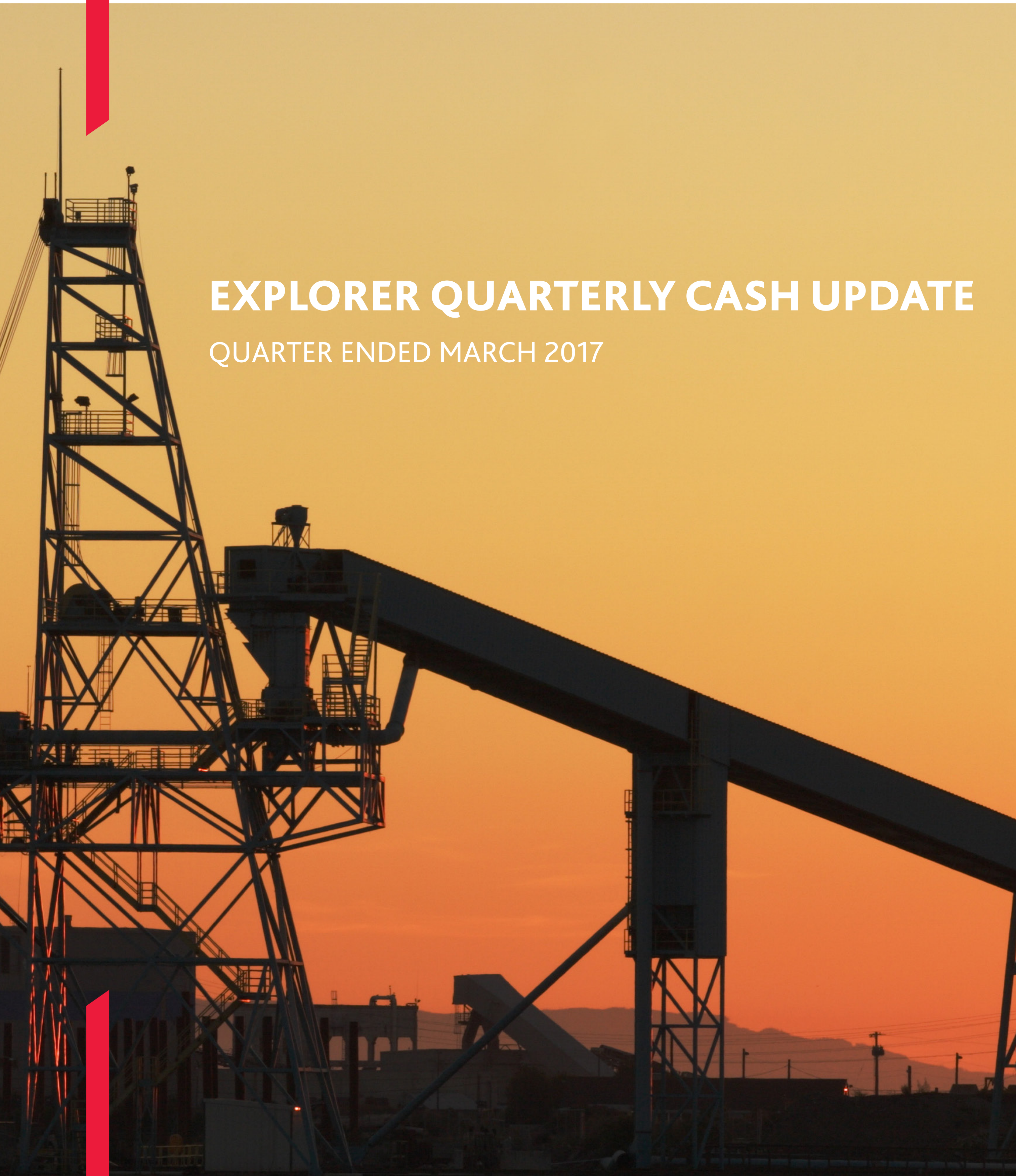

EXPLORER QUARTERLY CASH UPDATE

QUARTER ENDED MARCH 2017

EXPLORER QUARTERLY CASH UPDATE

QUARTER ENDED 31 MARCH 2017

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

- RESURGENCE IN THE NUMBER OF IPOs FROM THE RESOURCES SECTOR
- ESTIMATED CASH OUTFLOWS INCREASES FOR A FOURTH CONSECUTIVE QUARTER
- LITHIUM AND OIL AND GAS STOCKS DRIVE M&A ACTIVITY

BDO's report on the cash position of Australian-listed explorers for the March 2017 quarter (based on quarterly Appendix 5B reports lodged with the ASX) shows there has been a broad recovery in the resources sector, highlighted by the resurgence in the number of initial public offerings ('IPOs'). Market sentiment continues to improve with average estimated cash outflows for the next quarter increasing for a fourth consecutive quarter, from $1.68 million for the March 2016 quarter to $2.61 million for the March 2017 quarter. We expect this trend to continue in the next quarter given that March is traditionally a quiet quarter and activity does not pick up until after the Australia Day Public Holiday.

For the March 2017 quarter there was an increase in the number of companies lodging Appendix 5Bs, despite a 16% fall in total exploration expenditure. A decrease in exploration expenditure is not uncommon for this time of year however we will wait to see what impact the scrapping of the exploration development incentive ('EDI'), announced as part of the 2017/18 Federal Budget with a new tax scheme to take its place, will have on junior explorers.

Over 2016, there was a wave of reverse takeovers ('RTOs') as many smaller mining and oil and gas companies became 'shell companies' due to their inability to deliver shareholder value. The boom in backdoor listings was driven by ASX's 'use it or lose it' rule introduced in 2014, which put a time limit on dormant companies to find a new activity or be delisted. We are beginning to see a reversal of this trend as companies revert to the traditional IPO route, following the recent tightening of the ASX Listing Rules which came into effect on 19 December 2016. This has also been compounded by the shortage of suitable listed shells available for backdoor listings.

Financing cash inflows totalled $913 million for the March 2017 quarter, a marginal increase on the December 2016 quarter of $903 million, and a significant increase of $378 million when compared to the March 2016 quarter. There were 15 companies raising in excess of $10 million and the significant increase on the same period last year is suggestive of the start of a good year for capital raisings.

A resurgence in the number of resource sector IPOs is evidenced by the increase in the number of companies lodging an Appendix 5B, with nine exploration companies listing during the March 2017 quarter, compared to six during the December 2016 quarter and three during the September 2016 quarter.

With the majority of companies listing in the March 2017 quarter based in Perth, it appears that the greenshoots that we reported in the last quarter may be more sustained, although it would be overstating it to say that we heading back towards a boom state.

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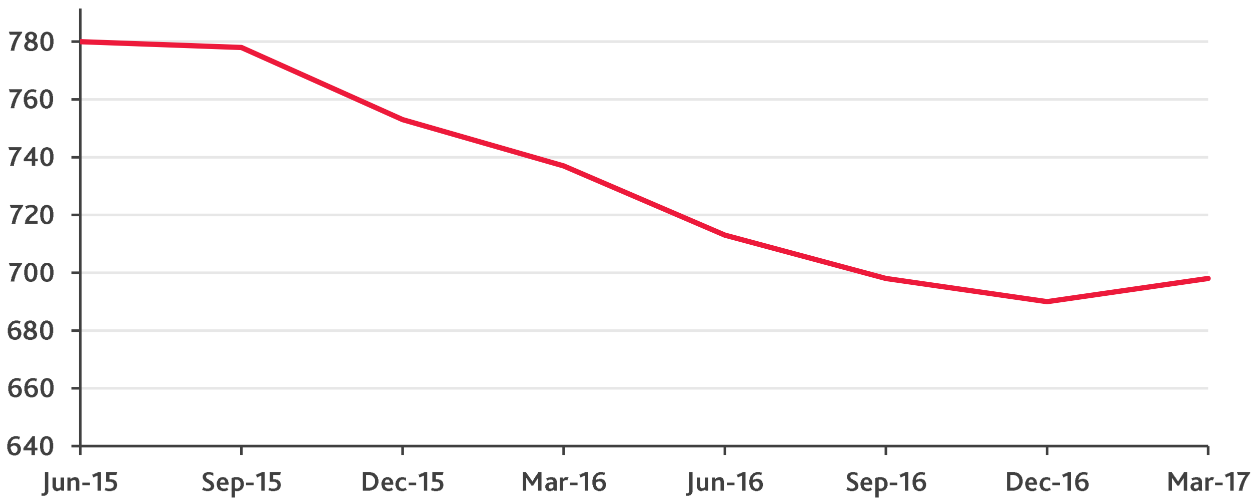
Battery-related commodities led the way on the back of growing demand for electric cars, accounting for 50% of the funds raised by exploration companies via IPOs. A summary of the IPOs in the resources sector for the March 2017 quarter is presented in the table below.

COMPANY	COMMODITY	AMOUNT RAISED ($)
Cobalt Blue Holdings Limited	Cobalt	10,000,000
Todd River Resources Limited	Base metals	6,000,000
Lithium Consolidated Mineral Exploration Limited	Lithium	5,321,299
Arden Resources Limited	Nickel	5,099,825
Kalamazoo Resources Limited	Gold	5,000,000
Metalstech Limited	Lithium	4,308,600
Freehill Mining Limited	Magnetite Sands	4,023,925
Marquee Resources Limited	Lithium	3,500,000
Matador Mining Limited	Oil and gas	3,350,000

NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: JUNE 2015 - MARCH 2017

For the quarter ended 31 March 2017, 698 companies lodged an Appendix 5B report, eight more than the December 2016 quarter and 39 less than the same period last year.



The number of companies lodging an Appendix 5B for the March 2017 quarter is the first increase we have seen since September 2013, when a total of 865 companies lodged an Appendix 5B.
The increase in the number of Appendix 5Bs lodged following consecutive quarters of declines was been driven by a resurgence in the number of exploration companies going down the IPO path.
With the introduction of new ASX Listing Rules that came into effect on 19 December 2016, the number of backdoor listings fell to five for the March 2017 quarter.

A summary of the number of backdoor listings, as well as the number of companies suspended or delisted over the last year is summarised in the table below.

	Mar 17 No.	Dec 16 No.	Sep 16 No.	Jun 16 No.
Backdoor Listing	5	11	4	14
Delisted	3	2	9	6
Suspended	2	2	3	7

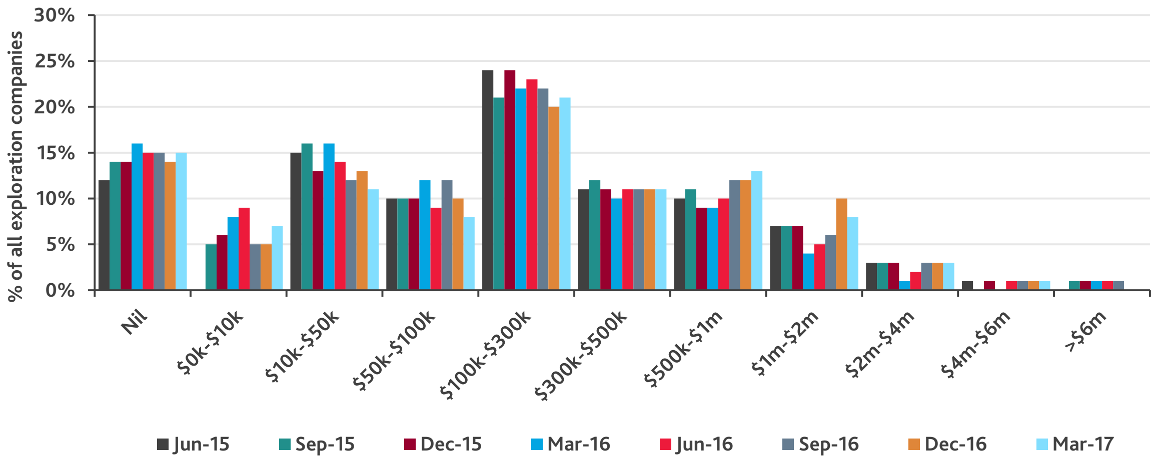
MARCH 2017 QUARTER CASH POSITION

For the quarter ended 31 March 2017, 698 companies lodged an Appendix 5B report, eight more than the December 2016 quarter and 39 less than the same period last year.

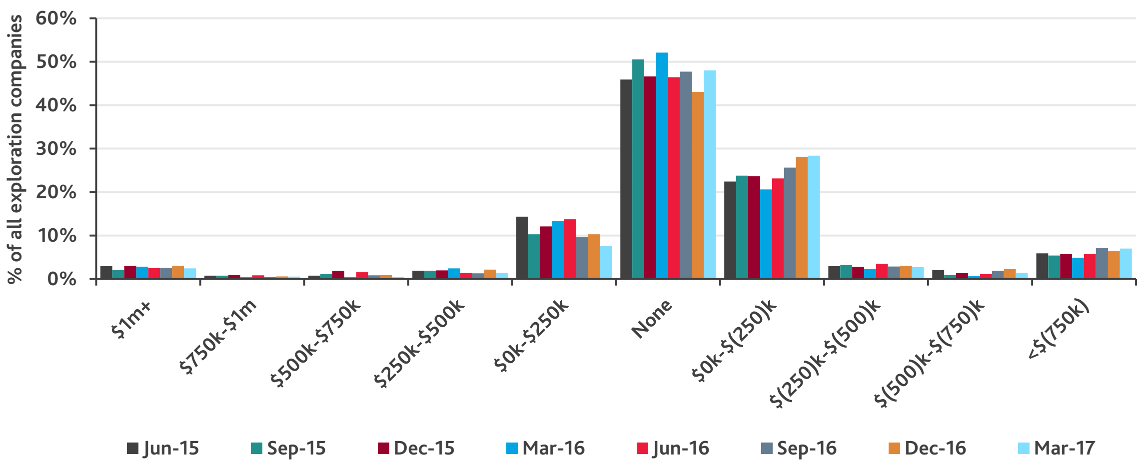
	Mar 17 Quarter		Dec 16 Quarter	
	No.	%	No.	%
Total number of companies lodging Appendix 5Bs	698	100%	690	100%
Net operating expenditure				
- Companies with one quarter or less cash reserves	130	19%	144	21%
- Companies with two quarter's or less cash reserves	219	31%	259	38%
Administrative expenditure				
- Companies with one quarter or less cash reserves	61	9%	65	9%
- Companies with two quarter's or less cash reserves	116	17%	116	17%

The following graphs provide a snapshot of the operating, administration and exploration expenditure across the sector:

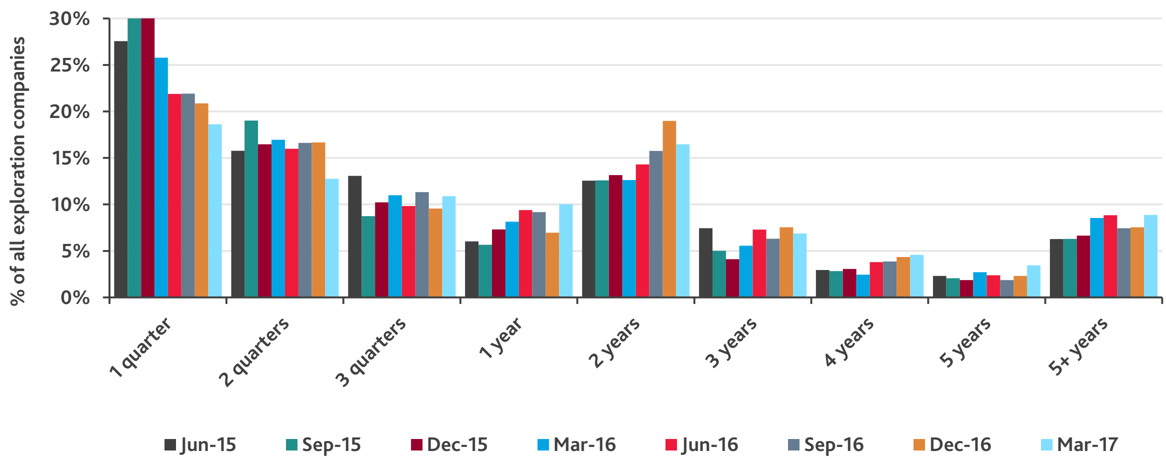
TOTAL EXPLORATION EXPENDITURE



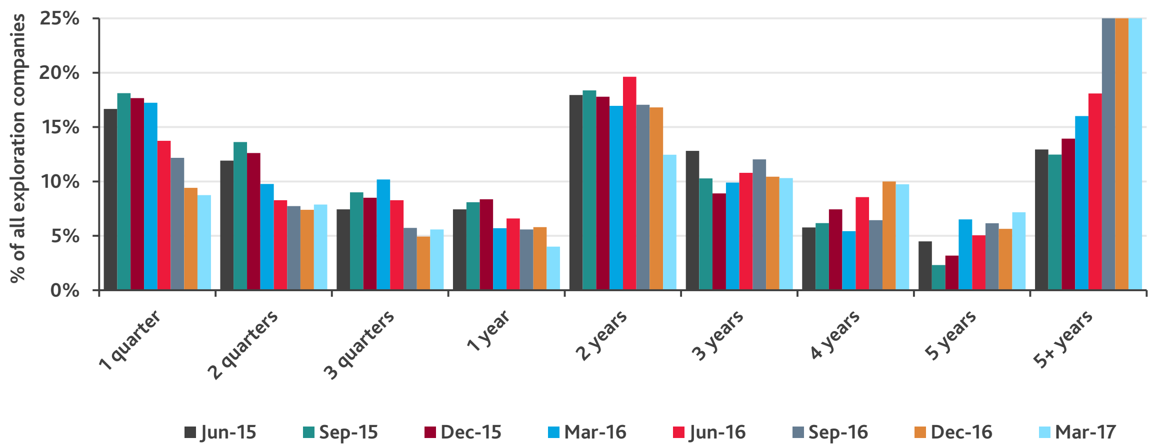
NET INVESTING CASH FLOWS



OPERATING EXPENSES - CASH BURN RATE



ADMINISTRATION EXPENSES – CASH BURN RATE



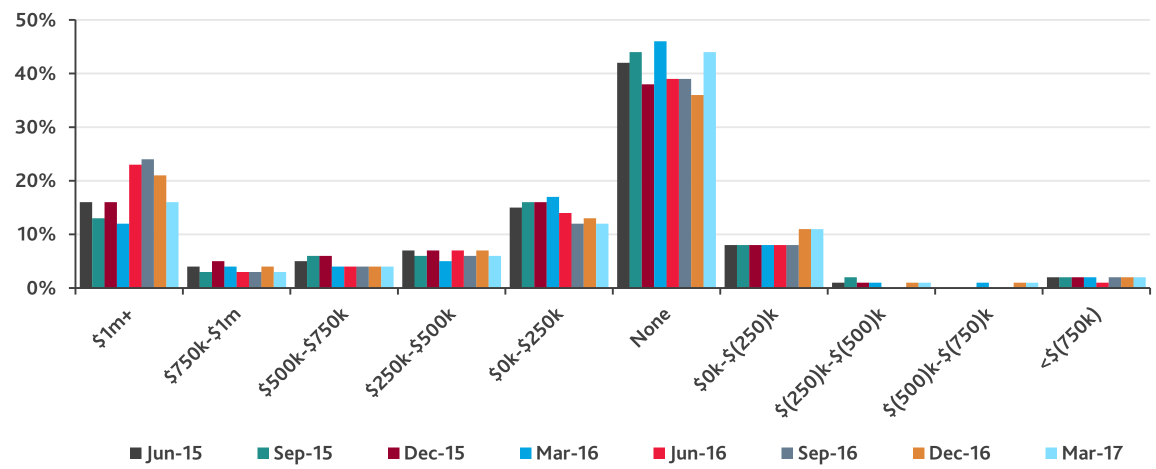
Points to note in relation to the above graphs are:

- Total exploration expenditure fell from $354 million for the December 2016 quarter to $305 million for the March 2017 quarter. This is despite an increase in the number of companies lodging Appendix 5Bs, with average exploration expenditure falling from $0.51 million to $0.44 million. It is not uncommon for exploration expenditure to decrease from the December to the March quarter, however we note that the decrease from the December 2016 quarter to the March 2017 quarter is much smaller than previous years.
- Net operating cash outflows fell from $695 million for the December 2016 quarter to $514 million for the March 2017 quarter and there has been a declining trend in the number of companies with cash to support one and two quarters of operating expenditure.
- The proportion of companies with two quarters or less of cash reserves, based on current operating expenses, decreased from 38% for the December 2016 quarter to 31% for the March 2017 quarter. This is despite a decrease in average cash reserves from $6.20 million as at 31 December 2016 to $5.93 million as at 31 March 2017 quarter.
- Total administration expenditure decreased in line with exploration expenditure, from $213 million for the December 2016 quarter to $175 million for the March 2017 quarter. Furthermore, average administration expenditure decreased for a sixth consecutive quarter, from $0.40 million for the September 2015 quarter to $0.25 million for the March 2017 quarter as companies sought to restructure and cut costs over the last year in order to conserve cash. With a lower fixed cost base, exploration companies should be well placed to capitalise now that the market seems to have turned.

- There has been a broad recovery in the resources sector evidenced by a 13% increase in exploration expenditure from $267 million for the March 2016 quarter to $305 million for the March 2017 quarter.
- During the quarter, there were 19 companies that reported exploration expenditure in excess of $2.5 million, dominated by gold, oil and gas and potash explorers.
- Net investing cash flows decreased from a net inflow of $150 million for the December 2016 quarter to a net outflow of $133 million for the March 2017 quarter. We note that the abnormally high figure for the December 2016 quarter was skewed by Gold Road Resources Limited's sale of 50% of its Gruyere Gold Project for $250 million during December 2016.
- Net investing cash flows for the same period last year totalled $46 million, indicating improving market sentiment with more companies willing to invest.
- During the quarter, there were 13 companies that had net investing outflows in excess of $5 million, dominated by oil and gas and lithium explorers. For the December 2016 quarter there were ten companies led by gold and lithium explorers. This reaffirms the increased activity in lithium and the markets shifting preferences away from bulk commodities to battery related and mining technology stocks.

NET FINANCING CASH FLOWS

Financing cash inflows for the March 2017 quarter totalled $913 million, a marginal increase on the previous quarter of $903 million. A total of 15 companies raised in excess of $10 million, accounting for $516 million or 57% of the total financing cash inflows for the quarter.



FUND FINDER

Of the 15 companies raising in excess of $10 million, gold explorers accounted for $227 million, followed by lithium explorers accounting for $124 million. Dacian Gold Limited had the largest financing inflow of $110 million, however we note that this raising was initially planned for November 2016 and was delayed following the falling gold price at the end of last year, in the aftermath of the US election. The next largest raising was by Galaxy Resources Limited raising $83 million for the development of its Mt Cattlin Lithium Project, an industry that is expected to experience significant growth over the next few years as consumer demand for lithium-ion batteries grows.

A summary of the companies that raised funds through either debt or equity in excess of $10 million is set out below:

- 88 Energy Limited (Oil and gas) - $17.09 million proceeds from issue of shares
- Altura Mining Limited (Lithium) – $41.62 million proceeds from issue of shares
- Blackham Resources Limited (Gold) - $35.00 million proceeds from issue of shares and $0.26 million proceeds from exercise of share options
- Dacian Gold Limited (Gold) - $109.79 million proceeds from issue of shares and $0.14 million proceeds from exercise of share options
- Eastern Goldfields Limited (Gold) – $15.96 million proceeds from borrowings and $0.30 million proceeds from exercise of options
- Elk Petroleum Limited (Oil and gas) - $13.03 million proceeds from issue of convertible notes and $6.27 million proceeds from borrowings
- Galaxy Resources Limited (Lithium) – $61.02 million proceeds from issue of shares, $13.08 million proceeds from borrowings and $8.59 million proceeds from exercise of share options
- Gascoyne Resources Limited (Gold) – $55.01 million proceeds from issue of shares
- Metro Mining Limited (Bauxite) – $46.13 million proceeds from issue of shares and $0.32 million proceeds from exercise of share options
- Mod Resources Limited (Copper) - $14.90 million proceeds from issue of shares and $0.32 million proceeds from exercise of share options
- Orinoco Gold Limited (Gold) - $9.99 million proceeds from issue of shares, $0.03 million proceeds from exercise of share options and $0.09 million proceeds from borrowings
- Peninsula Energy Limited (Uranium) - $14.00 million proceeds from issue of shares and $4.88 million proceeds from borrowings
- Red River Resources Limited (Gold, Zinc) - $15.92 million proceeds from issue of shares and $0.54 million proceeds from exercise of share options
- Uranium Resources Inc. (Uranium) – $17.47 million proceeds from issue of shares
- Wolf Minerals Limited (Tungsten) - $14.70 million proceeds from borrowings.

BDO INSIGHT

It has been well documented that times have been difficult for explorers, however the recovery that we saw in the December 2016 quarter has continued into the March 2017 quarter. Cash inflows increased once again as did the number of resource company IPOs. Of particular significance is the increase in the number of companies lodging Appendix 5Bs for the first time since September 2013. The question is whether this welcome reversal of what had been a long running trend will continue. We note the intention of the Government to scrap the EDI but question if the evidence that it has not been utilised as justification for doing so. What we have witnessed is larger companies reducing their exploration spends, and as reserves and resources deplete their attention turns to acquiring producing assets or assets under development to replace declining production.

We would expect that as the M&A phase continues and with a return of equity to the broader commodity markets that exploration will again be a strategic priority for a number of companies and that the EDI may stimulate this activity earlier in the process.

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