



Q2 – EXPLORER QUARTERLY CASH UPDATE

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS: Q2 (QUARTER ENDED 31 DECEMBER 2015)

► INVESTORS ARE LOOKING TO GOLD AND LITHIUM EXPLORERS TO LEAD THE REVIVAL

- THE LARGER EXPLORERS CONTINUE TO SPEND ON EXPLORATION
- BACKDOOR LISTINGS CONTINUE TO BE THE FLAVOUR OF THE QUARTER
- JUNIOR EXPLORATION COMPANIES WITH A FOCUS ON CASH PRESERVATION

BDO's report of the cash position of Australian-listed explorers for the December 2015 quarter (based on quarterly Appendix 5B reports lodged with the ASX), shows a significant decrease in the number of companies reporting and a stable median level of exploration expenditure.

There is a declining trend in the number of companies lodging their Appendix 5B reports from 780 for the June 2015 quarter to 778 for the September 2015 quarter and further to 753 in the December 2015 quarter. This trend can be mainly attributable to technology companies using exploration companies as a means to list on the ASX via the reverse takeover route and companies being delisted/suspended from the ASX as they explore other growth opportunities.

In summary, the key findings of the quarterly update reveal the following:

- There have been 14 unlisted companies which back doored into listed exploration companies, with 8 of these unlisted companies holding technology assets.
- 7 exploration companies have delisted, 3 entered into voluntary administration and three exploration companies completed an Initial Public Offering on the ASX.
- There has been an increase in the percentage of companies that have not undertaken exploration activities over the review period, which indicates that an increasing number of exploration companies are going into cash preservation mode.
- There has been an increase in the number of companies that have spent more than \$1m on exploration activities, which reflects the willingness of the larger explorers to continue to spend on exploration.
- The average exploration expenditure has continued to fall for the seventh straight quarter, though the median expenditure has remained relatively stable over the past four quarters, again supporting the notion that the larger exploration companies are continuing to explore, with the drop off being at the smaller end of the market.
- The number of companies with nil investing cash flows has decreased from 393 to 351 which indicates greater investment activity, in the form of both purchasing and selling of assets.
- The number of explorers with a net investment in capital expenditure has remained flat at approximately 33% between September 2015 and December 2015.
- The number of companies that raised cash flows in excess of \$10 million in the December 2015 quarter was 17, unchanged from the September 2015 quarter.

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"This quarter is showing a significant decrease in the number of companies reporting a stable level of exploration expenditure"

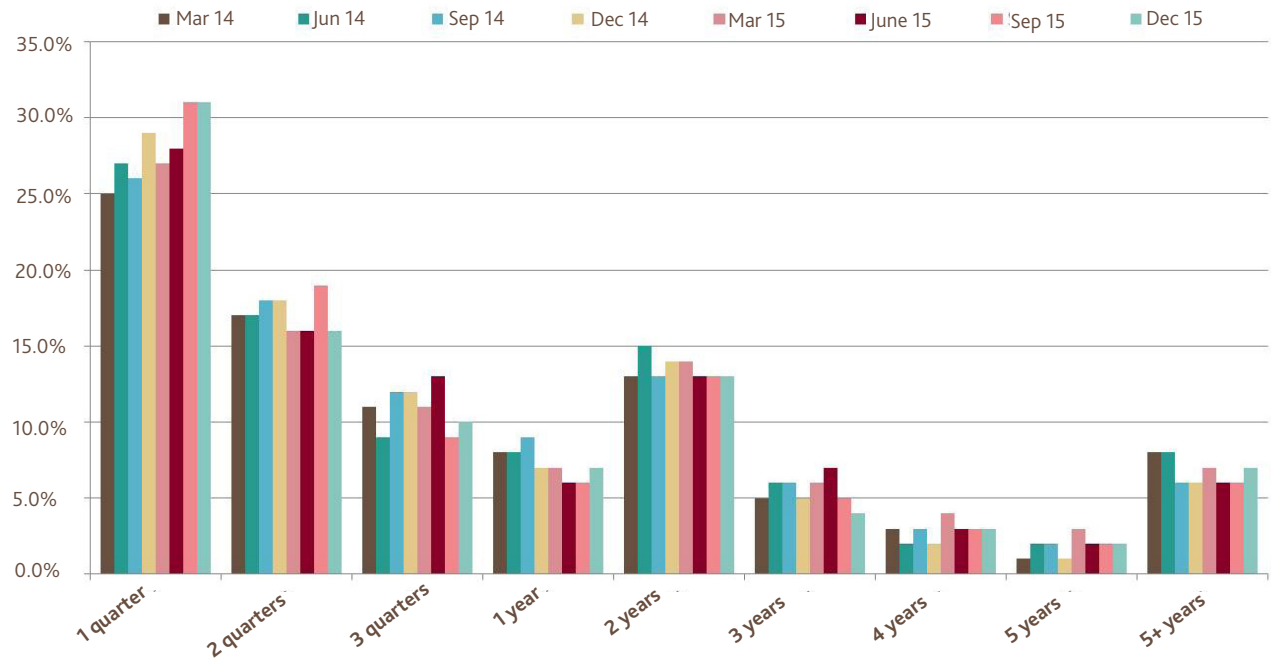
Adam Myers
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DECEMBER 15 QUARTER CASH POSITION

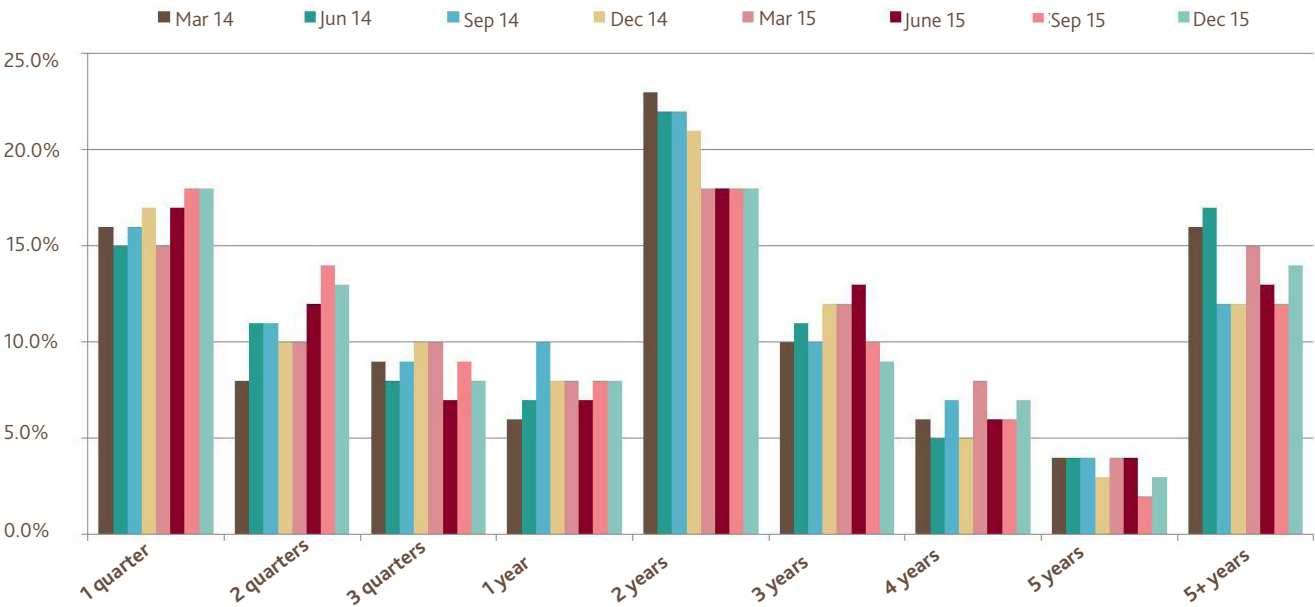
	SEPTEMBER 15 QUARTER		DECEMBER 15 QUARTER	
	No.	%	No.	%
Total number of companies lodging Appendix 5B's	778	100%	753	100%
Net Operating Expenditure				
- Companies with one quarter cash reserves	231	28%	226	30%
- Companies with two quarters' cash reserves	393	51%	357	47%
Administrative Expenditure				
- Companies with one quarter cash reserves	133	17%	130	17%
- Companies with two quarters' cash reserves	247	32%	228	30%

OPERATING EXPENSES - CASH BURN RATE

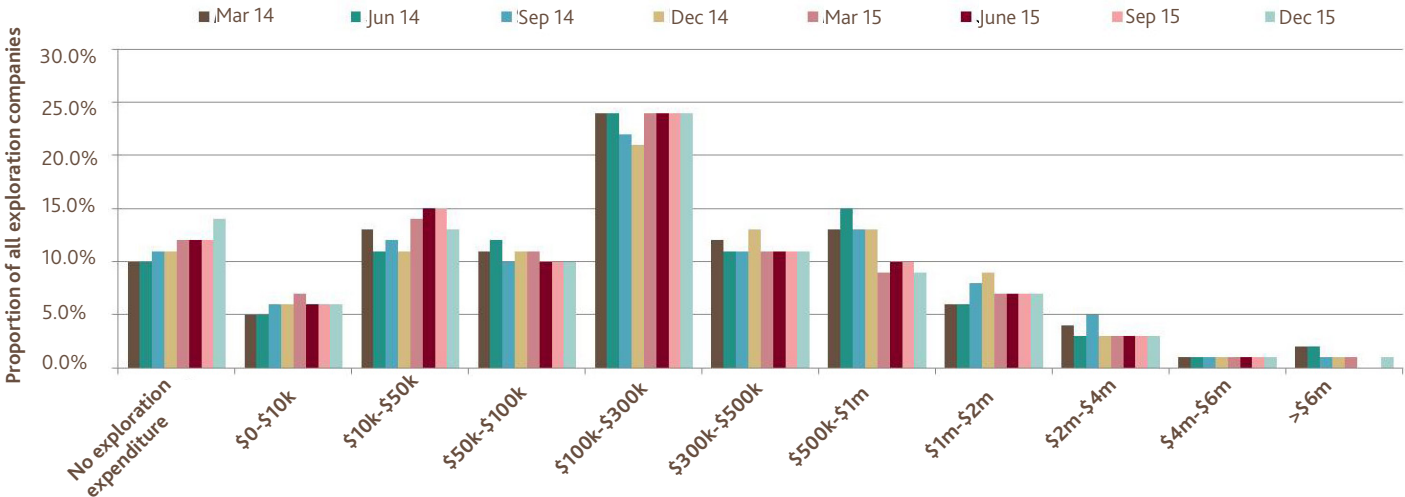
The following graphs provide a snapshot of the operating, administration and exploration expenditure across the sector:



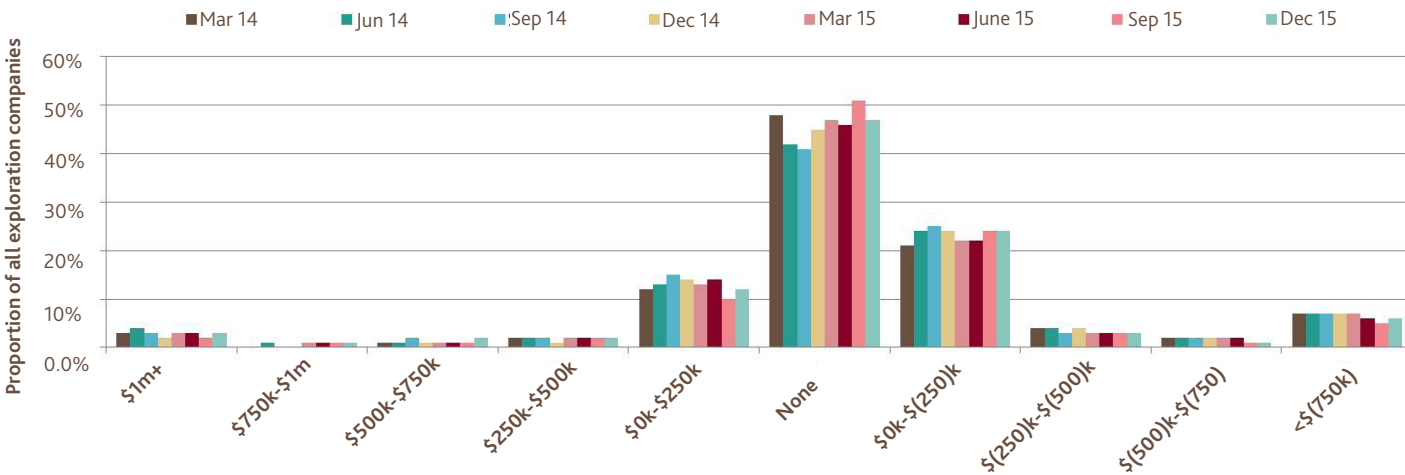
ADMINISTRATION EXPENSES - CASH BURN RATE



TOTAL EXPLORATION EXPENDITURE



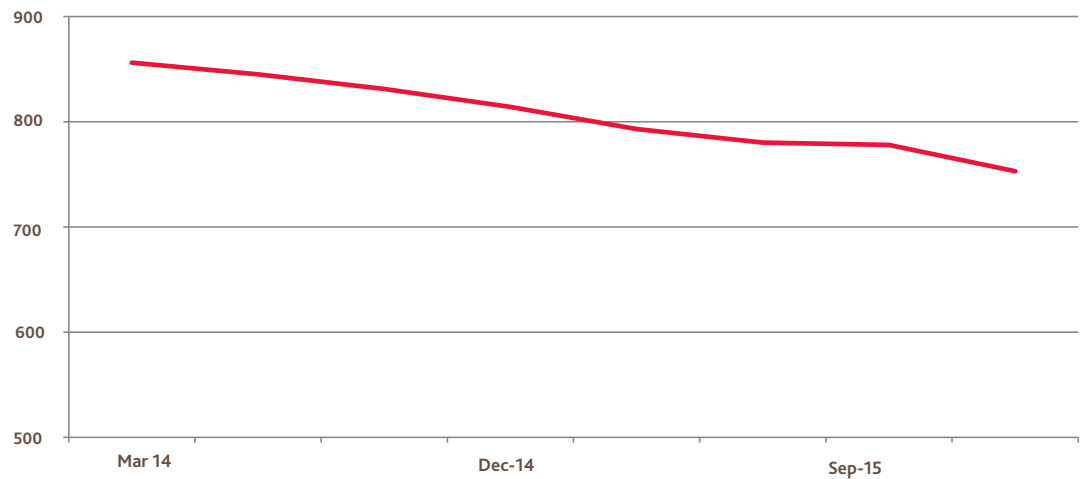
NET INVESTING CASH FLOWS



Points to note in relation to the above graphs are:

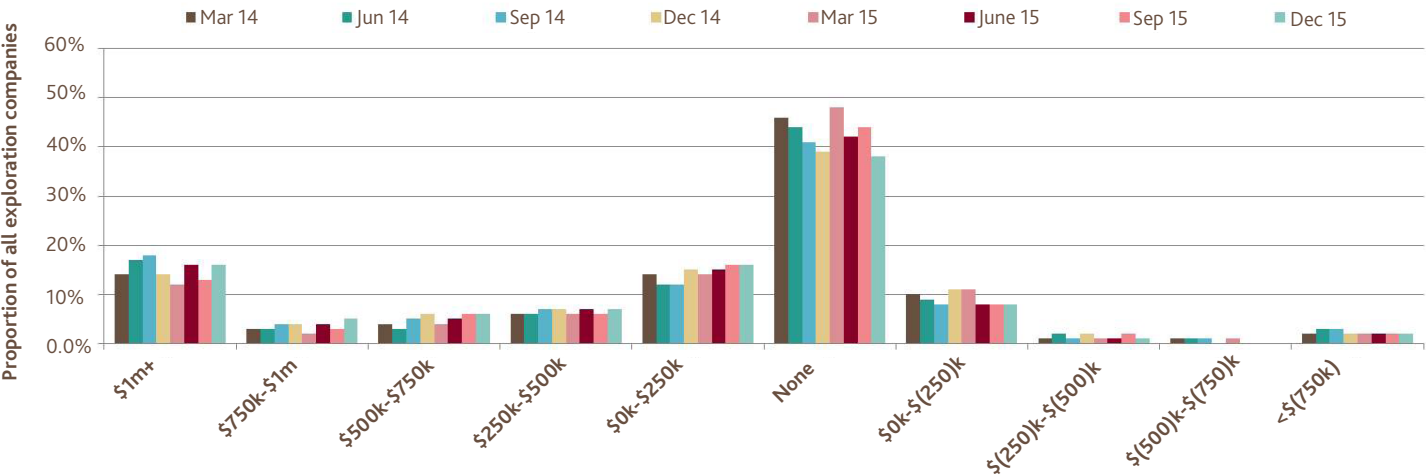
- There has been an increase in the percentage of companies that have not undertaken exploration activities over the review period, with a significant increase to approximately 16% (including those with positive cash flows on exploration) of exploration companies, up from 13% in September. This highlights that an increasing number of exploration companies are going into cash preservation mode.
- The number of companies that have spent more than \$1m on exploration activities has increased slightly from 10.6% in September to 11.2% in December. This reflects the larger Australian exploration companies continuing to spend on exploration, with the percentage of companies increasing as a result of the smaller players opting to cease exploration to pursue other business options.
- The average exploration expenditure has continued to fall for the seventh straight quarter to \$432,000, though the median expenditure has remained relatively stable over the past four quarters, again supporting the notion that the larger exploration companies are continuing to explore, with the drop off being at the smaller end of the market.
- The percentage of companies with the cash required to fund only one or two quarters of operating expenditure (including companies with a negative cash balance) has increased from 43% in the March and June 2015 quarters to 51% in September 2015 and down to 47% for the December 2015 quarter. We attribute this trend to a contraction in the level of operating expenditure, in particular exploration expenditure. This is partially offset by more prudent operations and greater cost efficiencies across the industry.
- In relation to administration expenditure, 39% of companies have only one or two quarters of cash remaining (including companies with a negative cash balance) on current administration spend, which is above the average of 27% over the period from March 2014 quarter to the September 2015 quarter. This result most likely reflects the number of companies which are no longer exploring and simply preserving their cash reserves to meet administrative costs whilst some are exploring alternative business options.
- The number of companies with nil investing cash flows has decreased from 393 to 351 which indicates greater investment activity, in the form of both purchasing and selling of assets.
- There has been an increase in the percentage of companies that have generated positive net investment cash flows from 16% in the September 2015 quarter to 20% in December 2015 quarter, which again highlights the explorers' willingness to transact, particularly the selling of assets. This presents an opportunity for buyers looking to secure an exploration project at a price potentially lower than historical averages.

NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: MARCH 2014 – DECEMBER 2015



- There has been a declining trend in the number of Appendix 5B lodgements over the review period, with the number of companies lodging Appendix 5B's decreasing to 753 in December 2015 from 778 in September 2015.
- The net decrease from the September 2015 quarter to the December 2015 quarter of 25 companies was a result of the following:
 - 14 companies were used as listing vehicles for backdoor listings, 8 of which were technology assets
 - 7 companies were delisted during the quarter
 - 3 companies entered into voluntary administration
 - 3 companies did not lodge an Appendix 5B, for no identifiable reason
 - 1 company was suspended due to its wholly owned subsidiary filing for bankruptcy
 - These reductions in the number of companies lodging Appendix 5B's were partially offset by the addition of three new exploration companies being listed on the ASX during the quarter.

NET FINANCING CASH FLOWS



The proportion of exploration companies with positive financing cash flows has increased in the December 2015 quarter to 51%, up from 44% in the September 2015 quarter and is significantly up on the historical average of 43% since March 2014. This is primarily driven by an increase in the percentage of companies which have generated net financing cash flows in excess of \$1 million, with this percentage increasing from 13% in September 2015 to 16% in December 2015.

FUND FINDERS

The number of companies that raised cash flows in excess of \$10 million in the December 2015 quarter was 17, unchanged from the September 2015 quarter.

- **88 Energy Limited (oil)** - \$7.02m share issue and \$10.84m borrowings.
- **Amex Resources Limited (iron ore)** - \$33.11m net proceeds from borrowings and \$1m share issue
- **Armour Energy Limited (oil and gas)** - \$15.23m borrowings and \$3.38m share issue
- **Australian Pacific Coal Limited (coal)** - \$14.02m from share issue, options
- **Central Petroleum Limited (petroleum)** - \$12.2m from share issue, options
- **Cudeco Limited (gold)** - \$30m from share issue, options
- **Dacian Gold Limited (gold)** - \$25m from share issue, options
- **Doray Minerals Limited (gold)** - \$12.57m from share issue, options and \$20.07m from borrowings
- **Far Limited (oil and gas)** - \$40.03 million from share issue, options
- **Flinders Resources Limited (copper)** - \$47.78 m borrowings
- **Kazakhstan Potash Corporation Limited (potash)** - \$10.96m proceeds from share issue and debentures
- **Millennium Minerals Limited (gold)** – \$21m from share issue
- **MZI Resources Ltd (mineral sands)** - \$22m from share issue and \$3.40m from borrowings
- **Galaxy Resources Limited (lithium)** - \$31 million from borrowings
- **Nuenergy Gas Limited (gas)** - \$10m from share issue
- **Pilbara Minerals Limited (Lithium)** - \$14.84m from share issue and exercise of options
- **Sphere Minerals Limited (iron ore)** - \$205.15m from share issue and \$4m from borrowings.

The most common focus of the above exploration companies is gold, with 4 of the 17 of the companies with net financing cash inflows in excess of \$10 million being gold exploration companies. This further supports the market's preference for gold exploration companies in times of economic uncertainty, market volatility and falling commodity prices. Similarly, debt funding is seemingly more available to these gold exploration companies than other commodity explorers. It is also interesting to note the popularity of lithium explorers in the market with Pilbara Minerals Limited and Galaxy Resources Limited, being two of the major fund raisers during the quarter from both equity and debt respectively. The \$12 million capital raising conducted by Pilbara Minerals was heavily oversubscribed.



BDO INSIGHT

The prevailing conditions continue to be challenging for explorers. Despite this, sentiment has improved as evidenced by the attendance and discussions at the RIU conference for explorers in Fremantle in late February. As mentioned above, the key areas of focus were gold and lithium. Other participants were certainly focused on "getting on with things", accepting the current climate as the new normal and recognising that opportunities do present under those conditions.

We have also presented on reverse takeovers and this also attracted widespread attention, indicating the RTO trend is likely to continue. It is key for juniors that are running out of cash reserves to identify a number of strategies to avoid having to appoint administrators which has become more frequent recently.

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