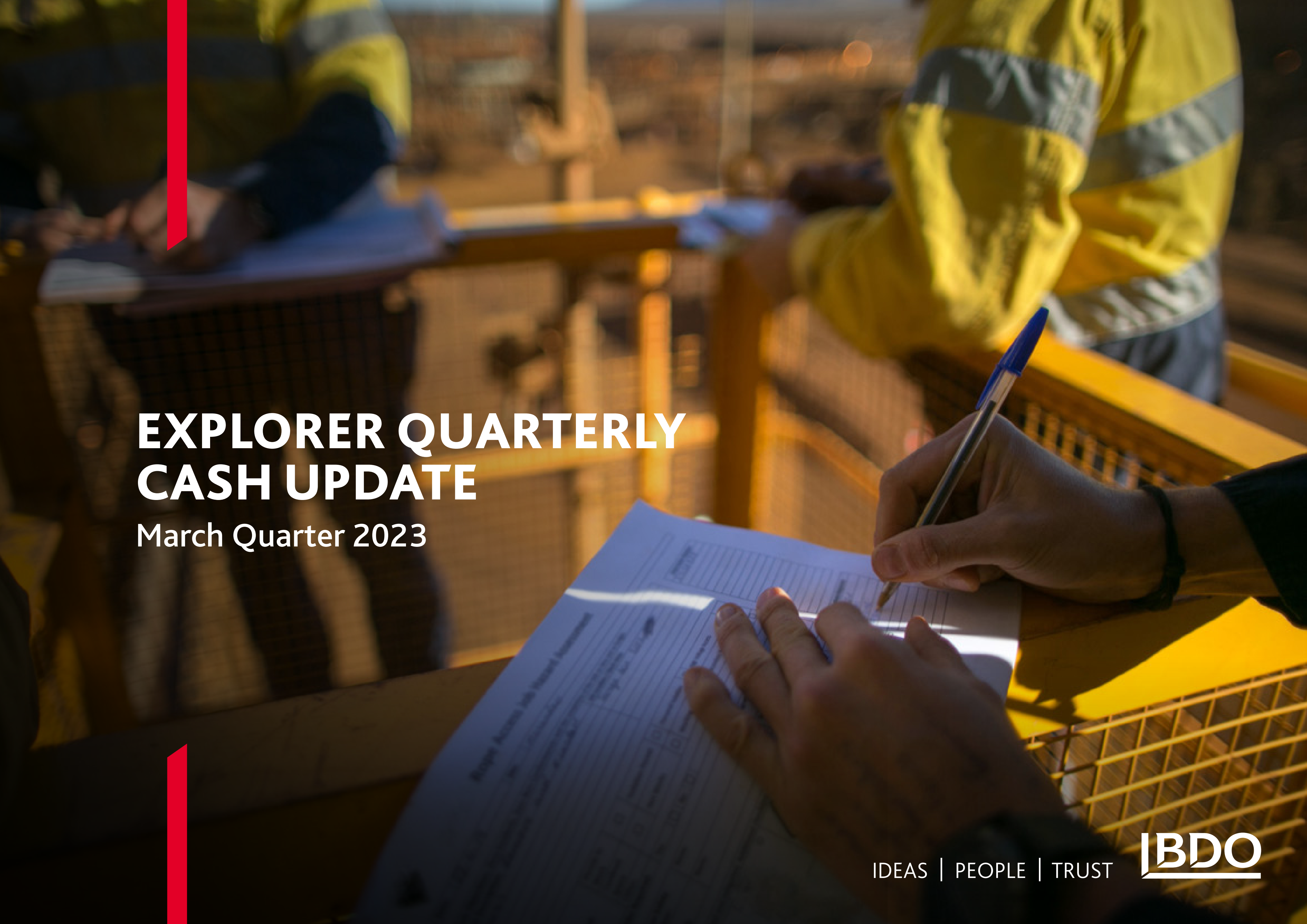

EXPLORER QUARTERLY CASH UPDATE

March Quarter 2023

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BDO

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS: QUARTER ENDED 31 MARCH 2023

A prospector's dilemma: balancing optimism and caution amidst this volatile market.

Financing cash inflows in the March 2023 quarter dropped by 55% to $1.35 billion, following on from the second largest amount of funds raised in the December quarter, reflecting ongoing market volatility.

34 Fund Finders secured capital of more than$10 million, led by gold, lithium and graphite companies, reaffirming the continued demand for these commodities in response to the anticipated growth in the electric vehicle (EV) industry.

For the first time since September 2020, there was no growth in the number of ASX-listed exploration companies lodging an Appendix 5B, driven by the decline in IPO activity.

Exploration and investment spending fell by 17% and 51%, respectively, as explorers return to cash preservation mode.

BDO's report on the financial health and cash position of Australian-listed explorers for the March quarter of 2023 (based on quarterly Appendix 5B reports lodged with the Australian Securities Exchange (ASX)) suggests that volatile financial markets have constrained the ability of the sector to raise funds, which in turn, has resulted in subdued operations and investment.

The March 2023 quarter witnessed a notable industry-wide slowdown due to deteriorating global macroeconomic conditions, including inflation and wavering commodity prices. However, gold remained popular as a safe haven investment and advanced-stage explorers were favourably positioned. Government incentives supported critical minerals explorers, and battery metals continued to attract sustained investor interest. Despite ongoing pressure, the sector has shown resilience and adaptability in challenging economic circumstances.

Amidst the market uncertainty, financing cash inflows in the March 2023 quarter declined by 55%, reaching $1.35 billion, while the average financing inflows per company dipped by 53% when compared to the two-year average. Most notably, the proportion of companies raising more than $1 million decreased sharply, and smaller-scale fund raises became more prominent. The observed trends indicate a distinct decline in the capacity to secure funding, which we attribute to growing stringency of prevailing market conditions.

In the March 2023 quarter, 34 companies (which we have termed **'Fund Finders'**) raised capital exceeding $10 million, down from 51 in the previous quarter. The Fund Finders consisted of eight gold, five lithium, four oil and gas, and three graphite companies, with the remaining 14 companies covering 13 different commodities. Gold maintained its dominance, contributing to 30% of the $925 million raised. Lithium Fund Finders secured $165 million, led by Sayona Mining Limited (**Sayona**) and Winsome Resources Limited (**Winsome**). Graphite also continued to be a leading commodity in our Fund Finders due to the commodity's versatility in applications such as lithium-ion batteries and the EV supply chain.

For the first time since September 2020, the sector experienced no growth in the number of ASX-listed exploration companies lodging an Appendix 5B, with 787 companies recorded in the March quarter. This was driven by an observable slowdown in the IPO market, with only seven newly listed companies in our data set. Interestingly, six of these new companies related to 'energy transition' minerals, demonstrating once again the resilience in market appetite toward the scale of demand for minerals to meet the demands of the energy transition.

Exploration expenditure in the March 2023 quarter declined by 17% to $827 million, marking the second consecutive quarter of decline from record billion-dollar spends. The average exploration spends per company reached a new low of $1.05 million since June 2021, with most explorers only undertaking small scale exploration programs of less than $1 million. Similarly, investment spending showed a significant slowdown with net investing outflows declining by 51%. All signs indicate that explorers are exercising caution with their spending as access to funds begin to ease amidst the economic uncertainty.

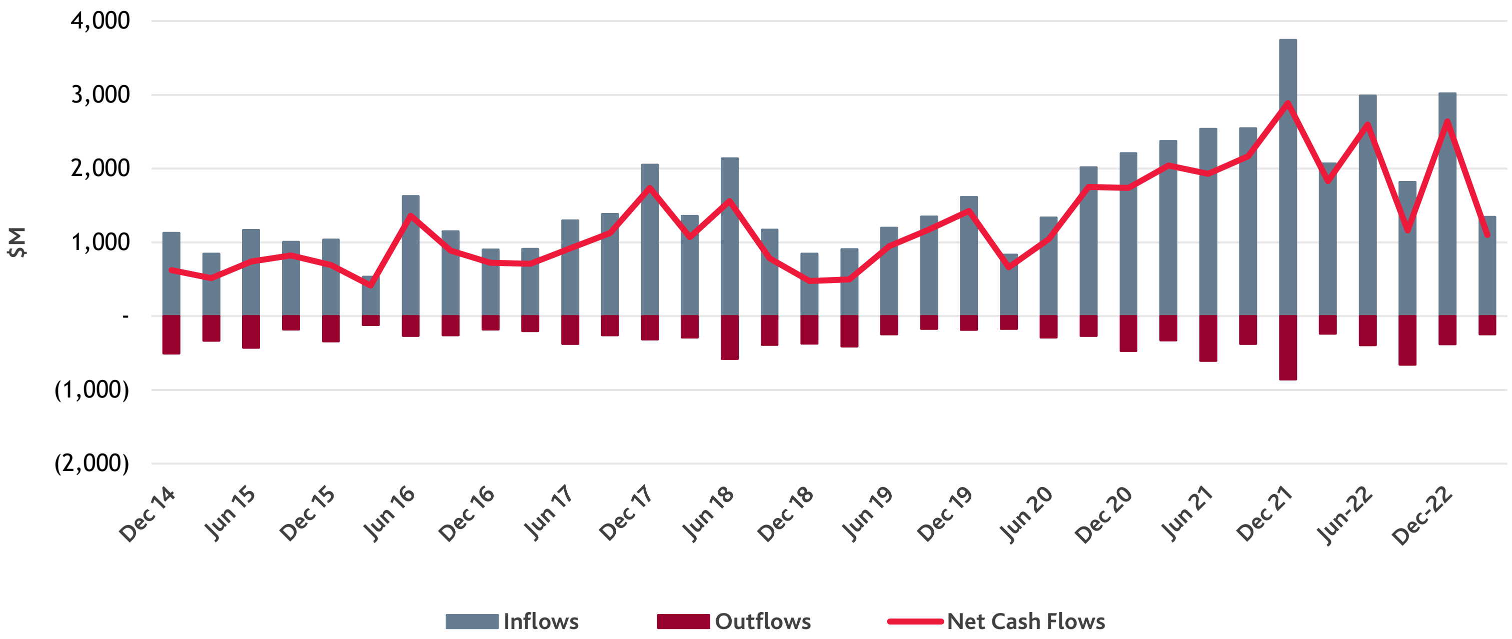
Explorers have still shown resilience by maintaining strong cash balances despite upward inflationary pressure. While the average cash balance per explorer has decreased from a peak of $13.2 million in June 2022 to $10.2 million in March 2023, it remains relatively robust compared to historical levels. Most exploration companies still report sufficient funds for at least two quarters of operations, and those with less are optimistic in their ability to streamline costs or raise future funds.

FINANCING CASH FLOWS

After witnessing the second highest amount of funds raised since June 2013 in the prior December quarter, financing cash inflows fell sharply by 55% to $1.35 billion in the March 2023 quarter. The average financing cash inflows per company was $1.71 million for the March 2023 quarter, which is 53% lower than the two-year average of $3.61 million since March 2021.

We consider the recent volatility in financing cash flows as depicted in the graph below to be a consequence of the adverse reaction from capital markets to persistent cash rate rises implemented since May 2022, in combination with the current high inflationary environment and global economic uncertainty. We have observed a tightening in capital markets evidenced by a decline in IPO activity and a reduction in the number of large fund raisings.

FINANCING CASH FLOWS ($M)



However, despite wider macroeconomic factors, we also highlight a seasonal trend that has been apparent since the December 2014 quarter, in that funding tends to be lower in the March quarters. This leads us to believe that fund raisings, especially for explorers with prospective gold, or energy transition metals projects, may experience a strong return in the June quarter.

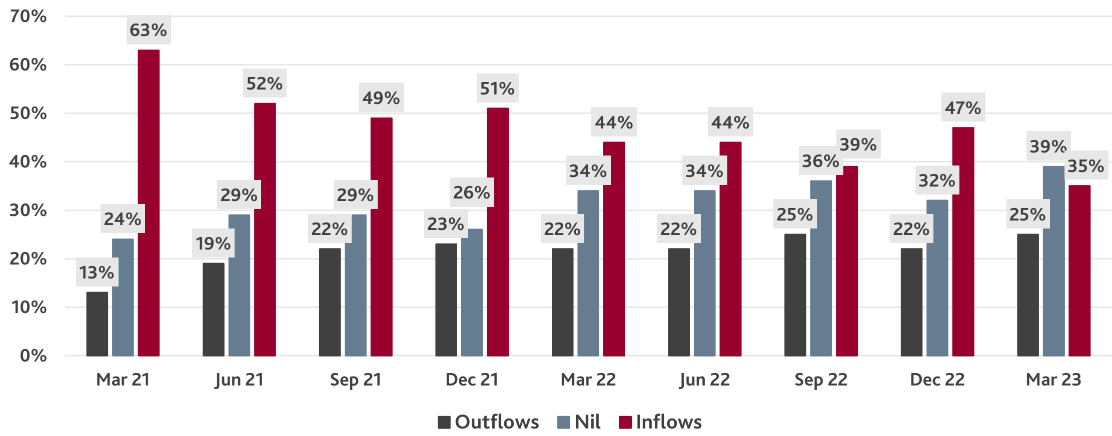
The number of Fund Finders reduced in the March 2023 quarter from 51 companies raising $2.31 billion in the December 2022 quarter to 34 companies raising $925 million. Fund Finders are companies that recorded debt and equity raises of $10 million or more in a quarter. On average, the Fund Finders of the March 2023 quarter raised $27 million each and contributed to 69% of the total financing inflows in the March 2023 quarter (see the Fund Finder section on page 6 for more details).

As observed from the graph below, the proportion of companies with net financing inflows larger than $1 million reduced sharply from 29% to 19% in the March 2023 quarter, but remained as the largest portion of net cash inflows. This reaffirms a tightening in capital markets, as standard equity and debt raises for exploration companies are typically in excess of $1 million.

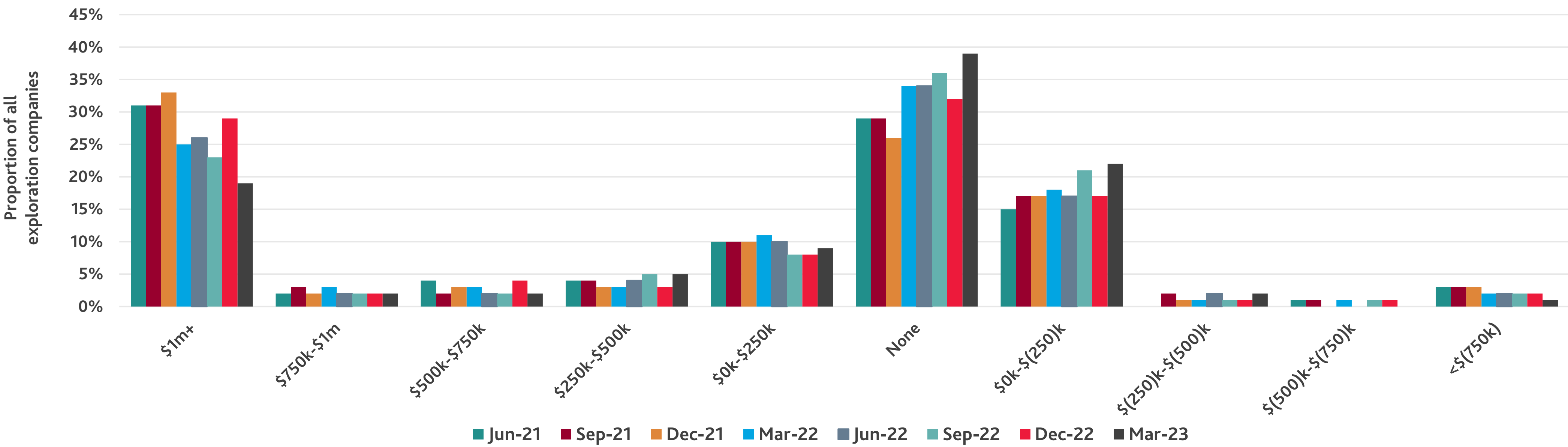
Conversely, a notable increase was observed in the proportion of financing inflows at the smaller scale of up to $0.50 million, which typically reflects small institutional placements or the exercise of options.

The proportion of companies reporting a net financing inflow has experienced a broadly declining trend since March 2021, from 63% to a low of 35% in the current March 2023 quarter. Simultaneously, the proportion of companies reporting nil financing cash flows has risen from 24% to a high of 39% for the respective period. This trend indicates that more explorers each quarter have been unable to, or have significantly cut back on their efforts to, raise more funds.

FINANCING CASH FLOWS (%)



NET FINANCING CASH FLOWS (%)



FUND FINDERS

In the March 2023 quarter, a total of 34 companies raised capital in excess of $10 million, a decrease from the 51 companies recorded in the December 2022 quarter. The 34 Fund Finders in the March 2023 quarter comprised eight gold companies, five lithium companies, four oil and gas companies and three graphite companies. The remaining 14 companies were divided across 13 commodities with notable commodities being silver and rare earth metals.

Adriatic Metals Plc, based in the United Kingdom, recorded the largest financing inflow for the March 2023 quarter, raising US$52.5 million (A$78.4 million when converted at prevailing exchange rates at 31 March 2023). The inflow comprised two drawdowns, firstly a US$30million tranche from a senior secured debt arrangement, and a further US$22.5 million from a related finance arrangement, with a balance of US$60 million remaining undrawn. The funds are committed to the development of the Vares Silver Project in Bosnia and Herzegovina, which is expected to produce its first concentrate in late 2023.

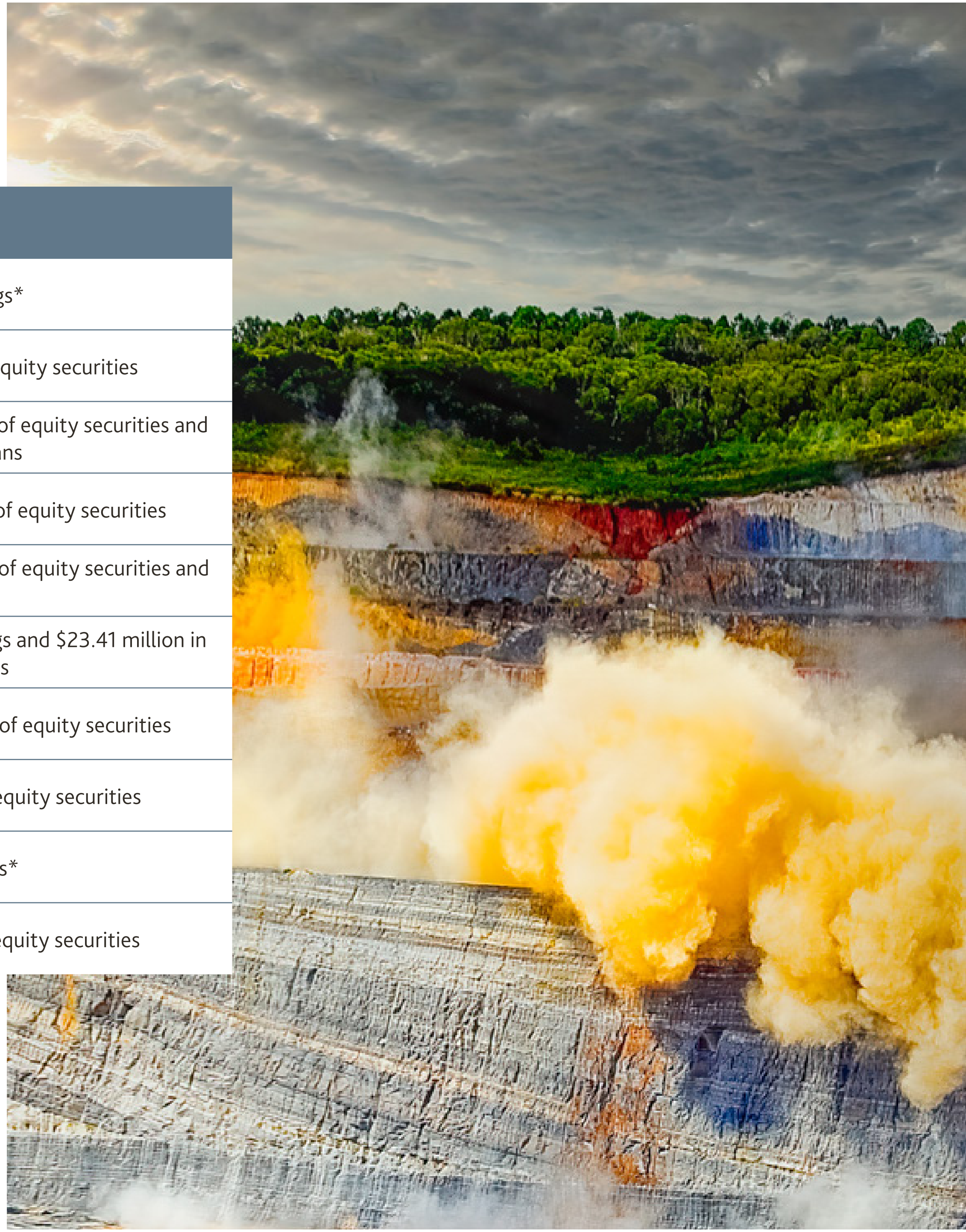
Pantoro Limited recorded the second largest financing inflow during the March 2023 quarter, raising $75million. The raise commenced alongside an announcement of a merger via a scheme of arrangement with Tulla Resources Plc, to consolidate their holdings in the Norseman Gold Project. The company secured its funding exclusively through equity in two separate tranches. The capital injection is allocated to the advancement of the Norseman Project, with the primary objective of supporting the project to full production, which is expected in the June quarter of this year.

Sayona claimed third place, securing a substantial financing inflow of $68.4 million in the March 2023 quarter, largely comprising an equity raise. It's worth noting that Sayona opted to utilise Canada's flow-through-shares (**FTS**) scheme, a strategic approach that minimises the dilution of issued capital by offering higher per share equity raising prices by allowing investors to claim tax deductions. The funds are earmarked to support Sayona's portfolio of lithium exploration projects in Québec, Canada. The allocation is intended to enable Sayona to accelerate the development and advancement of these projects, bolstering their efforts in the ever-growing lithium sector.

Winsome, the second Canadian lithium explorer in our Fund Finder list, recorded a $52.3 million equity raise in the March 2023 quarter. The company's raise encompassed multiple components, including an FTS arrangement, an institutional placement, and a share purchase plan. The FTS scheme raised $19.2 million and was followed by an issue to institutional investors, raising $31 million. The remainder was raised via a share purchase plan. The funds are to be committed to further exploration and development activities, specifically resource drilling, as well as fulfilling working capital requirements for Winsome's Cancet and Adina projects located in Canada. By deploying these funds strategically, Winsome aims to advance its projects while maintaining sufficient working capital for operational needs.

The top ten largest fund raises of the March 2023 quarter are set out below:

Company name	Commodity	Mechanism of raising
Adriatic Metals Plc	Silver	$78.39 million in proceeds from borrowings*
Pantoro Limited	Gold	$75 million in proceeds from the issue of equity securities
Sayona Mining Limited	Lithium	$54.96 million in proceeds from the issue of equity securities and $13.43 million in proceeds from other means
Winsome Resources Limited	Lithium	$52.27 million in proceeds from the issue of equity securities
Kingsgate Resources Limited	Gold	$46.05 million in proceeds from the issue of equity securities and $4.24 million from other means
Gascoyne Resources Limited	Gold	$23.75 million in proceeds from borrowings and $23.41 million in proceeds from the issue of equity securities
Arafura Rare Earths Limited	Rare Earth Metals	$46.64 million in proceeds from the issue of equity securities
Talga Group Limited	Graphite	$40 million in proceeds from the issue of equity securities
Syrah Resources Limited	Graphite	$31.91 million in proceeds from borrowings*
VHM Limited	Rare Earth Metals	$30 million in proceeds from the issue of equity securities



**Foreign-currency denominated inflows converted using the prevailing exchange rate as at 31 March 2023.*

Equity continued to be the primary source of investment for explorers, accounting for 70% of total Fund Finder funds raised, while debt and other funds accounted for 26% and 4%, respectively.

FINANCING INFLOW BY COMMODITY FUND FINDERS | MARCH QUARTER 2023

Gold continued its reign as the dominant commodity for the third consecutive quarter, representing a significant portion of the $925 million raised by Fund Finders in the March 2023 quarter. This impressive performance can be attributed to the persistently high inflation rates witnessed throughout 2022 and into 2023, along with the implementation of accommodating monetary and fiscal policies during the COVID-19 pandemic. With elevated interest rates, alternative investment options have become less appealing, driving investors towards the relative safety offered by gold. In addition, as inflationary pressures persist and geopolitical uncertainties linger, the demand for gold has continued to rise.

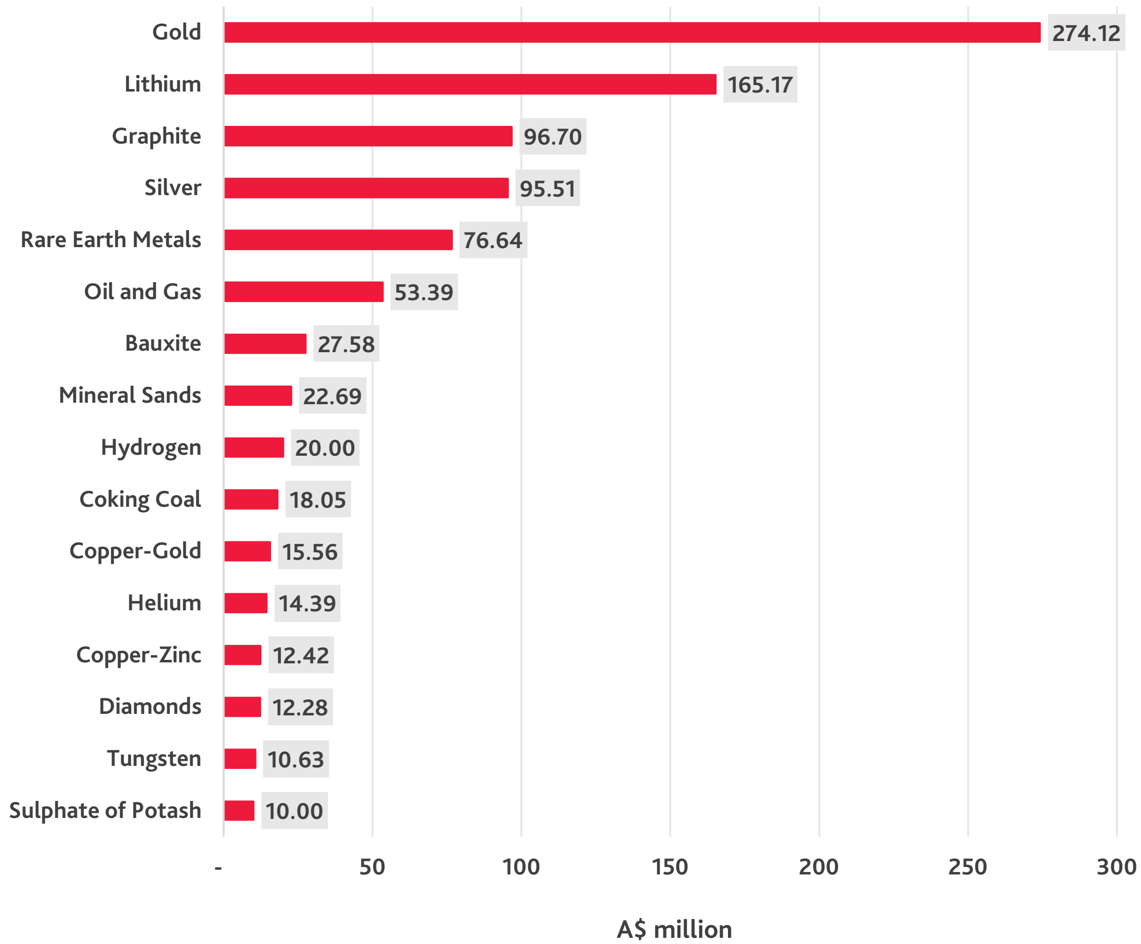
Lithium Fund Finders have successfully strengthened their cash positions by securing a total of $165 million through a combination of debt and equity financing. Although this inflow marked a 52% decrease from the impressive $344 million raised in the December 2022 quarter, it still signifies a significant financing inflow. The funds were raised by five explorers in the lithium sector, with Sayona and Winsome leading the way and accounting for 73% of the total $165 million raised.

It's worth noting that both Sayona and Winsome both possess assets located in Canada, a region that represents only approximately 3.6% of the global lithium reserves. The demand from EV manufacturers for battery minerals continues to drive inflows as they aim to strengthen their supply chains for the prized metal.

Graphite Fund Finders raised debt and equity of $97 million, a 7% decline on the $104 million raised in the prior quarter. The inflows related to Talga Group Limited ($40.0 million), Syrah Resources Limited (**Syrah**) ($31.9 million) and Magnis Energy Technologies Limited ($24.8 million). Due to its extreme versatility, with uses ranging from lithium-ion batteries to the broader electrical and steel industry, graphite again finds itself as a leading commodity, as a vital part of the EV supply chain. Interestingly, graphite was the leading commodity in the March 2022 quarter Fund Finder, but this was predominantly driven by Syrah's $240.6 million equity raising that funded the expansion of its Vidalia Anode Facility in the United States. The facility is currently under construction and targeted for production in the second half of 2023.

Despite an overall decline in fundraising activities within the sector, the prevailing trends persist. Gold continues to be favoured in the current economic conditions, while there is still a high priority for fundraising in battery metals due to their essential role in meeting supply demands.

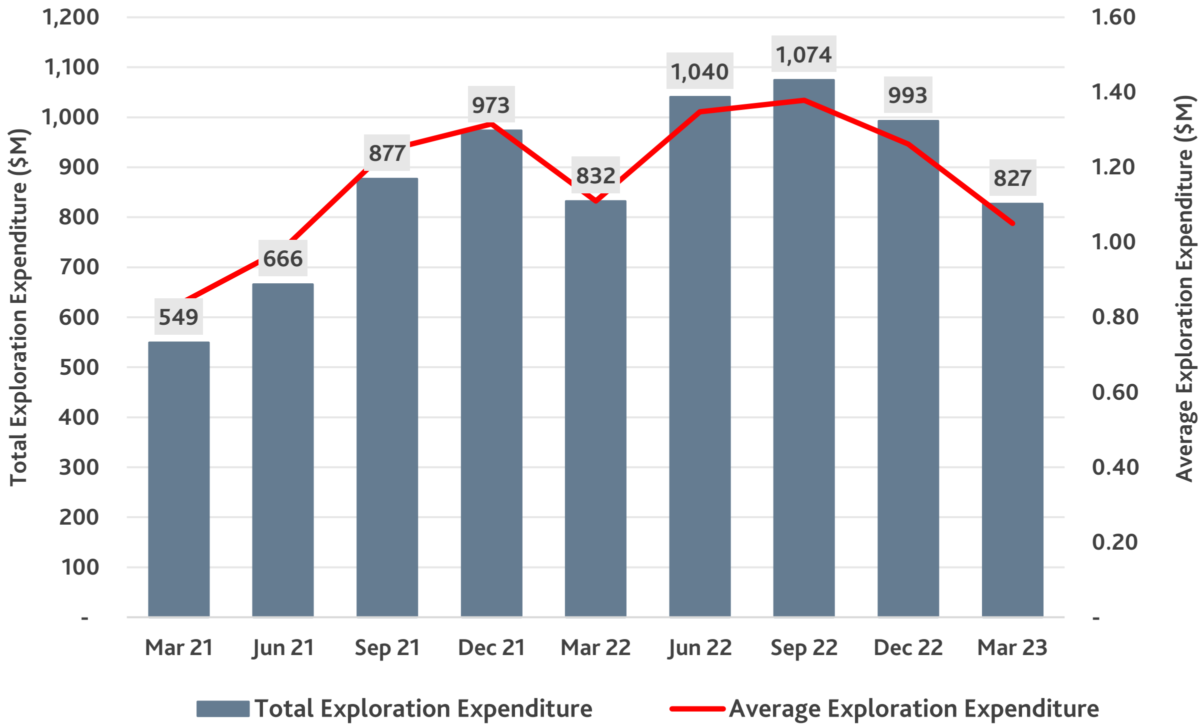
FINANCING INFLOW BY COMMODITY | TOP 34 EXPLORERS | MARCH QUARTER 2023



EXPLORATION EXPENDITURE

In the March 2023 quarter, total exploration spending declined for a second consecutive quarter, following the record billion-dollar spends observed in the June and September quarters of 2022. A total exploration spend of $827 million in the March 2023 quarter represented a 17% decline from the prior December quarter. Additionally, the average exploration spend per company reached a new low of $1.05 million since the $0.98 million average in June 2021.

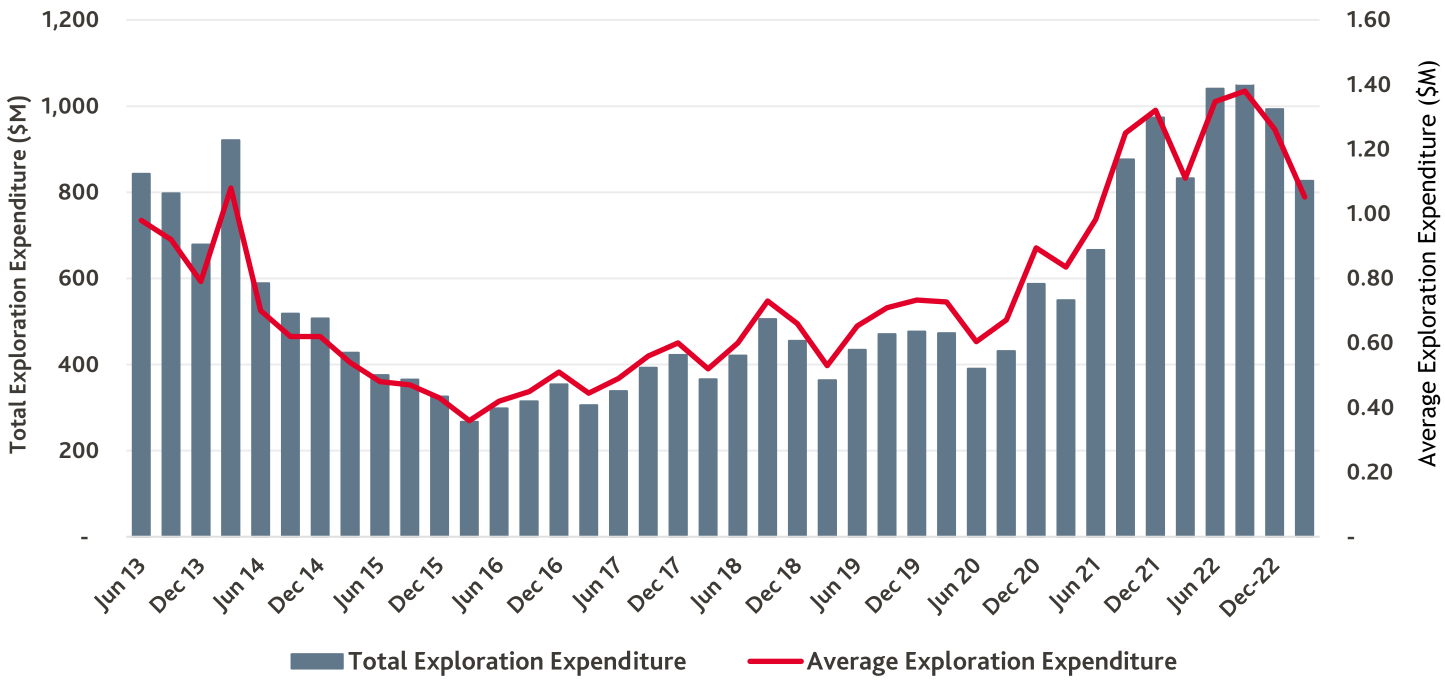
TOTAL EXPLORATION EXPENDITURE | LAST TWO YEARS ($M)



Observed in the long-term chart below, exploration spending has trended upwards, since the March 2016 quarter, to peak at $1.04 billion in September 2022. This was due to favourable capital raising conditions and strong commodity prices from late 2020 to the end of 2022, which provided an incentive for companies to intensify their exploration activities.

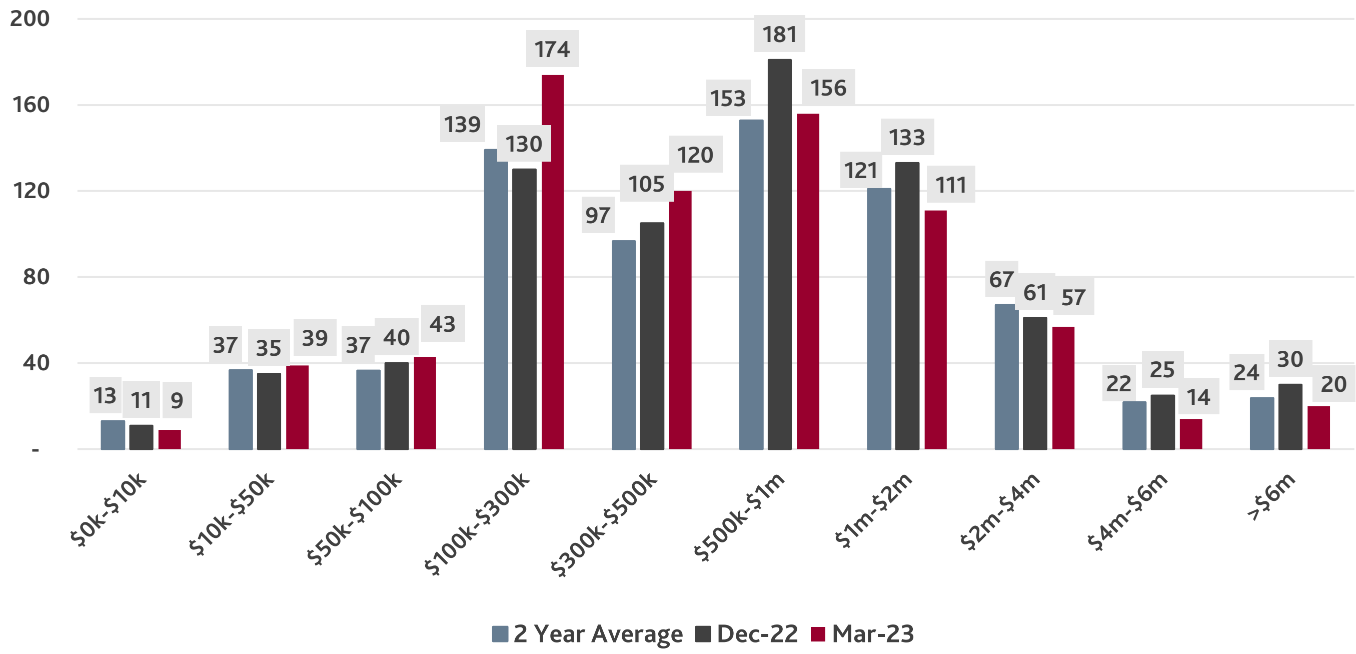
More recently, the rise in exploration costs and subdued access to future funds has led to a more cautious approach among explorers, resulting in a decline in exploration activity levels as explorers seek to manage their expenses more efficiently. However, we note that the average exploration spend per company still ranged between $1.05 million and $1.38 million over the past year, which remains distinctly high relative to historical levels.

TOTAL EXPLORATION EXPENDITURE | SINCE START OF BDO ANALYSIS ($M)



The following graph illustrates the breakdown in exploration expenditure patterns and shows a clear increase in the number of explorers that undertook small-scale exploration spends between tranches of $100k to $500k. In comparison to the December 2022 quarter and the corresponding two-year averages, growth can be detected at the smaller end of the market, while the number of companies undertaking larger exploration spends has diminished due to the cash preservation mentality of explorers amidst current market conditions.

NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE



The top ten exploration spends, totalling $172 million, comprised four lithium companies, three oil and gas companies, two gold companies and one nickel-copper company. Gold, oil and gas typically account for the largest portion of the top ten exploration spends, as in the prior quarter. However, this quarter, we have also observed growth in exploration spending for lithium, which is likely driven by sustained demand for renewable energy sources to meet future requirements. Additionally, sentiment for gold remains strong and continually proves to be a symbol of stability during times of market volatility.

Natural gas explorer Tamboran Resources Limited (**Tamboran**) reported the largest exploration spend by a significant margin, spending $60 million for the March 2023 quarter. The expenditure was incurred primarily in relation to drilling activities at the Tanumbirini and Maverick wells, located in the Beetaloo sub-basin of Australia's Northern Territory.

De Grey, who recorded the largest exploration spend for the last five consecutive quarters, still featured in the top ten spends, recording an exploration spend of $12 million for the March quarter of 2023. Over the quarter, De Grey continued to focus on its 100% owned Mallina Gold Project, with expenditure focussed on progressing the company's definitive feasibility study.

Notably, lithium players such as Sayona, Lake Resources NL, Ioneer Limited, and Vulcan Energy Resources Limited have collectively spent $45 million on exploration during the March 2023 quarter, contributing to the total of $827 million over the quarter. This allocation of funds highlights the industry's commitment to meet the increasing demand for lithium resources. As these companies intensify their exploration efforts, it's evident the lithium sector is positioned for significant growth, catering to the expanding needs of the green energy revolution.

NET INVESTING CASH FLOWS

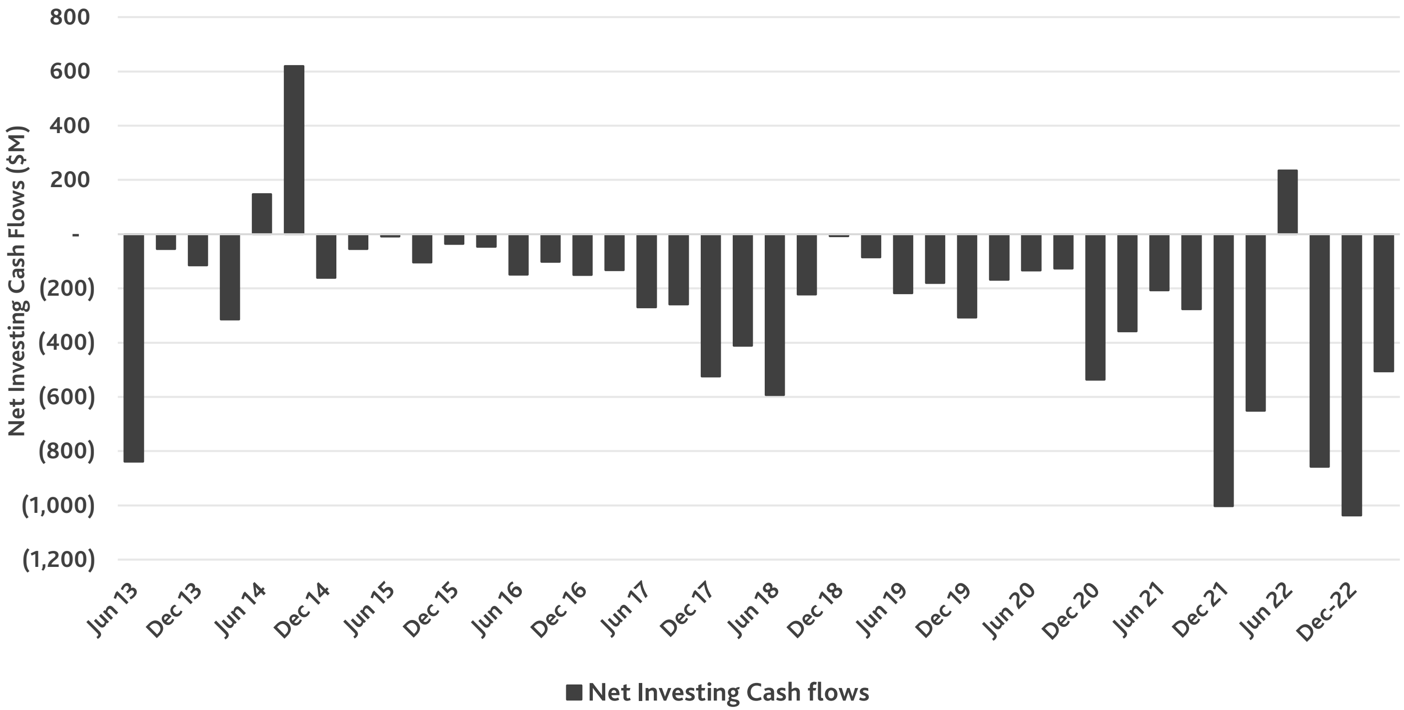
Net investing cash outflows in the March 2023 quarter declined by 51%, leading to a net outflow of $506 million. This decline in net investing cash flows is in line with the expected behaviour when explorers prioritise cash preservation. During this phase, explorers typically curtail investment spending initiatives, unless they are in dire need of new operations or have projects in the late stages of development.

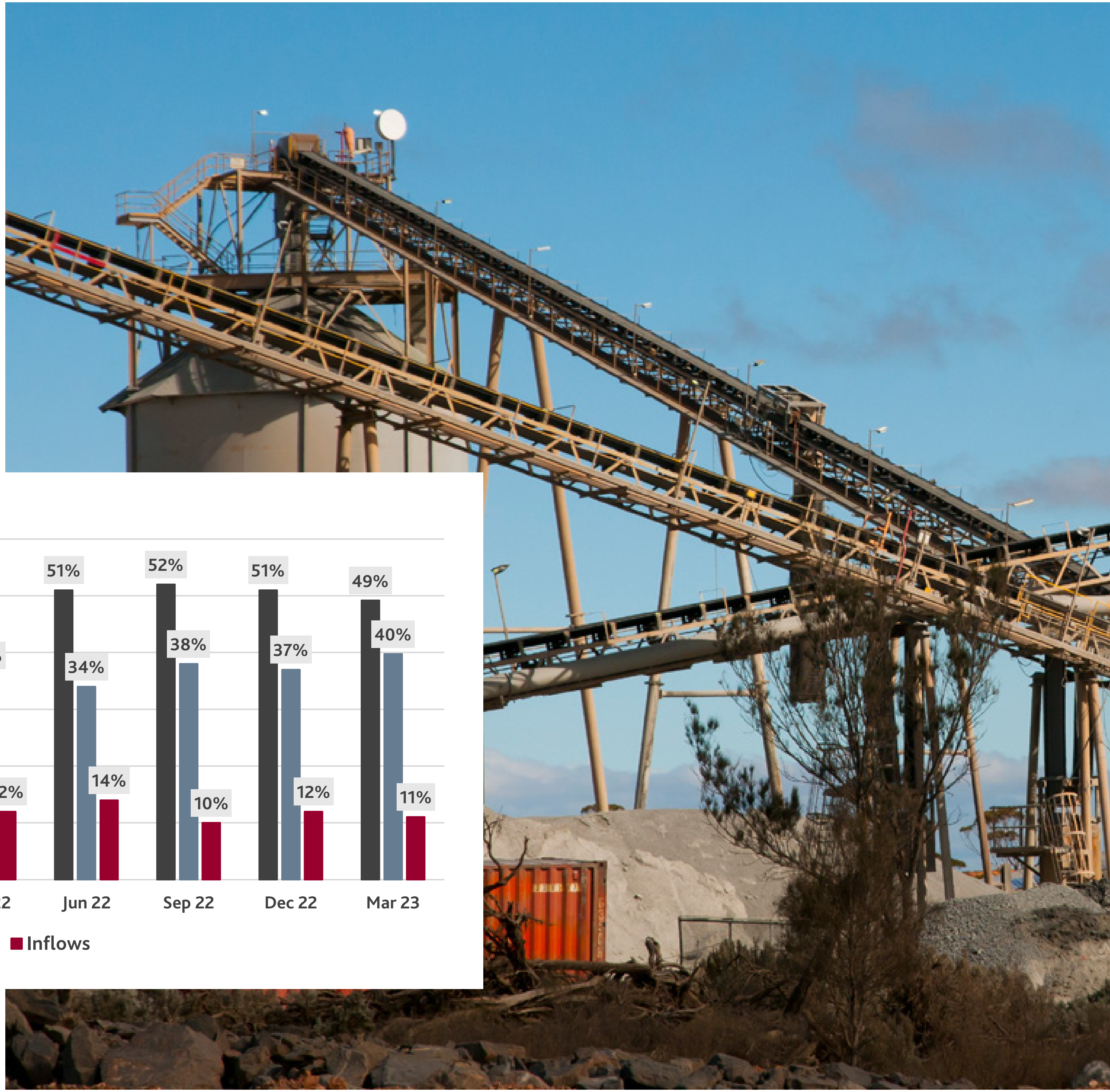
One such example during the quarter is Liontown Resources Limited (**Liontown**), a battery mineral explorer who recorded the largest net investment outflow of $74 million. Liontown's significant investment was directed towards the development of its prospective lithium project, the Kathleen Valley project, with a target of achieving first production by mid-2024. The investment in the Kathleen Valley project signifies Liontown's long-term vision and its intent to position itself as a key player in the lithium industry.

Additionally, Bellevue Gold Limited (**Bellevue**) closely trailed Liontown's investment spend with a $73 million net investment outflow. Bellevue directed this investment towards the construction of a processing facility at its flagship Bellevue Gold Project. The construction process is currently underway, progressing on schedule and within budget and signifies Bellevue's commitment to advancing its project.

For consistency across all quarters, we note that our analysis of net investing cash flows for the March 2023 quarter excludes exploration and evaluation expenditure that is capitalised. We have instead included this under exploration expenditure.

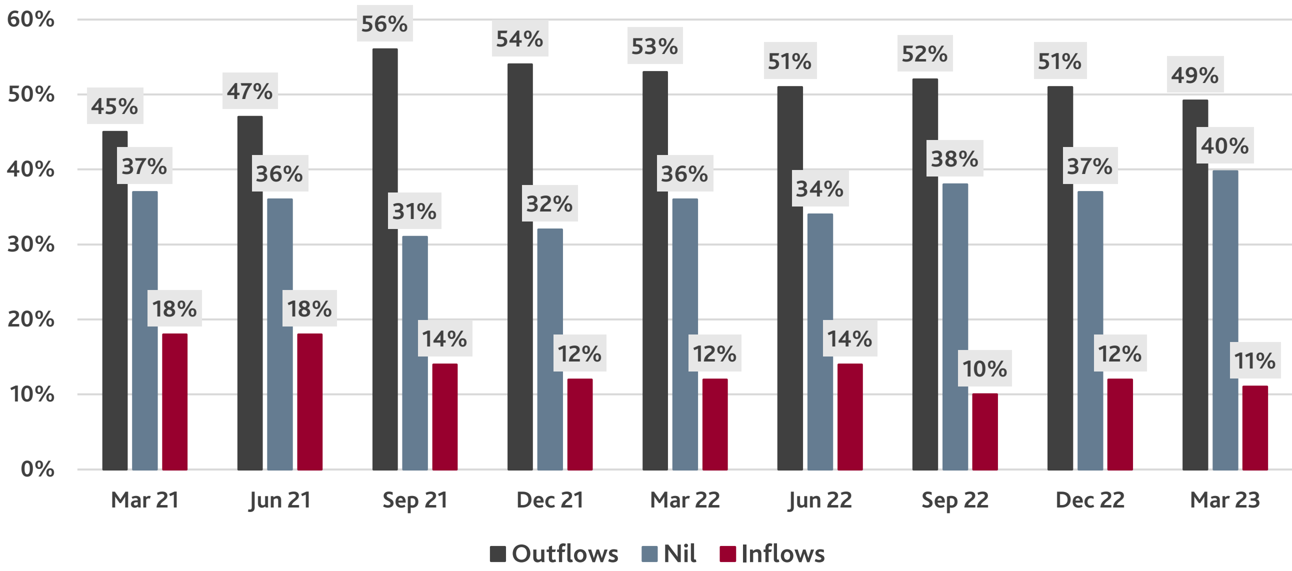
NET INVESTING CASH FLOWS | SINCE START OF BDO ANALYSIS ($M)





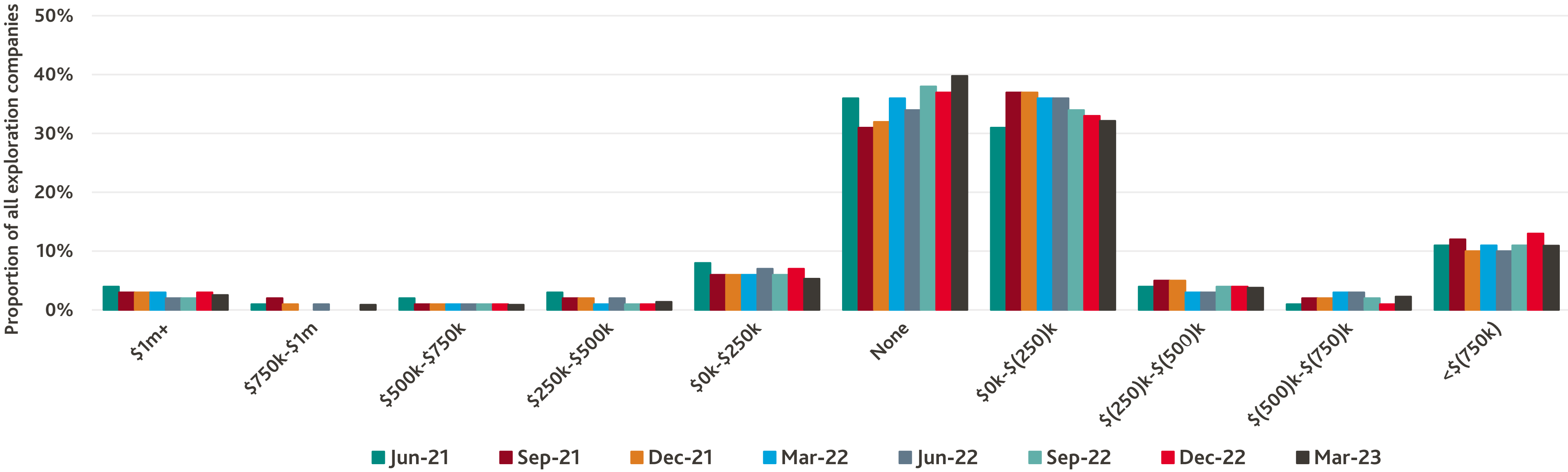
The proportion of companies with net investment outflows has demonstrated a downwards trend since September 2021 and decreased to 49% in the March 2023 quarter. Simultaneously, the proportion of companies reporting nil investing cash flows increased from 31% in September 2021 to 40%. These trends reaffirm that explorers are prioritising the preservation of their cash reserves in investment spending amidst the current volatility of financial markets.

INVESTING CASH FLOWS (%)



Furthermore, as observed from the chart below, the deceleration appears to be evident across the entirety of the sector. Notably, the proportion of exploration companies reporting a net investing cash flow of nil reached a two-year high in the current quarter.

NET INVESTING CASH FLOWS (%)



Despite this slowdown, we recognised the proportion of companies with large investing inflows in excess of $1 million to remain broadly in line with the two-year average of 3%. Upon investigation, this was primarily driven by Danakali Limited (**Danakali**), a sulphate of potash explorer with the influx of funds relating to the strategic sale of its 50% interest in the Colluli Mining Share Company. Danakali made this strategic move to redirect its focus towards identifying new potash and critical metals projects for future investments.

ADMINISTRATION EXPENDITURE

Total administration expenditure (comprising mainly of listing fees, professional fees, director fees and other corporate costs) recorded a 10% decrease in the March 2023 quarter to $314 million but remained 11% higher than the two-year average of $283 million since March 2021.

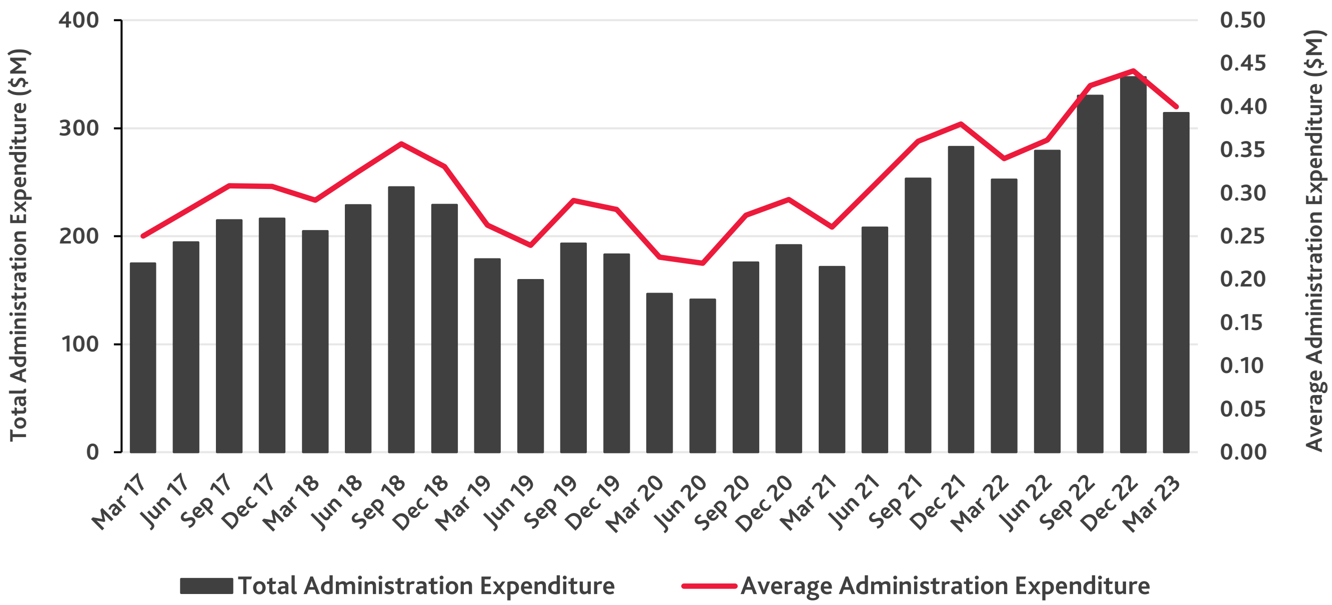
The decrease in total administration spending, together with the decline in the average administration expense per company from $0.44 million in the December 2022 quarter to $0.40 million in the March 2023 quarter, is in line with the cyclical nature of administration spending observed over the past four years. As noted in previous issues, we have observed a cyclical trend in which administration expenditure tends to be lower in the March and June quarters and higher in the September and December quarters.

The general increasing trend in administration expenditure, particularly since June 2020, is linked to the increased level of exploration activity, capital raises, and merger and acquisition activity, which has resulted in higher corporate expenses. In addition, the prevalence of corporate skilled labour shortages has placed upward pressure on the remuneration of corporate staff and the quantum of fees paid to external advisers.

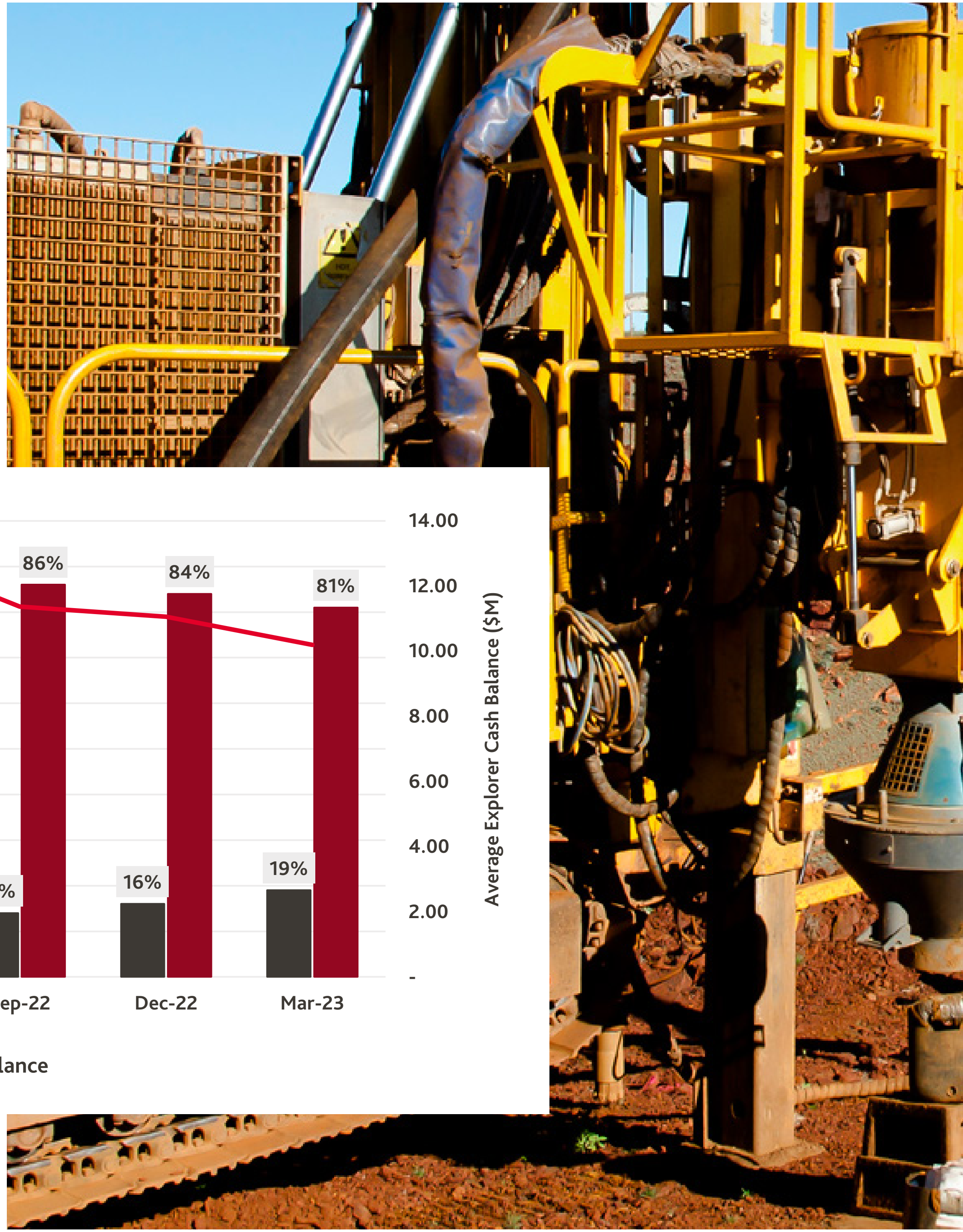
Furthermore, administration costs have suffered the impact of the recent inflationary environment, where Australia's inflation rate, which hit 7.8% over the 2022 calendar year, represented the highest year-end inflation figure since 1990 and was spurred on by the increased cost of services and rental inflation. Notably during the quarter, companies may have likely responded to rising costs by containing administrative expenditure in a bid to streamline their head office operations.

Inflation forecasts illustrate an easing in line with diminishing global cost pressures, and hence we would expect this rate of increase in average administration costs to decline in the medium term. However, we are still likely to see the impact of inflationary pressures on administration expenditure for the next few quarters.

ADMINISTRATION EXPENDITURE ($M)

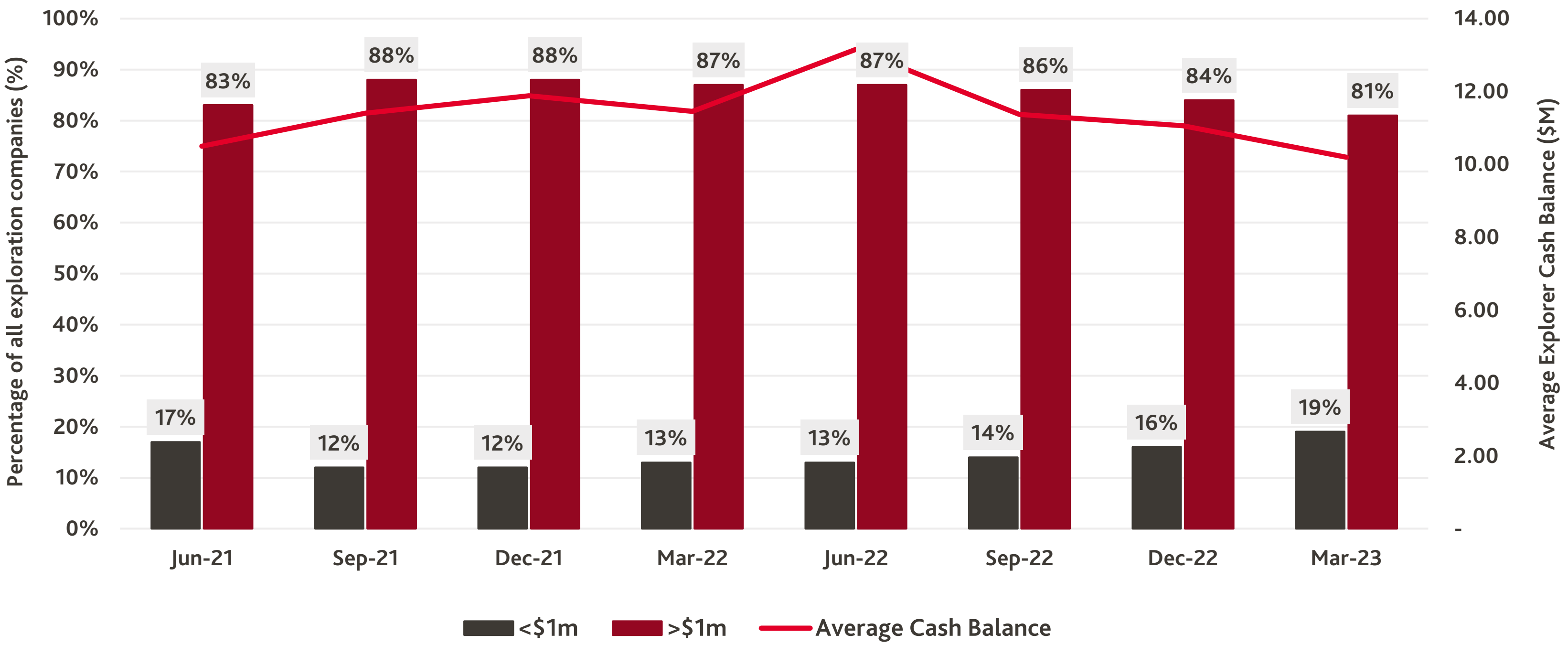


MARCH 2023 QUARTER CASH POSITION



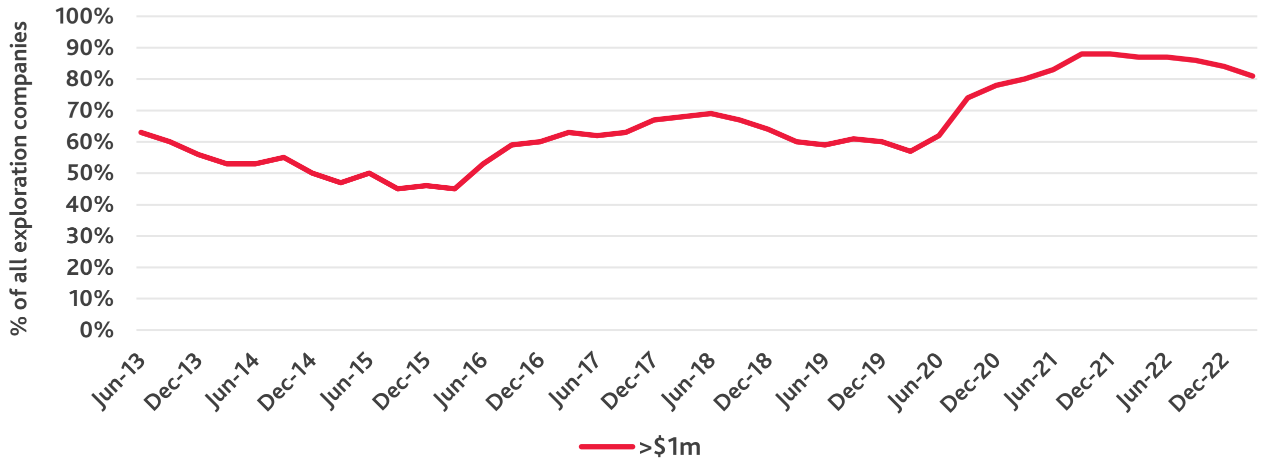
Explorers' cash balances have been depleting over the last three quarters with 81% of exploration companies reporting a cash balance of more than $1 million as at 31 March 2023, down from 87% in the June 2022 quarter, which was largely sustained since September 2021. Over this period, the average cash balances peaked at $13.2 million per explorer as at 30 June 2022 before contracting to $10.2 million as at 31 March 2023.

ASX EXPLORERS' CASH BALANCE (%)

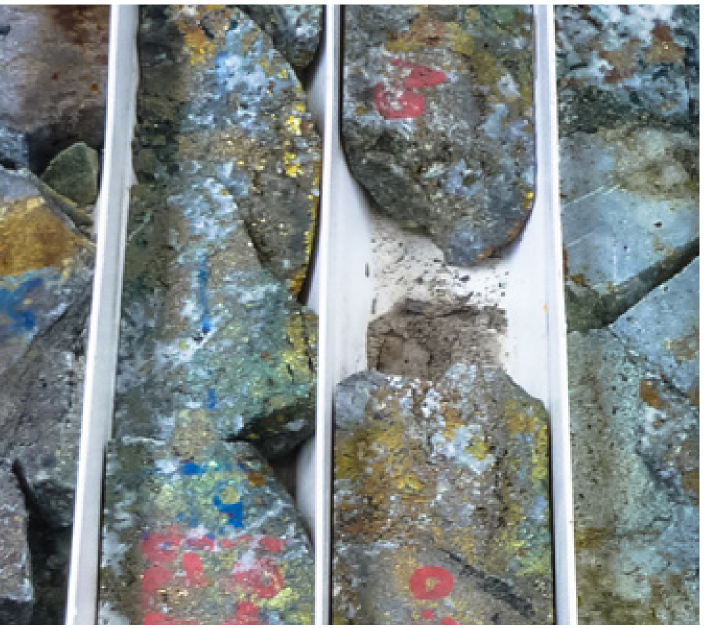


Despite this decline, the overall cash position remains relatively strong when compared to the average cash positions at the commencement of our analysis in June 2013. While upward inflationary pressure and a slowdown in fund raising may have impacted cash balances, companies are demonstrating resilience by maintaining ample cash balances in anticipation of potential challenges that may arise over the remainder of 2023.

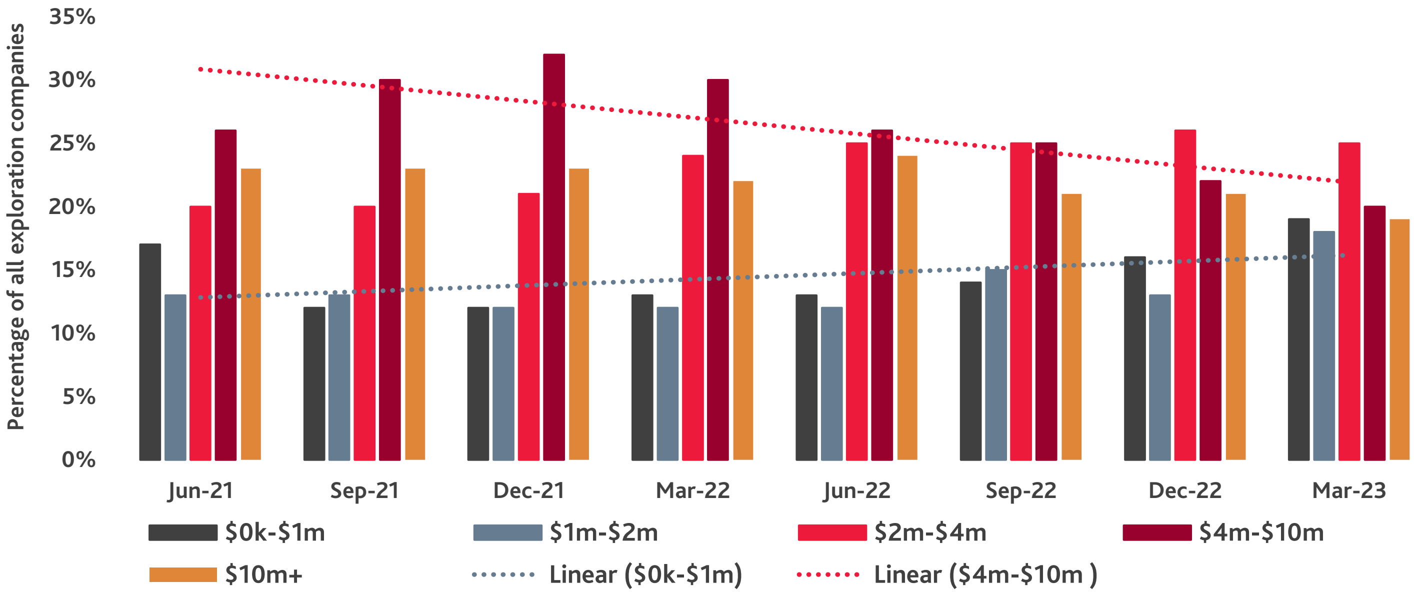
ASX EXPLORERS' CASH BALANCE (%)



As indicated by the two trendlines in the graph below, we have observed a consistent decrease in the proportion of explorers with cash balances between $4 million and $10 million and a general increase in those with a balance between nil and $1 million, indicating that cash balances are gradually diminishing at the small and middle end of the market. We also observe that the proportion of explorers with a cash balance of greater than $10 million has decreased only marginally from the December 2022 quarter, reflecting that the larger end of the market has remained relatively unfazed by current fund-raising conditions. These explorers, equipped with more established operations have continued to raise substantial funds, bolstering their financial position. Their ability to secure financing highlights that investors perceive their operations as lower risk, enabling them to navigate the current market conditions more effectively than their junior counterparts.



ASX EXPLORERS' CASH BALANCE (%)

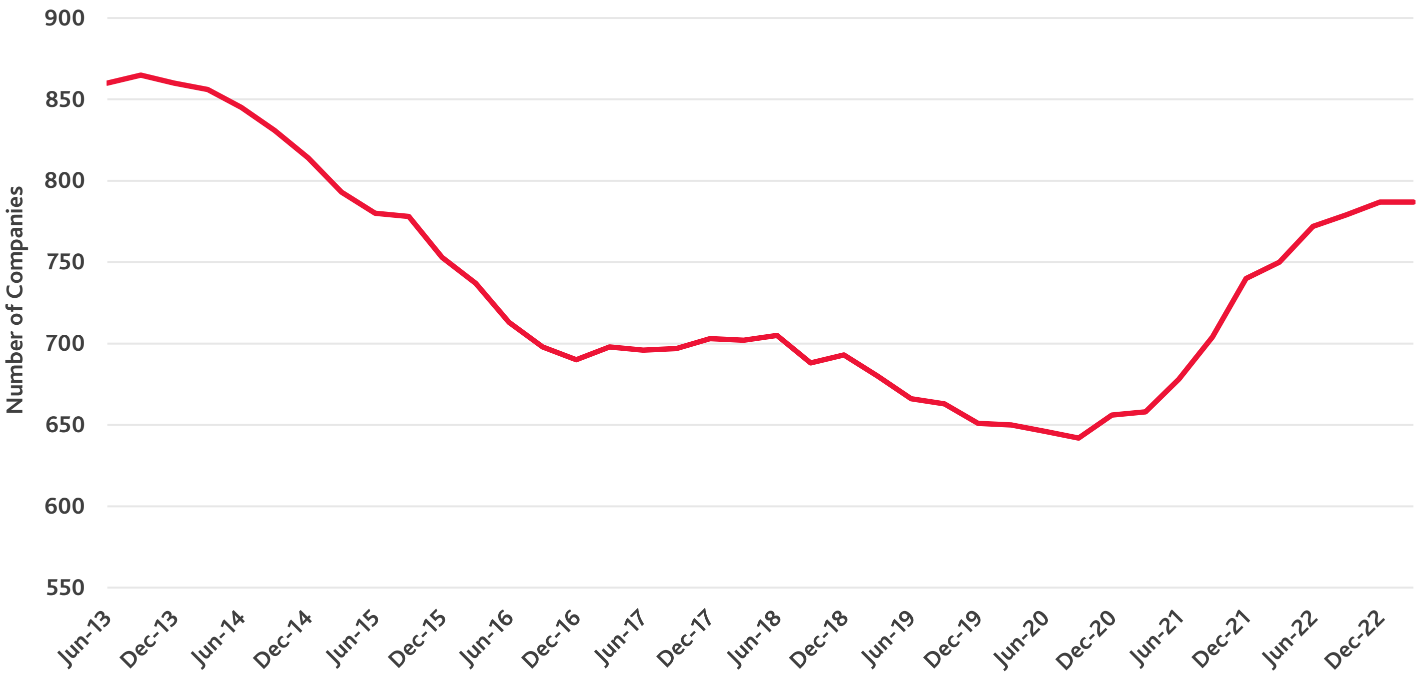


NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: JUNE 2013-MARCH 2023

The number of ASX-listed exploration companies remained unchanged in the March 2023 quarter with 787 companies lodging an Appendix 5B, equivalent to December 2022. This marks the first time since September 2020 that the number of companies has not increased, which indicates a slowdown in the sector driven by a contraction in the market's appetite for IPO activity.

Seven companies that recently completed an IPO lodged an Appendix 5B for the first time in the March 2023 quarter, which is lower than the 10 new companies in the December 2022 quarter and 12 new companies in the September 2022 quarter.

NUMBER OF COMPANIES TO LODGE 5B REPORTS FROM JUNE 2013 | MARCH 2023



As noted in previous quarters, there had been a declining trend in the number of companies lodging an Appendix 5B between June 2013 and 2020. In June 2013 (when we commenced our analysis), there were 860 companies that lodged quarterly cash flow reports, with a peak over the period of 865 companies in September 2013. This was before the decline from the June 2014 quarter to the December 2016 quarter, when we observed many exploration companies either being delisted or being used as listing vehicles for backdoor listings, primarily by technology and biotechnology companies.

The declining trend continued through to the September 2020 quarter and hit a trough of 642 companies following the dampening effects of the COVID-19 economy in which access to funding plummeted.

However, we witnessed a subsequent reversal of this trend due to a surge in the number of IPOs by exploration companies on the ASX, which was supported by favourable financial conditions and strong commodity prices. This trend was most prominent throughout 2021, when the average number of IPOs per quarter reached 26 companies.

This growth rate has since declined, and in 2022, the average number of IPOs per quarter was 17. Now, in the first quarter of 2023, we observed only seven IPOs, which is equivalent to the average number of IPOs per quarter in 2020.

BDO expects that more IPOs will be observed in the second half of 2023, with our pipeline of prospective IPOs for the 2023 calendar year relatively strong. However, there is no doubt that the market appetite for IPOs has cooled off, with high interest rates providing for better alternative sources of returns for investors. Successful IPOs are therefore likely to come from explorers within the prime commodities such as lithium, rare earth metals and gold, for which investor appetite remains robust.

The seven companies that reported Appendix 5Bs in the March 2023 quarter, and were hence not captured in our December 2022 quarter data, corresponded to the following seven companies that recently completed an IPO:

- ACDC Metals Limited
- Dynamic Metals Limited
- Evergreen Lithium Limited
- High-Tech Metals Limited
- Leeuwin Metals Limited
- SQX Resources Limited
- VHM Limited.

Of these seven newly listed companies, we note that six related to 'energy transition' minerals, such as lithium, nickel, rare earths, and platinum-group elements, with the remaining explorer (SQX Resources Limited) focusing on the exploration of gold and copper.

This increase was offset by seven companies that did not report Appendix 5Bs in the March 2023 quarter for the following reasons:

- Three companies were delisted pursuant to ASX Listing rule 17.14 following compulsory acquisitions
- Two companies were delisted pursuant to ASX Listing rule 17.11 and 17.12
- One company was no longer required to lodge an Appendix 5B given their position as a producing company
- One company was suspended from trading following the appointment of voluntary administrators.

We consider the observation of three compulsory acquisitions in the March quarter to be an indicator of a return in merger and acquisition activity. While typically observed to be led by the gold sector (which is still the case but currently occurring among producers and advanced exploration companies), the three companies that were subject to compulsory acquisitions were interestingly split across gold, battery metals and oil and gas.

Prior to this quarter, we witnessed a slowdown in consolidation activity among explorers and attributed this to the sector being so cashed up that individual companies were well placed to undertake operations on their own. With financial markets now volatile and the same ease of access to funds questionable, the trend of consolidation is growing in prevalence as larger players that are well capitalised can realise better value on prospective neighbouring tenements through acquisition.

BDO INSIGHT – BATTERY METALS AND GOLD SHINE IN DIMMING ECONOMY

In the March 2023 quarter, global macroeconomic conditions deteriorated, tightening their hold on the sector. Our analysis demonstrates that inflation, increased market volatility, and a pervasive decline in commodity prices contributed to a notable industry-wide slowdown. Nevertheless, despite signs of a deceleration in the sector's momentum, the fundamental themes explored in previous quarters have proven remarkably resilient against the backdrop of a weakening global economy.

As the global macroeconomic environment continued to dampen over the quarter, gold maintained its popularity amongst investors and central banks, topping our Fund Finder analysis for the third consecutive quarter. As concerns over a potential banking contagion grew in early March 2023, central banks responded by acquiring approximately 228 tonnes of gold, equivalent to around two-thirds of Australia's annual gold production, representing the highest purchase volume in a decade. The aforementioned, coupled with investors seeking a safe haven amid turbulent financial markets, has positioned advanced-stage explorers favourably, provided they can successfully transition into production. We anticipate that gold explorers will actively seek funding to advance their projects, and there may also be a pursuit of strategic consolidations among advanced-stage gold explorers to meet the increasing demand in the upcoming quarters.

Ambitious government incentives and policy mandates have underscored the urgency of decarbonisation while concurrently establishing a stable long-term demand for the metals essential to the energy transition. Our regular quarterly analysis consistently highlights the resilience demonstrated by our critical mineral explorers, and the March 2023 quarter was no exception. Even though capital market support has weakened, it's encouraging to see an ongoing influx of funds into battery metals, indicating sustained investor interest. Despite lithium prices declining from their 2022 peak, lithium explorers still hold significant potential as a conduit for future upstream supply. Further, lithium prices have decreased to levels that, while notably high, are no longer at the excessively elevated levels that pose risks to mergers and acquisitions. Consequently, BDO anticipates that leaders in the critical minerals sector will actively pursue the development of a mine-to-market pathway. Should this materialise, it could give rise to a discernible trend in mergers and acquisitions aimed at vertically integrating domestic industries.

The recent inclusion of Australia into the United States Inflation Reduction Act (**the Act**) serves as a monumental milestone for the sector. Considered the most significant initiative ever undertaken by the United States to combat the effects of climate change, the Act will expand and diversify the United States' access to renewable energy and critical mineral supply chains. Under the Act, Australian critical minerals companies will gain access to a pool of subsidies and incentives totalling U$369 billion. Although primarily directed towards producers, we anticipate the advantages to extend to the broader exploration sector.

It's important to emphasise that despite the sector's resilience to date, it's expected to experience ongoing pressure as unfavourable market conditions persist into 2023. This is particularly significant as the inflationary forces that drive up exploration input costs are now coupled with weakening equity market support. Moreover, inflation in the sector remains high and broadly based, leading us to anticipate a more cautious approach to exploration spending in the coming quarters. As a result, explorers will be confronted with the challenge of striking a balance between preserving their cash and the imperative for ongoing investment in exploration activities.

CONTACT US

SHERIF ANDRAWES
Head of Global Natural Resources
+61 8 6382 4763
sherif.andrawes@bdo.com.au

ADAM MYERS
Partner, Corporate Finance
+61 8 6382 4751
adam.myers@bdo.com.au

ASHTON LOMBARDO
Director, Corporate Finance
+61 8 6382 4917
ashton.lombardo@bdo.com.au

CATHERINE DEAN
Partner, Corporate & International Tax
+61 2 8221 2243
catherine.dean@bdo.com.au

DAVID FECHNER
Partner, Tax & Advisory
+61 8 7421 1413
david.fechner@bdo.com.au

DAVID OCELLO
Partner, Tax
+61 8 6382 4778
david.ocello@bdo.com.au

GARETH FEW
Partner, Audit & Assurance
+61 2 9240 9744
gareth.few@bdo.com.au

JAMES MOONEY
Partner, Audit & Assurance
+61 3 9603 1796
james.mooney@bdo.com.au

RICHARD SWABY
Partner, Audit & Assurance
+61 7 3237 5806
richard.swaby@bdo.com.au

SCOTT BIRKETT
Partner, Corporate Finance
+61 7 3237 5837
scott.birkett@bdo.com.au

1300 138 991
www.bdo.com.au

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