



Q1 - EXPLORER QUARTERLY CASH UPDATE

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

► SMALL INCREASE IN CAPITAL RAISINGS, BUT FUNDING REMAINS CRITICAL FOR MANY

Since June 2013, BDO has conducted quarterly research into the cash position of Australian listed explorers, based on Appendix 5B reports lodged with the ASX. During this period, junior explorers have faced an increasingly challenging environment, with sharp falls in major commodity prices and declines in share values, making it almost impossible for many of them to attract investors and raise fresh capital.

The BDO Explorer Quarterly Cash Update across the past 18 months documents an ever increasing number of cash-strapped junior explorers, with 56% now holding less cash than is required to fund operating expenses at current levels for a further three quarters. On a more positive note, 20 of the 831 listed junior miners successfully undertook capital raisings in excess of \$10 million for the September quarter.

Nevertheless, directors of many junior explorers will be faced with ongoing tough decisions until market conditions improve and investor confidence returns. To reduce their cash burn rate, many have cut their operating costs to the bone, reduced the size of their boards, and in some cases, deferred payment of directors' fees.

Beyond these measures, more junior explorers are likely to consider selling tenements or reducing further their exploration activity, while others may need to be wound down or look for opportunities to be the subject of a backdoor listing.

CONTACT US

DAN TAYLOR

Partner, Corporate Finance
Tel: +61 2 9240 9935
dan.taylor@bdo.com.au

JAMES MOONEY

Partner, Natural Resources
Tel: +61 3 9603 1796
james.mooney@bdo.com.au

SHERIF ANDRAWES

Leader, Natural Resources
Tel: +61 8 6382 4763
sherif.andrawes@bdo.com.au

STEVEN SORBELLO

Leader, Corporate Finance
Tel: +61 7 3237 5825
steven.sorbello@bdo.com.au

“Conditions continue to toughen for the sector, and although there are some explorers experiencing success, for many there is still no light at the end of the tunnel,”

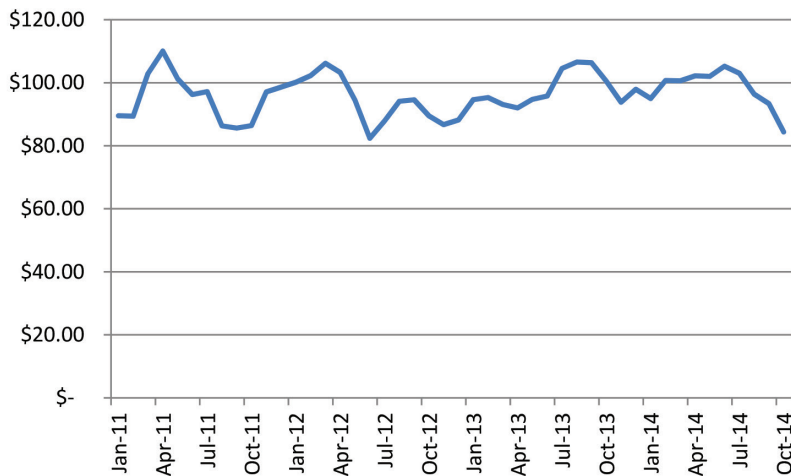
Dan Taylor, Partner BDO

Major commodities – historical pricing data.

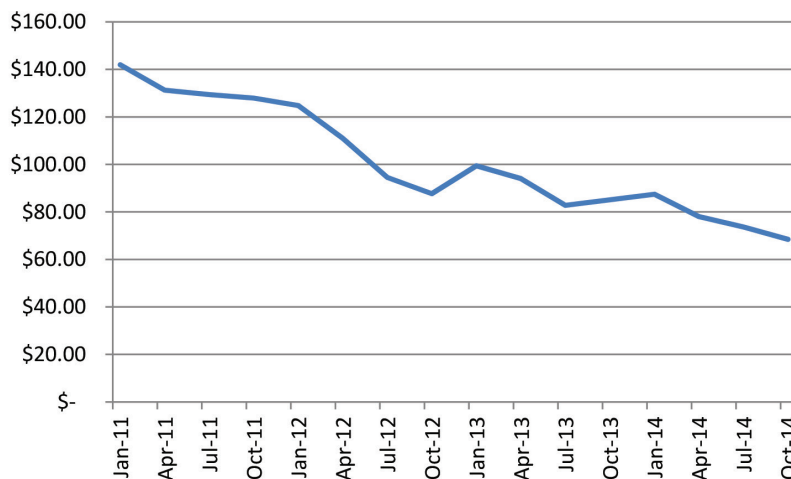
The following graphs demonstrate the impact of falling commodity prices on the natural resources sector.



Iron Ore – USD per dry metric ton



West Texas Crude – USD per barrel



Australian Thermal Coal - USD per metric ton

“20 listed companies undertook capital raisings in excess of \$10 million in the September 2014 quarter, building on the 19 that did so in the June 2014 quarter,”

Dan Taylor,
Partner BDO

Key findings from September lodgements.

The key findings from our analysis of the September quarter lodgements of Appendix 5B reports submitted by junior explorers to the ASX include:

- More junior explorers are not exploring – in the September quarter one in nine explorers did not undertake any exploration expenditure. This is an increase from the one in ten explorers that did not carry out exploration during the June 2014 quarter
- 63% of explorers have less than \$2 million cash reserves at 30 September 2014
- For the first time since we started our analysis, less than 10% of explorers have more than \$10 million available cash
- 44% of explorers do not have sufficient cash available to fund operating expenses at current levels for more than three quarters.

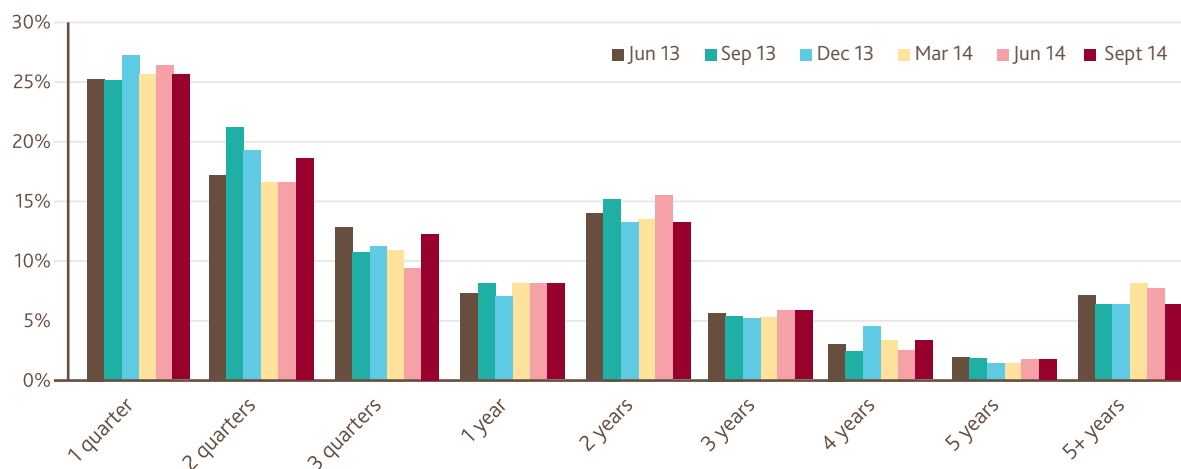
SEPTEMBER QUARTER CASH POSITION

	JUNE 2014 QUARTER		SEPTEMBER 2014 QUARTER		JUNE CASH SHORTFALL COMPANIES AS AT SEPTEMBER 2014	
	No. of companies	%	No. of companies	%	No. of companies	%
Total number of companies lodging Appendix 5Bs	845	100%	831	100%	225	100%
Net operating expenditure¹						
– Companies with one quarter's cash reserves	225	27%	216	26%	120	51.1%
– Companies with one or two quarters' cash reserves	370	44%	366	44%	153	65.1%
Administrative expenditure						
– Companies with one quarter's cash reserves	124	15%	130	15%	99	42.1%
– Companies with one or two quarters' cash reserves	221	26%	218	26%	124	52.8%

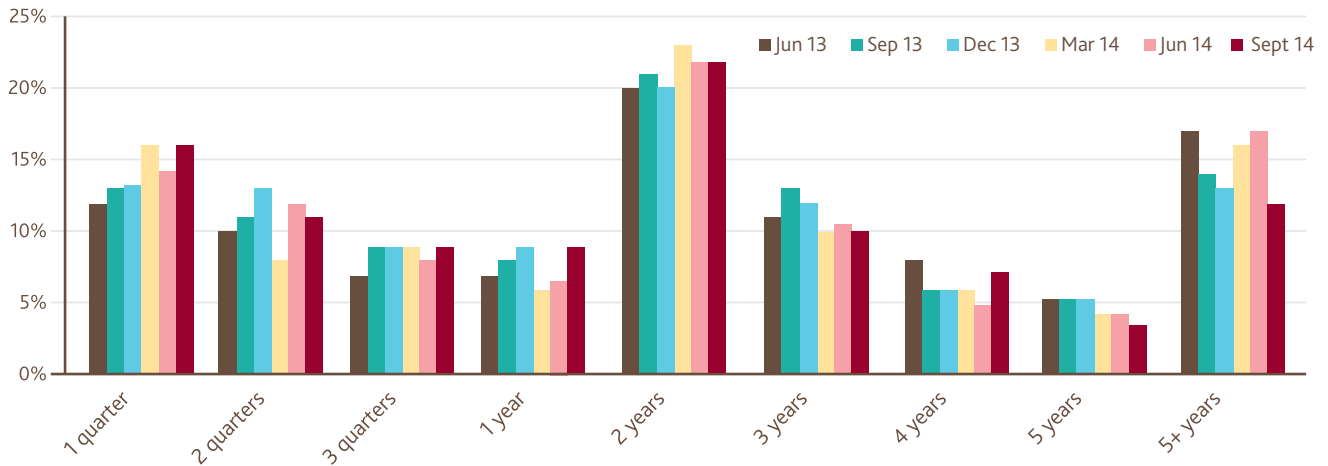
Note 1: 'June cash shortfall' companies defined as having one quarter operating expenditure as at the June 2014 quarter.

Over the past quarter the number of explorers with one or two quarters of operating and administrative expenditure has not varied significantly. All percentages shown above are within the range of our previous findings.

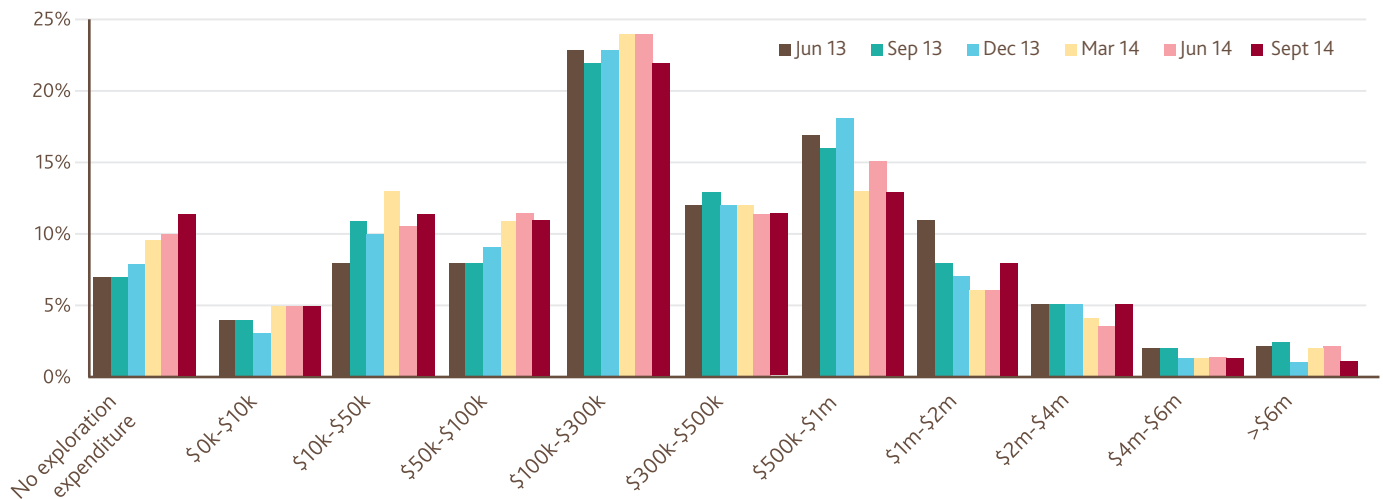
OPERATING CASH FLOWS – CASH BURN RATE



ADMINISTRATION EXPENSES – CASH BURN RATE



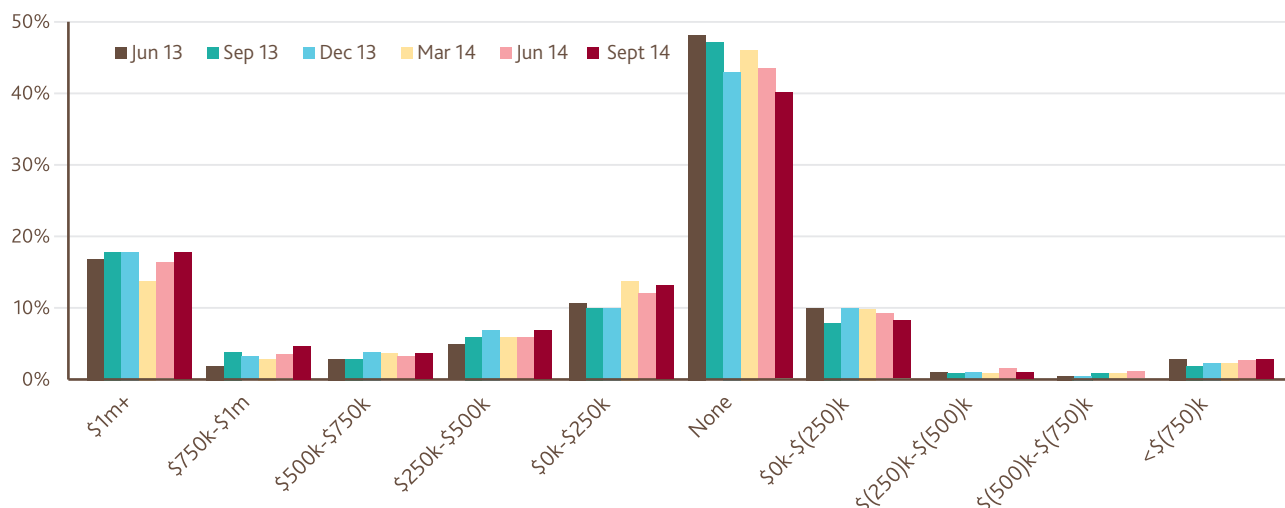
TOTAL EXPLORATION EXPENDITURE



The key points to note from the above graphs include:

- For the September quarter, 831 companies lodged Appendix 5B statements. This compares to the 845 lodged in the June quarter. The reason for the decrease by 14 from the June to September 2014 quarter is as follows:
 - Three new listings (Winchester Energy, Duketon Mining and Atlantic Gold Corporation)
 - Six companies who did not lodge in June for various reasons (suspension etc.) lodged in September
 - 21 companies did not lodge in September as they were either delisted (10) or suspended (11)
 - There were another two companies who did not lodge in September with no explanation.
- Companies with one or two quarters operating cash available has remained relatively steady over the past few quarters
- The number of companies not undertaking any expenditure has increased again (as it has in every quarter since we started undertaking this analysis) to the point that now, one in nine explorers did not undertake any exploration in the September quarter
- Median exploration activity dropped from \$184,000 in the June quarter to \$172,000 in the September quarter, with average exploration expenditure also reducing.

NET FINANCING CASHFLOWS



During the September 2014 quarter, the number of companies with a net inflow of funds increased from 42% in the previous quarter to 47%. This is the highest percentage of companies recording inflows that we have seen since we started undertaking this analysis.

The number of companies that raised more than \$1 million in net funding increased marginally from 17% to 18%.

Fund finders

In the September 2014 quarter, 20 junior explorers experienced net financing cash flows of greater than \$10 million, a slight increase on the 19 companies achieving this in the June 2014 quarter:

- Sirius Resources - \$207 million share issue
- Tiger Resources - \$95 million - share issue (\$67 million) and borrowings (\$28 million)
- Cudeco - \$62 million borrowings
- Galaxy Resources - \$44 million borrowings
- Sundance Resources - \$40 million borrowings
- Liquefied Natural Gas - \$39 million share issue
- Sundance Energy Australia - \$35 million borrowings
- Buru Energy - \$28 million share issue
- Highfield Resources - \$22 million share issue
- Karoon Gas Australia - \$21 million borrowings
- U&D Coal - \$20 million borrowings
- Wolf Minerals - \$19 million share issue
- Winchester Energy - \$18 million share issue
- Cuesta Coal - \$15 million share issue
- Legacy Iron Ore - \$12 million share issue
- Valence Industries - \$12 million share issue
- Energy and Minerals Australia - \$12 million share issue
- Sphere Minerals - \$11 million borrowings
- Ascot Resources - \$10 million share issue
- Sino Gas & Energy - \$10 million borrowings.

INSIDER'S VIEW

Specialty metals exploration and development company, Wolf Minerals Limited (ASX: WLF, AIM: WLFE), successfully completed a \$118 million share issue in the June quarter and a \$19 million share issue in the September quarter. Despite securing this capital, Wolf Minerals' managing director, Russell Clark, says that 2014 was a horrible year for capital raising in the exploration industry. "While raising money in the development/operational phase was difficult, in the exploration phase it is almost impossible."

In his experience, the main project characteristic that investors are seeking in the current climate is zero risk. "As the non resource sector improves or becomes over-priced, there has been some movement back to resources and exploration though it's incredibly thin. Ideally, what an exploration company needs right now is a cornerstone investor who will continue to provide support when times get difficult – but good luck finding that!"

Apart from traditional financing sources, Mr Clark says that while there are some private equity funds available in the market, they are generally expensive and dilutive.

With the capital raised in 2014, Wolf Minerals is fully funded to bring its Hemerdon project through to positive cash flow.

MORE INFORMATION

1300 138 991

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