

As a result of this process companies can establish their ESG baseline which will inform future reporting, management and disclosures of non-financial topics. In addition, they are able to provide high-level commentary to the market around its ESG risks, strategy and governance which will be in line with new International Sustainability Standards Board (**ISSB**) and Australian Accounting Standards Board (**AASB**) guidelines.



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