



EXPLORER QUARTERLY CASH UPDATE

QUARTER ENDED 31 DECEMBER 2018

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

BDO's report on the cash position of Australian-listed explorers for the December 2018 quarter (based on quarterly Appendix 5B reports lodged with the ASX) provides mixed signals with the highlight being exploration expenditure for the quarter reaching the second highest level since the December quarter of 2014. This was contrasted with the 28% decline in financing cash inflows, but this is not uncommon for the December quarter.

The continuation of high exploration expenditure reflects the favourable economic and market conditions in recent years which supported Australian-listed explorers. The strength of exploration was reinforced by the Australian Bureau of Statistics ('ABS') data which reported total metres drilled by exploration companies increased by 0.8% for the December 2018 quarter. Interestingly, this was 16.5% higher than the December quarter in 2017.

A total of 693 Appendix 5B reports were lodged during the December 2018 quarter, up from 688 in the September 2018 quarter, which bucked the trend from the September quarter where the number of companies declined to 688 from 705 in the June quarter. Notably, during the December quarter, five new exploration companies were admitted to the ASX through an initial public offering ('IPO'), which was the driver behind this increase. The December quarter is traditionally a tough market to get an IPO away, therefore an appetite from capital markets for exploration companies, provides encouraging signs for the calendar year ahead.

The December 2018 quarter was characterised by the continuation of high share market volatility caused by concerns surrounding the impact of global trade tensions and rising interest rates on economic growth. The difficult conditions were reflected by the S&P/ASX 200 Resources Index, which declined 8.2% between the end of the September 2018 and December 2018 quarter. However, towards the end of the December quarter the Index showed signs of improvement and it has continued to rally strongly in 2019. As at 14 March 2019, the S&P/ASX 200 Resources Index is approximately 15% higher than its level at 31 December 2018.

The December quarter saw a continued focus on gold exploration, which gained increasing popularity throughout the latter half of 2018. The popularity of gold is evidenced by the spike in M&A activity that has been supported by the rising gold price and falling Australian dollar, which has lifted the share price and profit outlook for many ASX listed gold miners. The M&A activity has been present across all levels of the market, from the US\$18.0 billion merger between Barrick Gold and Randgold Resources to Perseus Mining Limited's takeover of London listed gold miner Amara Mining Plc.

The popularity of gold is further evidenced by the fact that the five additional companies reporting during the quarter as a result of IPO's, are all gold exploration companies.

We believe the global political landscape remains cautiously poised as no meaningful progress has been made on a number of key geopolitical issues including the America and China trade dispute, which we believe will be a key catalyst in determining the trajectory of future economic growth and commodity demand.

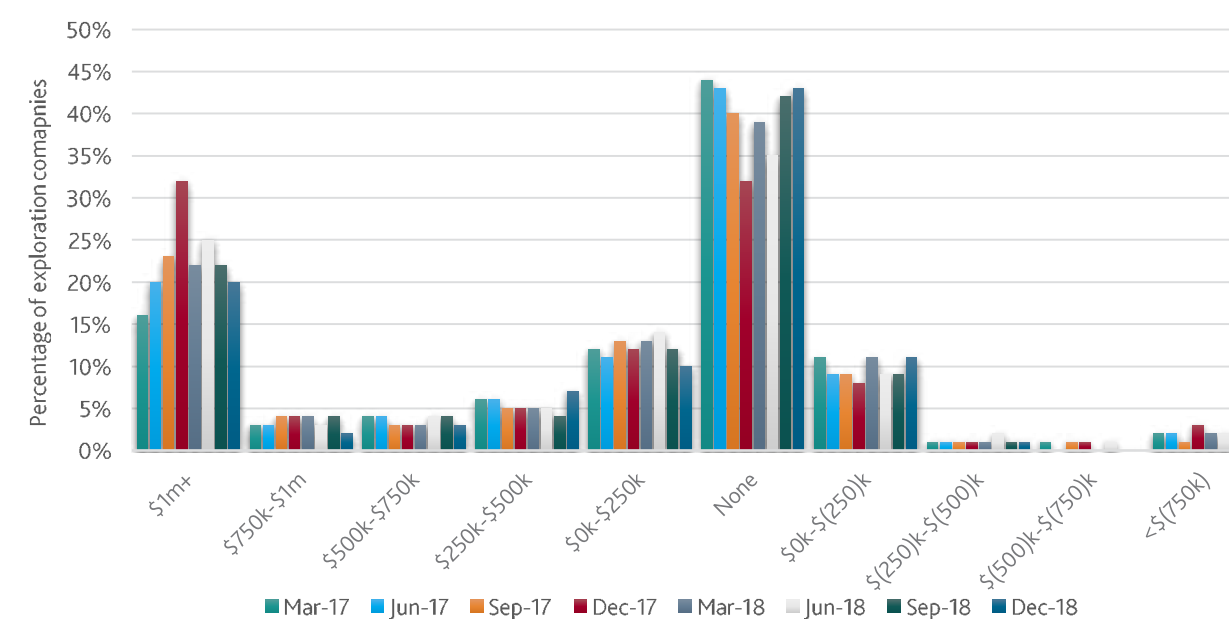
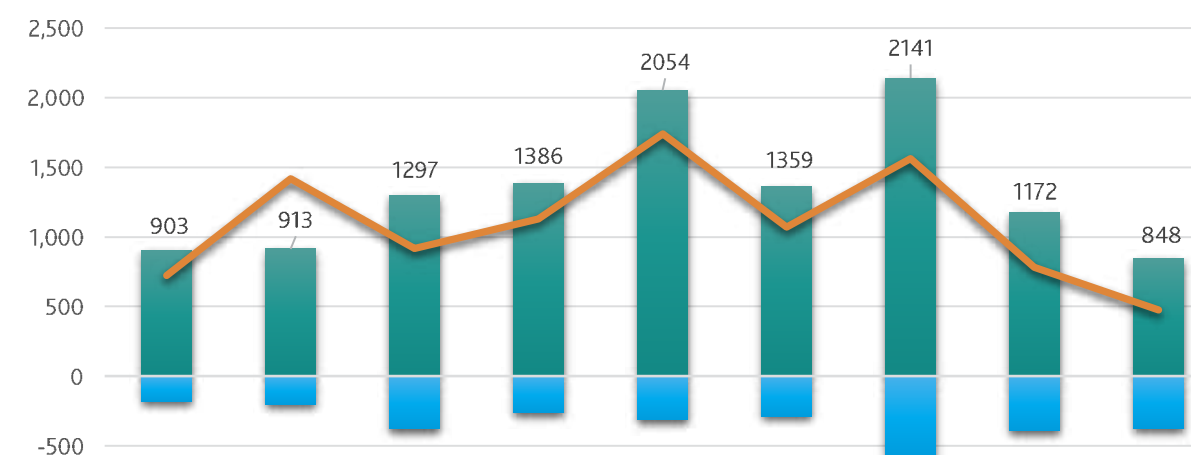
- Second highest exploration expenditure recorded since the December quarter of 2014
- Five IPO's, with gold being the flavour of the quarter
- Financing inflows declined by 28% to \$848 million, down from \$1.17 billion in the September quarter.



FINANCING CASH FLOWS

Financing cash inflows for the December 2018 quarter were \$848.2 million, representing a decline of 28% from \$1.17 billion in the September 2018 quarter. This was well below the two-year average of \$1.34 billion. In part this reflects that the months of October and December were both very poor for the ASX.

The proportion of exploration companies with net financing inflows declined from 46% in the September 2018 quarter to 42% in the December quarter of 2018. Furthermore, there was a marginal increase in the number of companies with no financing cash flows from 290 (42%) in the September quarter to 297 (43%) in the December quarter.



FUND FINDERS

There were 22 exploration companies that raised in excess of \$10 million during the December quarter of 2018. Of these, there were six oil & gas companies, five gold companies, and three coal companies.

Sundance Energy Australia Limited ('Sundance') had the largest financing inflow of approximately \$62.4 million entirely from borrowings. The funds will primarily be used to provide additional liquidity, with pre-existing available liquidity supporting Sundance's development program through the second half of 2019.

The second largest financing inflow during the December quarter was by West African Resources Limited, which raised approximately \$43.2 million via an equity capital raising. The funds are to be used toward development of the Sanbrado Gold Project, which is now fully funded through to first expected gold production in 2020.

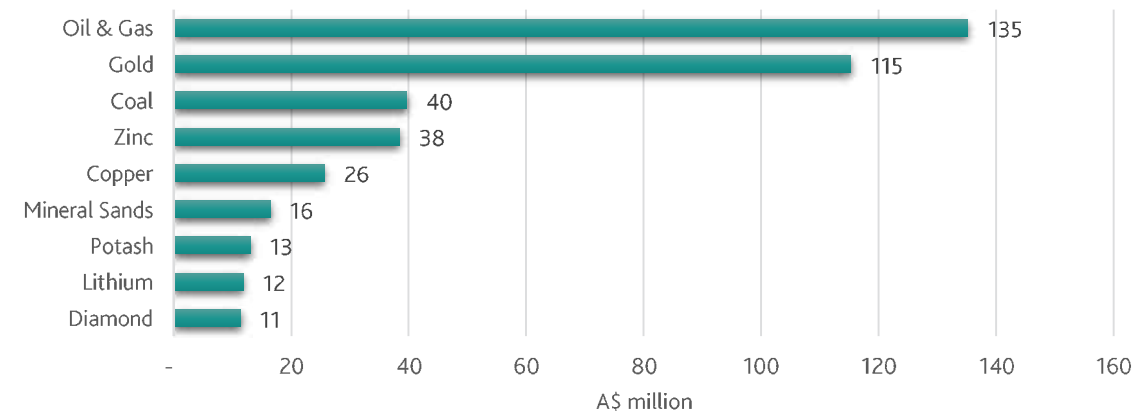


Companies that raised funds through debt and/or equity in excess of \$10 million in the December quarter of 2018, are set out below:

COMPANY	COMMODITY	FUNDS RAISED
Company	Commodity	Funds raised
Sundance Energy Australia Limited	Oil & Gas	\$62.36 million in proceeds from borrowings
West African Resources Limited	Gold	\$43.18 million in proceeds from issue of shares
Emerald Resources NL	Gold	\$27.93 million in proceeds from issue of shares
Heron Resources Limited	Zinc	\$26.93 million in proceeds from borrowings
Beacon Minerals Limited	Gold	\$18.00 million in proceeds from issue of debentures
Sheffield Resources Limited	Mineral Sands	\$16.46 million in proceeds from issue of shares
Bellevue Gold Limited	Gold	\$15.50 million in proceeds from issue of shares
Bounty Mining Limited	Coal	\$10.30 million in proceeds from issue of shares and \$5.00 million in proceeds from borrowings
Finders Resources Limited	Copper	\$14.80 million in proceeds from borrowings
Elk Petroleum Limited	Oil & Gas	\$20.09 million in proceeds from borrowings
Strike Energy Limited	Oil & Gas	\$14.11 million in proceeds from issue of shares
88 Energy Limited	Oil & Gas	\$13.64 million in proceeds from issue of shares and \$0.05 million in proceeds from exercise of share options
Salt Lake Potash Limited	Potash	\$13.00 million in proceeds from issue of shares
Galilee Energy Limited	Oil & Gas	\$13.00 million in proceeds from issue of shares
White Energy Co. Limited	Coal	\$11.76 million in proceeds from issue of shares and \$1.05 million in proceeds from borrowings
Calima Energy Limited	Oil & Gas	\$11.87 million in proceeds from issue of shares
Piedmont Lithium Limited	Lithium	\$11.79 million in proceeds from issue of shares
Aspire Mining Limited	Coal	\$11.57 million in proceeds from issue of shares
New Century Resources Limited	Zinc	\$11.44 million in proceeds from borrowings
Lucapa Diamond Co. Limited	Diamond	\$11.41 million in proceeds from borrowings
Cudeco Limited	Copper	\$10.83 million in proceeds from borrowings
Breaker Resources NL	Gold	\$10.60 million in proceeds from issue of shares

In total, the 22 companies that raised in excess of \$10 million accounted for \$406.7 million (48%) of the \$848.2 million in total financing inflows recorded during the December quarter of 2018. Of the \$406.7 million raised by these 22 companies shown in the table, gold, and oil and gas explorers accounted for 61% of total financing inflows, followed by coal with 10%.

FINANCING INFLOW BY COMMODITY - TOP 22 EXPLORERS



Gold as well as oil & gas exploration companies attracted the most significant investor interest during the December 2018 quarter, together accounting for 61% of the total financing inflows within the top 22 companies.

The continued strength of gold is being driven by political uncertainty and rising share market volatility, which has boosted the appeal of the precious metal. While the gold price declined throughout most of 2018, it rebounded strongly in the December quarter, increasing 7.5% between the end of the September quarter to the end of the December quarter.

GOLD (COMEX) HISTORICAL PRICE JAN 2018 - SEP 2018



A number of other factors have boosted the appeal of gold to ASX explorers including a weaker Australian dollar and the likelihood that global interest rate rises may not be as frequent as previously anticipated.

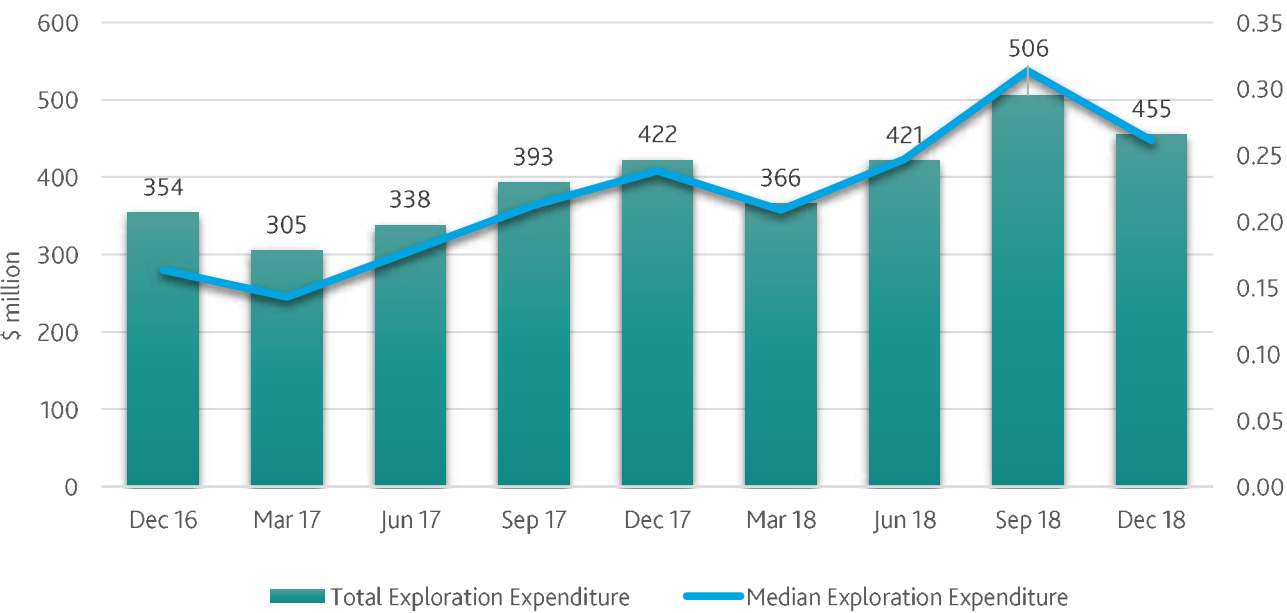


EXPLORATION EXPENDITURE

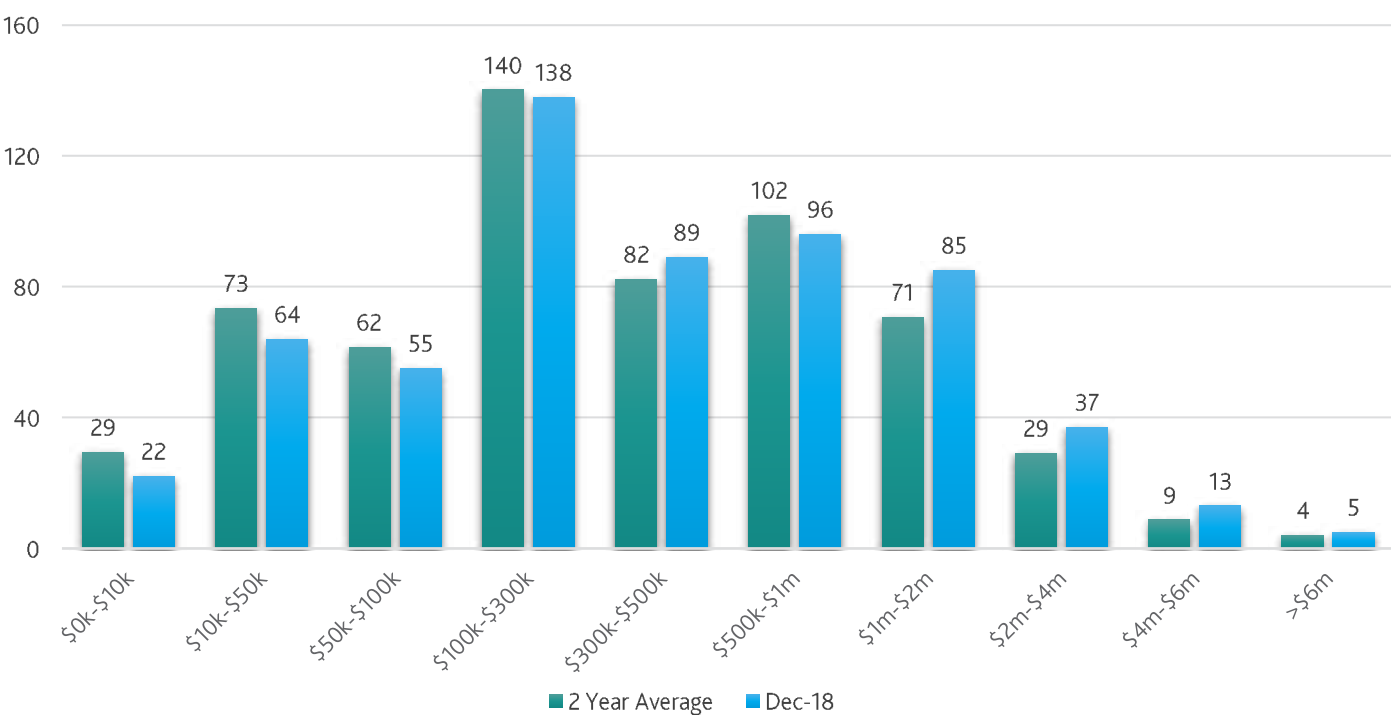
Median exploration expenditure declined to \$0.26 million for the December 2018 quarter, down from \$0.31 million in the September 2018 quarter. Despite the decline in median expenditure, the December 2018 quarter recorded the second highest spend on exploration since the December quarter of 2014.

Exploration expenditure was stronger at the top end of the market, with 140 companies spending in excess of \$1 million in the December 2018 quarter, higher than the two-year average of 113. This highlights the willingness and ability of larger exploration companies to invest their cash into the ground.

EXPLORATION EXPENDITURE (\$M)



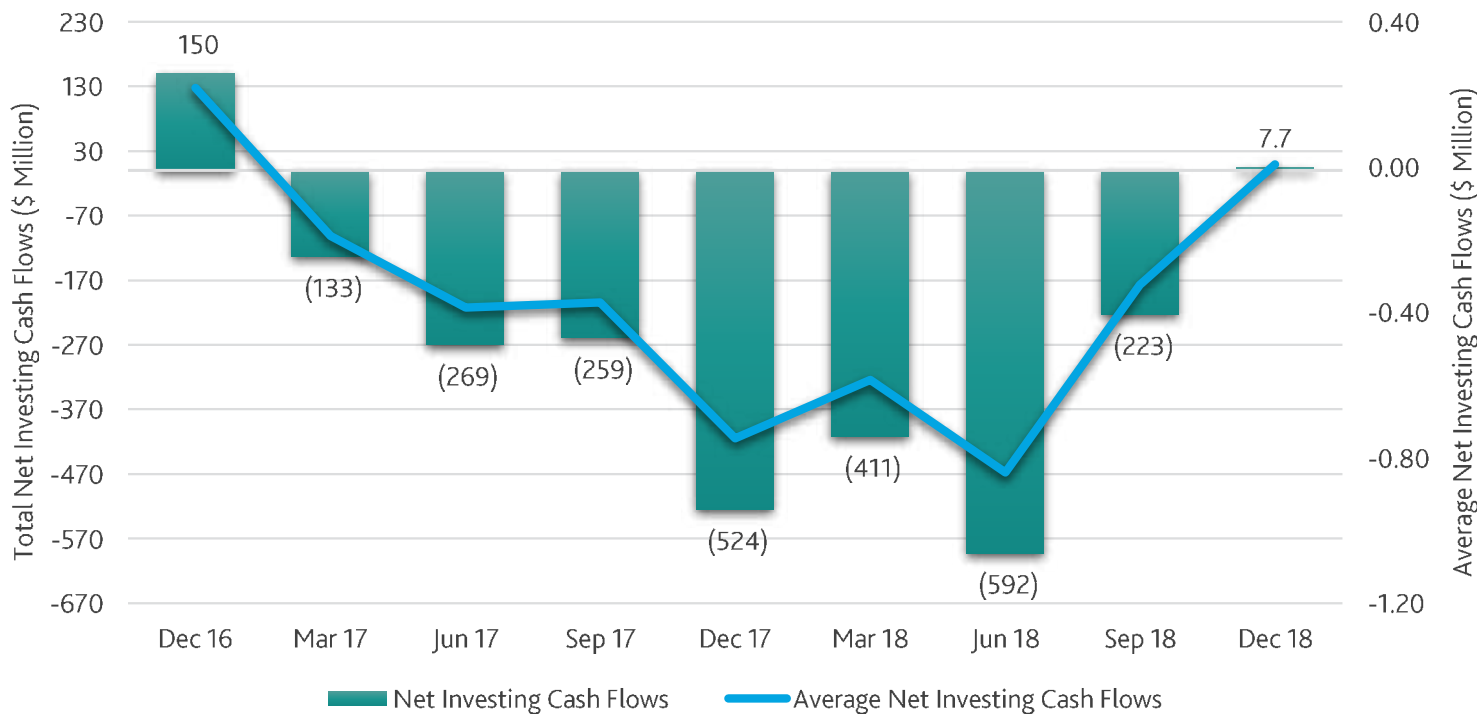
NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE



NET INVESTING CASH FLOWS

Net investing cash flows declined by 97% from \$222.5 million in the September 2018 quarter to \$7.7 million in December quarter of 2018.

NET INVESTING CASH FLOWS (\$M)



The proportion of exploration companies with investment expenditure during the December quarter was 39%. This was down from 42% in the September quarter 2018.

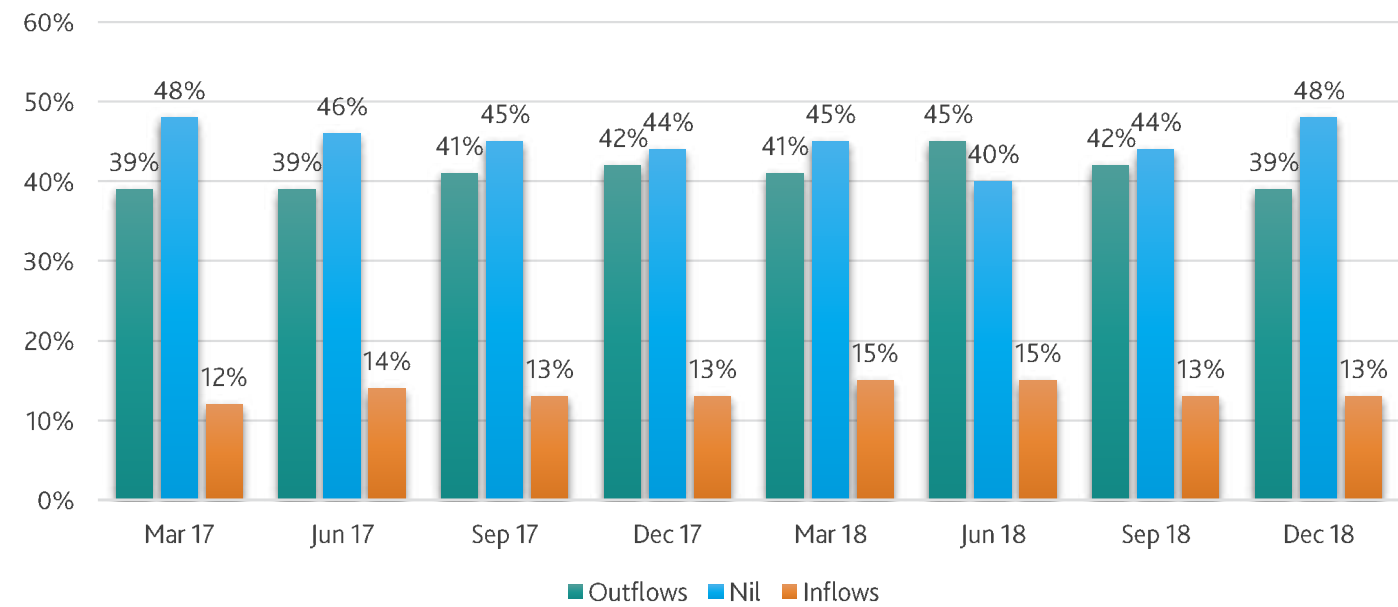
The December quarter saw an increase in the total percentage of companies with nil investing cash flows; rising to 48% from 44% in the September quarter 2018. This may be a result of companies focusing efforts on exploring existing projects rather than seeking new investment and disposal opportunities.

In recent quarters there has been an increase in consolidation and M&A activity amongst mid-tier gold producers due to the rising gold price and favourable trading conditions for producers. We believe investment and M&A activity in the gold sector will continue to increase over the medium term.

We observed a slight decline in the average cash position of exploration companies during the December 2018 quarter to \$5.79 million from \$6.53 million in the September 2018 quarter, which was the highest point during our analysis period. This suggests that exploration companies remain well poised to spend once the right conditions prevail.



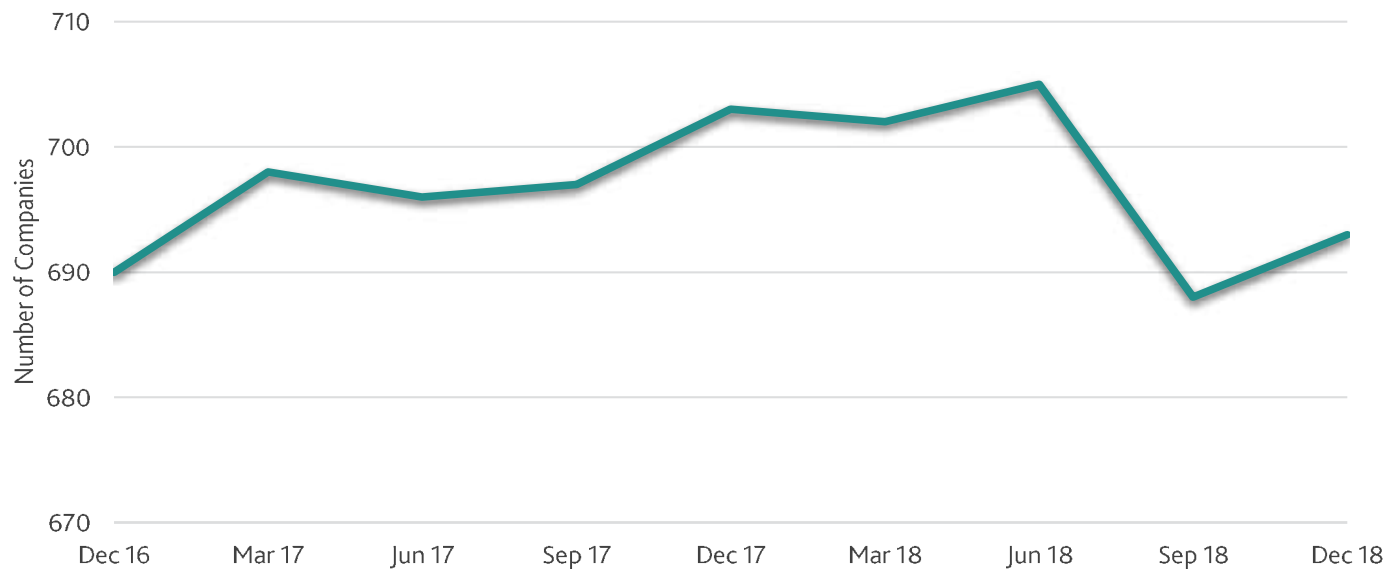
INVESTING CASH FLOWS (%)



NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: DEC 2016 – DEC 2018

For the quarter ended 31 December 2018, 693 companies lodged an Appendix 5B report, up from 688 in the September quarter of 2018.

NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS



The net increase of 5 companies to lodge an Appendix 5B report from the September 2018 quarter to the December 2018 quarter was a result of the following:

- 5 Initial Public Offerings ('IPOs') of exploration companies during the December quarter, and
- 12 companies that were late to lodge Appendix 5B's in the September 2018 quarter (and were therefore excluded from our analysis) though captured in our December data.

The increase in the number of companies lodging an Appendix 5B report over the December quarter was partially offset by:

- 1 company, Tawana Resources NL ('Tawana') was in the process of merging during the December 2018 quarter and did not lodge an Appendix 5B Report for the quarter. Tawana was removed from the Official ASX list on 4 January 2019 following implementation of the scheme of arrangement between Tawana and Alliance Mineral Assets Limited;
- 1 company, Austral Gold Limited previously lodged an Appendix 5B report for the September quarter but instead issued an Appendix 4E Report in the December quarter of 2018;
- 3 companies were suspended during the December 2018 quarter;
- 3 companies were late to lodge Appendix 5B's in the December 2018 quarter (and were therefore excluded from our analysis);
- 4 companies were delisted from the ASX during the December 2018 quarter.



As set out below, the five IPOs conducted during the December 2018 quarter were Caprice Resources Limited, Golden State Mining Limited, Moho Resources NL, Norwest Minerals Limited and Yandal Resources Limited.

Company	Commodity	Amount Raised (A\$million)	Issue Price	Share Price at 14th March
Caprice Resources Limited	Gold and base metals	4.5	20c	18c
Golden State Mining	Gold	4.5	20c	10c
Moho Resources NL	Gold	5.3	20c	14c
Norwest Minerals Limited	Gold and base metals	6.6	20c	19c
Yandal Resources Limited	Gold	5	20c	21c

Despite the success in completing the above IPO's the share price movements in the months following listing have not been favourable. The sentiment in the market is for this to turn around over the coming quarters with a ray of hope shining through the listing of African Gold Ltd ('A1G').

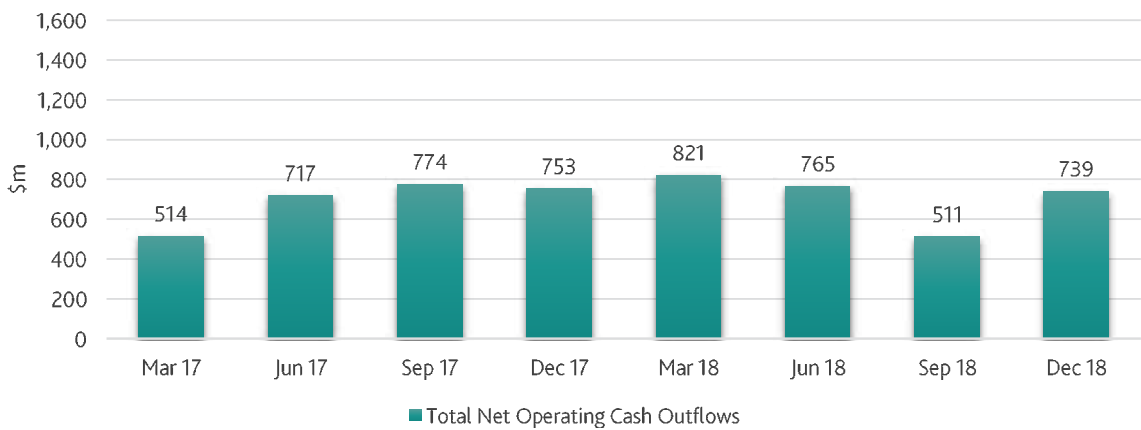
A1G is a gold exploration company with tenements in Africa which listed at \$0.20 per share, had its capital raising oversubscribed and then reached a share price high of \$0.40 on its first day of trading.

NET OPERATING CASH OUTFLOWS

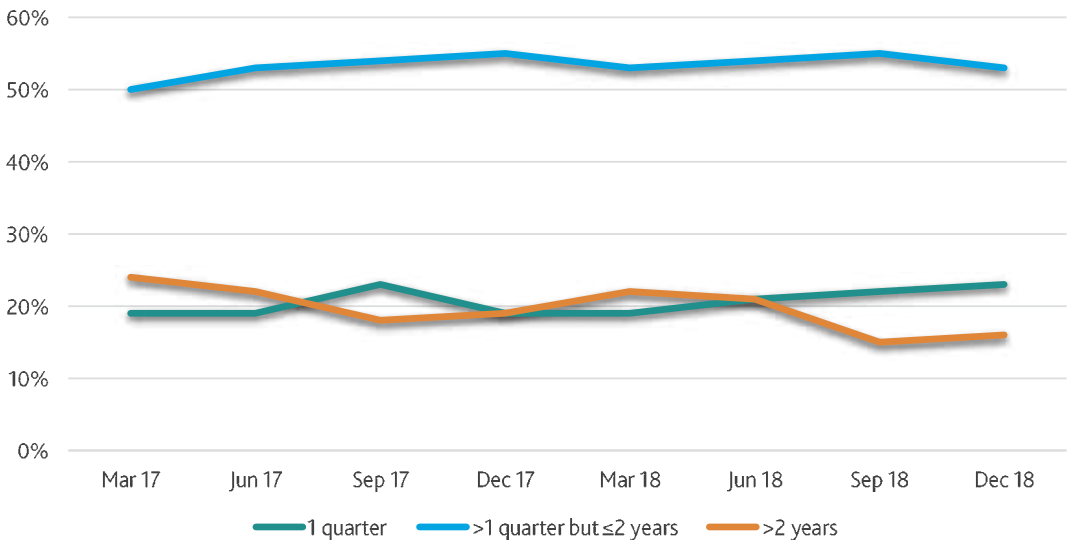
Total net operating cash outflows declined by 45% between the September and December quarters of 2018, with the average net operating cash outflow decreasing from \$0.74 million in the September quarter to \$1.07 million in December.

Based on current operating expenditure, the proportion of companies that will burn through their cash reserves in one quarter or less, increased marginally from 22% in the September 2018 quarter to 23% in the December 2018 quarter. The number of companies that will burn through their cash reserves between one quarter and two years declined from 55% to 53%, while the number for more than two years increased from 15% to 16%, over the same period.

NET OPERATING CASH OUTFLOWS (\$M)



OPERATING EXPENSES - CASH BURN RATE



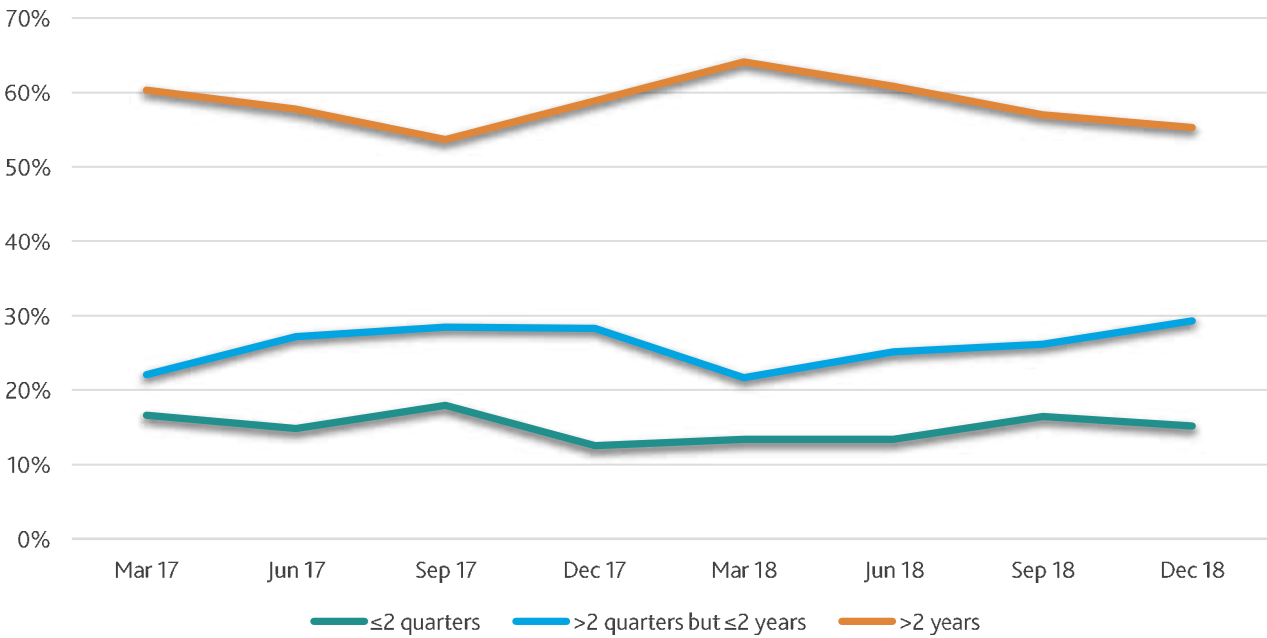
ADMINISTRATION EXPENDITURE

Total administration expenditure declined from \$245 million in the September 2018 quarter to \$229 million in the December quarter of 2018, representing a 7% decrease. The median administration expense incurred by exploration companies decreased from \$0.20 million to \$0.18 million over the same period.

In recent years we have observed a declining trend in administration expenditure, as explorers strived to streamline operations by reducing the administrative function as much as possible. Administration spending started to increase as commodity prices and activity within the mining sector picked up in 2017. Despite the recent volatility in commodity prices, the overall spend on administration increased in 2018. It will be interesting to see if recent volatility and weaker commodity prices will affect explorers' administration spending over the coming quarters.

Based on administration expenses for the December quarter in 2018, the proportion of companies with cash sufficient to sustain these expenses for greater than two years declined from 57% for the September quarter 2018 to 55%. The proportion of companies with more than two quarters and less than two years increased from 26% to 29% over the same period.

ADMINISTRATION EXPENSES - CASH BURN RATE



DECEMBER 2018 QUARTER CASH POSITION

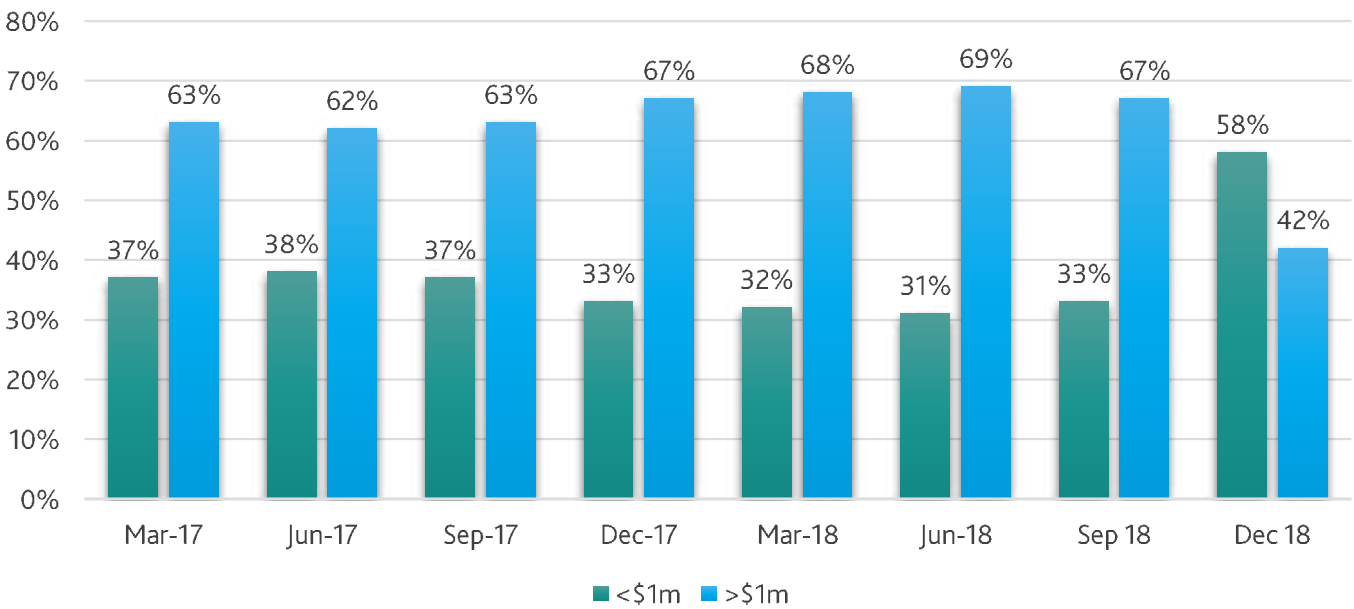
The average cash balance for exploration companies declined from \$6.53 million at the end of the September quarter to \$5.79 million at the end of the December quarter.

Companies with a cash balance between \$100,000 and \$4 million accounted for 45% of companies that lodged an Appendix 5B for the December 2018 quarter, down from 64% in the September quarter.

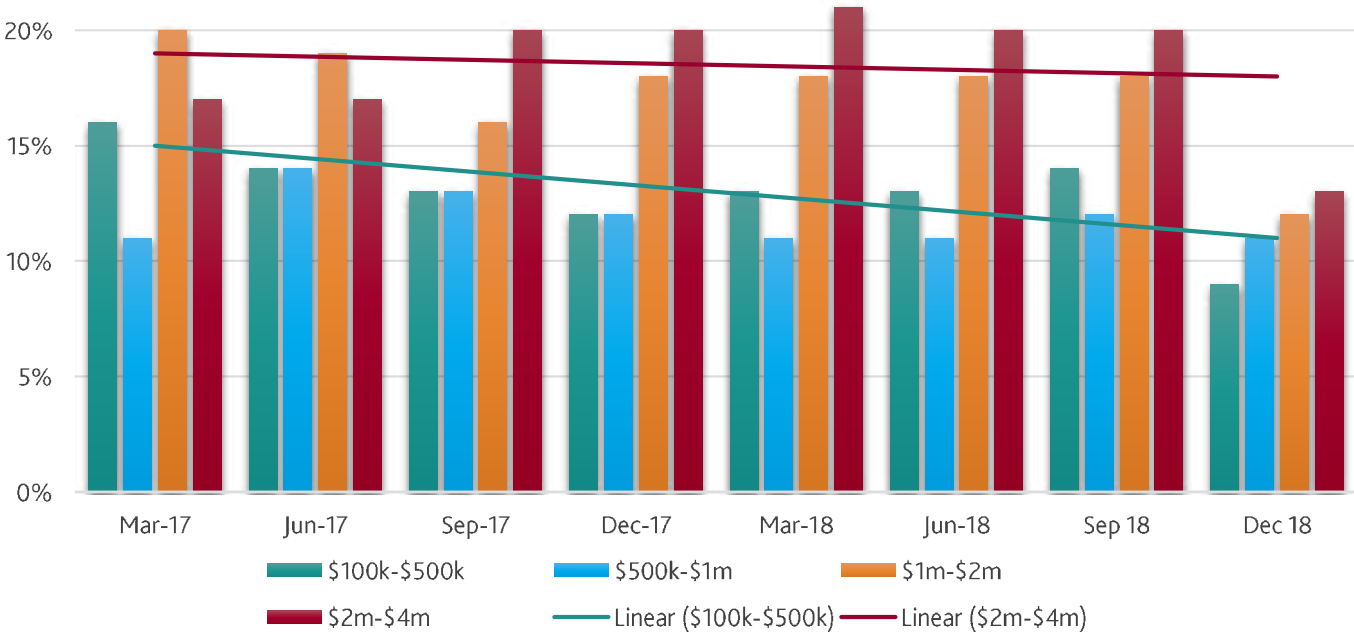
The key discrepancy was the decline in companies with cash balances greater than \$1 million. Between the September and December quarters, the proportion declined from 67% to 42%, the lowest percentage over the last two years. The fact that 58% of exploration companies that lodged an Appendix 5B for the December 2018 quarter had a cash balance of less than \$1 million, may provide the impetus for continued M&A activity, with exploration companies looking to mergers with scrip consideration as a means of achieving operational and administrative synergies.

Further, with the December quarter historically not being the most conducive time of year to conduct capital raisings, explorers may be investing in the ground, with the intention of raising capital in the March and June quarters. If this theory holds, it will be interesting to see the financing cash flows over our next two quarterly explorer reports.

CASH BALANCE (% OF COMPANIES)



CASH BALANCE (% OF COMPANIES)



BDO INSIGHT

The December quarter in 2018 witnessed a continuation of tougher market conditions for ASX-listed exploration companies compared to recent years. While exploration expenditure continued at near record levels, the 60% decline in financing cash inflows between the June and December 2018 quarters revealed the difficulty for explorers to raise new capital. This contributed to the slowdown in investing cash flows between the September and December 2018 quarters as the tougher market conditions may have hindered the willingness of explorers to invest.

Despite the difficult conditions, there were signs of improvement towards the end of 2018. While the S&P/ASX Small Resources Index lost 15% of its total value in 2018, the Index has rebounded 13% from 31 December 2018 to 14 March 2019.

Another positive sign is the strength of gold exploration and M&A activity within the gold sector. In the December 2018 quarter, gold explorers were responsible for raising the most capital out of all ASX explorers and all five exploration companies that listed on the ASX in the December quarter have some gold exploration assets. We are expecting M&A activity in the gold sector to continue over the medium term as the profits and share prices of mid-tier Australian gold producers remain supported by a strong gold price and weaker AUD.

The mega mergers of Barrick Gold and Randgold Resources and the proposed merger between Newmont Mining and Goldcorp are likely to trigger a domino effect of gold sector mergers with mid-tier gold companies and cashed up companies funded by private equity looking to acquire assets that are shed as a result of these mergers. Further we anticipate an increase in the level of mergers in the gold sector across the globe.

The rising level of consolidation and M&A activity in the mid-tier gold market is reflected in Australia by the proposed merger between Doray Minerals Limited ('Doray') and Silver Lake Resources Limited ('Silver Lake') announced in November 2018. The two companies entered into a binding scheme Implementation Deed, under which the two companies are proposing to merge by way of a Scheme of Arrangement.

We expect to see an increase in the number of exploration company IPOs during 2019 based on the number that we are seeing in our pipeline. Gold is expected to be a focus. A key learning from the Toronto PDAC conference in early March was the limited appetite for exploration companies from investors in Canada where funds are being redirected to cannabis companies in the main. There was a clear interest from Canadian companies in coming to Australia to raise funds where they perceive there to be more appetite to fund exploration companies.

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*Statistics as of 31 December 2018

1,500 
OFFICES WORLDWIDE

73,854
 PEOPLE

US\$8.1b
TOTAL REVENUES

162
TERRITORIES

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