



EXPLORER QUARTERLY CASH UPDATE

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

► MIXED NEWS FOR JUNIOR EXPLORERS

For the past year, BDO has undertaken quarterly research into the cash position of Australian-listed explorers.

Our analysis of the March 2014 quarter, combined with our research findings from the December, September and June 2013 quarters, provides the following key insights:

- An increasing number of explorers have ceased exploration in order to survive
- Despite low cash positions, the majority of explorers have managed to continue operations
- Some entities have successfully raised additional capital, primarily sourced from existing shareholders.

The information in this publication is based on our review of the Appendix 5B quarterly cash flow statements that have been lodged with the ASX by mining, and oil and gas exploration entities.

MARCH QUARTER CASH POSITION

	DECEMBER 2013 QUARTER		MARCH 2014 QUARTER		DECEMBER CASH SHORTFALL COMPANIES AS AT DECEMBER 2013 ²	
	No. of companies	%	No. of companies	%	No. of companies	%
Total number of companies lodging Appendix 5Bs	860	100%	856	100%	235	100%
Net operating expenditure¹						
– Companies with one quarter's cash reserves	235	27%	220	26%	150	64%
– Companies with one or two quarters' cash	397	46%	363	42%	220	94%
Administrative expenditure						
– Companies with one quarter's cash reserves	113	13%	135	16%	105	45%
– Companies with one or two quarters' cash	222	26%	206	24%	150	64%

Note 1: Net operating expenditure includes exploration, administration and other sundry expenses.

Note 2: "December cash shortfall" companies are defined as those having one quarter's operating expenditure as at the December 2013 quarter.

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During the March quarter, 58% of companies had sufficient cash reserves, at current spending levels, to cover more than two quarters' net operating expenditure, an increase from the 54% recorded in the December quarter survey. This indicates that more explorers have sufficient cash to continue current operations for an extended period. Likewise, 76% (74% in the December quarter) have sufficient cash to maintain administrative expenditure for more than two quarters at their current levels.

On a less positive note, 94% of the companies that had two quarters or less of cash to fund net operating expenditure in the December quarter, still only had two quarters or less of available cash in the March quarter. This indicates that these companies are not raising capital and remain in a position where they have limited cash available for operations. Conversely, in our December quarter analysis, only 75% of companies with a cash shortfall in the September quarter, continued to have a cash shortfall in the December quarter.

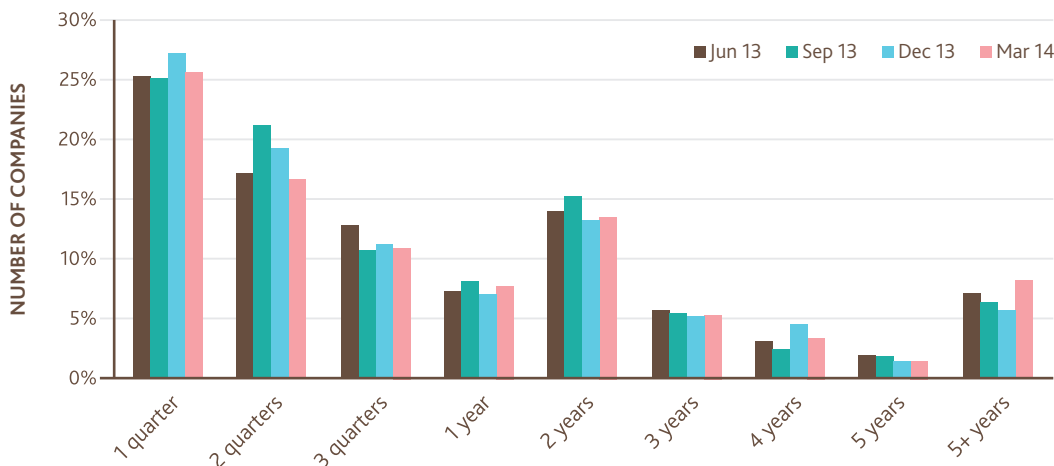
As with our previous surveys, the primary methods used by companies to extend their cash reserves were:

- Reducing operating costs
- Raising equity capital
- Raising debt capital
- Receiving R&D refunds/grants.

In the December quarter, approximately 9% of explorers maintained their cash position by not undertaking any exploration. In the March quarter, this number increased to 10%, continuing a worrying trend that has seen the percentage of companies not undertaking exploration expenditure consistently rise from approximately 7%, in the June 2013 quarter, to 10% in this current quarter.

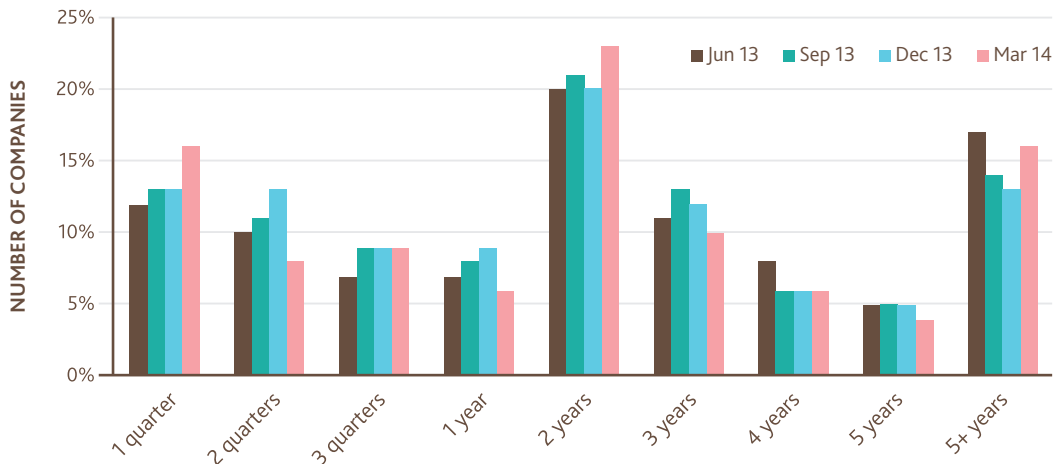
The comparative results of the June, September, December and March quarter surveys are provided in the following bar graphs.

OPERATING CASH FLOWS – CASH BURN RATE



58% of companies had sufficient cash reserves to cover more than two quarters net operating expenditure

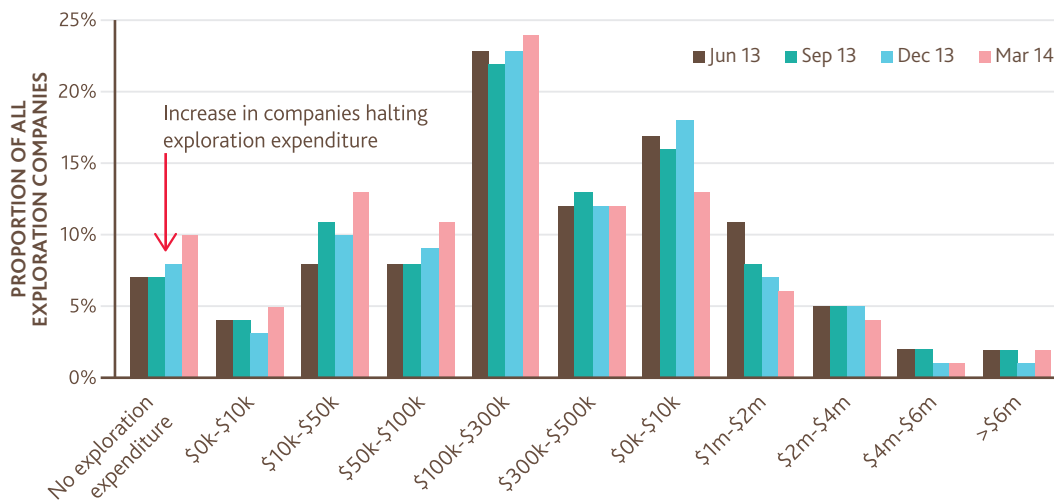
ADMINISTRATION EXPENSES – CASH BURN RATE



10%

of companies, this current quarter, are not undertaking any exploration. Up from 7% from the June quarter.

TOTAL EXPLORATION EXPENDITURE



27%

drop in median spend on exploration activity from the December to March quarter.

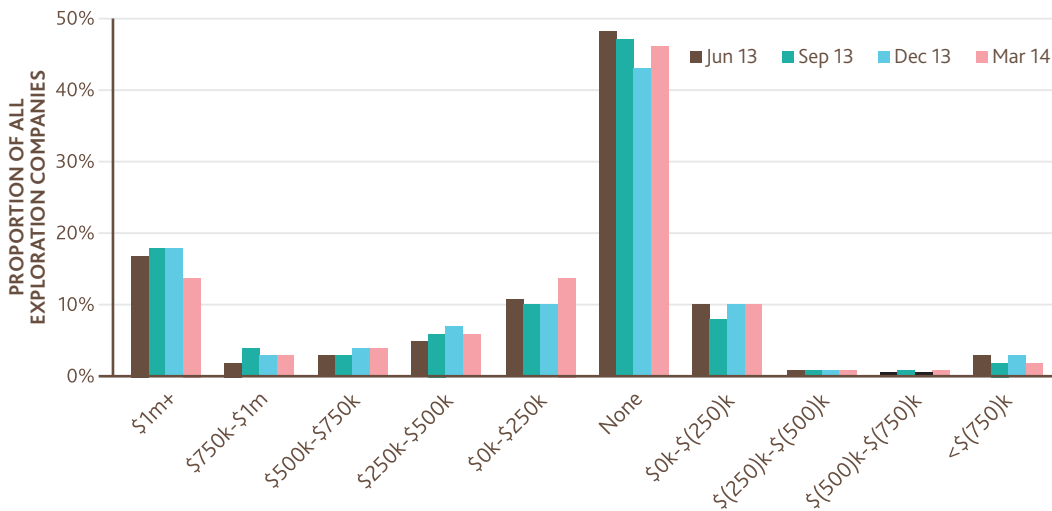
The key points to note include:

- The number of companies that have less than two quarters of operating expenditure remaining has reduced from the December quarter to the March quarter, but is still above the position in the June and September quarters
- There are more companies now, than at any point during the past year, that have over five years of available cash to continue their exploration activities
- The number of companies not undertaking any exploration activities has increased each quarter. In 2013 there were 61 such entities in the June quarter, 71 in the September and 76 in the December quarter. For the March 2014 quarter, that number has risen to 85. If this trend continues, the number of explorers not undertaking any exploration activity will be of increasing concern to both current sector shareholders and potential investors.
- In addition to the above, the median spend on exploration activity has fallen 27% from \$245,000 in the December quarter to \$178,000 in the March quarter. This represents the largest decrease in exploration expenditure since BDO started examining these trends.

14%

or 123 companies raised equity or debt capital of more than \$1 million.

NET FINANCING CASHFLOWS



During the quarter, 40% of explorers raised capital. A further 46% had no net financing cash flow, while the remaining 14% had negative financing cash flows implying a requirement to repay borrowings.

Across all explorers included in the March quarter survey, 123 (or approximately 14%) raised equity or debt capital of more than \$1 million. Of these, 92 raised equity capital whilst 34 raised debt capital. The purposes of the raisings were primarily to fund exploration expenditure or pay down debt (where equity was raised).

Companies with significant capital raisings in the last quarter included:

- Tigers Realm Coal - \$56m equity
- Sundance Energy Australia - \$55m equity
- U&D Coal - \$51m equity
- Sherwin Iron - \$41m debt
- Guildford Coal - \$28m debt
- Amex Resources - \$28m debt
- Base Resources - \$26m debt
- Resource Generation - \$22m debt
- Wolf Minerals - \$21m debt
- YTC Resources - \$19m debt
- Brockman Mining - \$18m equity
- Central Petroleum - \$17m debt
- Vantage Goldfields - \$12m debt
- ABM Resources - \$12m equity
- CuDeco - \$12m equity
- Rampart Energy - \$4m equity, \$7m debt
- Rex Minerals - \$11m equity
- Champion Iron - \$10m equity.

INDUSTRY COMMENTARY

While many exploration entities will continue to face challenges in the near term, our survey also reveals that there is investment support for explorers with high-quality assets and the capabilities to develop and realise the potential of those assets.

This finding is further confirmed by positive comments from Cuesta Coal Limited (Cuesta) and Golden Cross Resources Limited (GCR).

Cuesta Coal Limited

Australian explorer, Cuesta, is another company that has managed to achieve strong investment support and defy the challenging market conditions.

Although Cuesta has a pipeline of coal projects, their primary focus is the development of the Moorlands Project, an open cut thermal coal-mine located close to existing coal infrastructure in the Western Bowen Basin. According to Cuesta managing director, Matt Crawford, Moorlands is shaping up as an extremely strong project for the company and will underpin its continued growth over the next 12 months.

With a recently reported 92% resource upgrade, the company is extremely confident in the project's economics. The high quality nature and potential of this asset has been endorsed through the strong support of major shareholders and investors. Most notably, Beijing Guoli has recently injected a further \$15 million into Cuesta, taking their total stake to \$47 million, and further enhancing the prospect of Moorlands being in production by 2016.

In addition to Moorlands, Cuesta is also developing projects being, Eastern Galilee and West Emerald.

Golden Cross Resources Limited

With its focus predominantly on gold and copper, the company's recent market experience also shows that despite the current difficulties faced by the mining sector, quality exploration projects will always be given consideration by investors.

GCR chairman, Steve Gemell, believes that instilling confidence in investors is crucial for explorers, and that securing better-quality assets is fundamental to achieving this aim. With more than a decade in mining exploration, the company has pursued a strategy of cultivating a limited portfolio of better-quality assets that have strong potential to generate shareholder value. He says that this has helped GCR to establish a reputation as a company that is starting to redeliver for investors, while also being upfront about challenges as they arise.

In turn, Steve argues that securing the support and confidence of minor shareholders can be instrumental in helping to secure larger investors. This is demonstrated by a recent successful capital raising that has allowed GCR to embark on further exploration at their Copper Hill site. He also considers that one of the keys to success for junior explorers is to ensure they have a strategy in place that suits their strengths. While in the past, having a large portfolio of diverse exploration assets would have been seen as prudent risk management, in the current market it may be better to focus on developing one high-quality asset and then look for opportunities to leverage off that project if it can be successfully advanced.

In addition to Copper Hill, GCR has projects throughout Australia, including interests in Western Queensland, South Australia, Western Australia and New South Wales.

MORE INFORMATION

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