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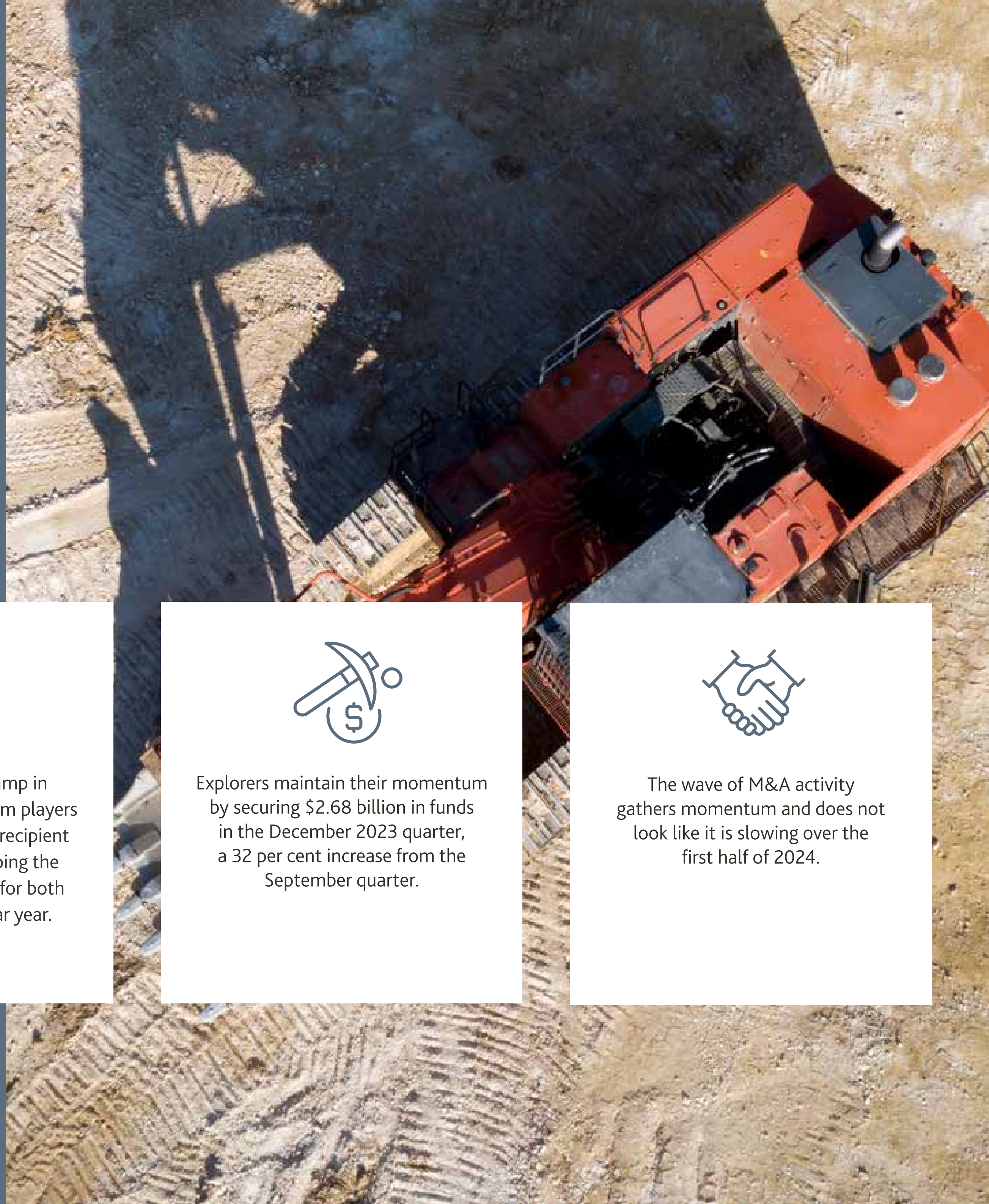
Explorer Quarterly Cash Update

December Quarter 2023

BDO

Research into the financial health of Australian-listed explorers: quarter ended 31 December 2023



Exploration spending breaks a billion in the quarter, representing the highest quarterly spend of the 2023 calendar year.

Despite a persisting slump in battery metal prices, lithium players continue to be the prime recipient of investor funding, topping the Fund Finder leaderboard for both the quarter and calendar year.

Explorers maintain their momentum by securing $2.68 billion in funds in the December 2023 quarter, a 32 per cent increase from the September quarter.

The wave of M&A activity gathers momentum and does not look like it is slowing over the first half of 2024.

BDO's report on the financial health and cash position of Australian-listed explorers for the December quarter of 2023 (based on quarterly Appendix 5B reports lodged with the Australian Securities Exchange (ASX)) suggests that explorers' outlook for their commodities and future capital raising ability remained positive.

In the December 2023 quarter, we observed significant volatility in commodity prices driven by key macroeconomic factors, including geopolitical instability stemming from the Israel-Hamas and Russia-Ukraine conflicts, and uncertainty surrounding global interest rates in major global economies during 2024.

Despite this, explorers continued to thrive, as was evidenced by the increase in financing and exploration spending, all while maintaining robust cash balances. The December 2023 quarter also saw an uptick in consolidation activity, most notably in the critical minerals, gold, and oil and gas sectors, as larger players sought to pursue strategic partnerships to advance their projects.

During a year where the initial public offering (IPO) market has grappled with economic headwinds of inflation and interest rate uncertainty, the explorer IPOs that have occurred and those that remain in the pipeline, are primarily in commodities that contribute to the 'clean energy' transition. Although we observed a slump in lithium and nickel prices and valuations in the second half of 2023, our data demonstrates that support for battery mineral explorers remains resilient, further evidenced by the recent ASX listing of Kali Metals Limited for which BDO acted as investigating accountant.

Total exploration expenditure was $1.01 billion in the current quarter, reaching levels among the highest recorded since 2013 and marking the highest of the 2023 calendar year. An encouraging sign for the sector more broadly was that the increase in exploration expenditure was not just coming from the larger end of the market, there was also a 23 per cent increase in those companies spending between $100k and $300k.

Notably, three of the top five spends related to oil and gas explorers, showcasing the reliance on traditional energy sources in our path to net zero. This comes as no surprise, given the long-term nature of the energy transition and the need for investment in new oil and gas sources over the medium term to meet long-term demand.

In the current quarter, explorers secured a total of $2.68 billion in funding, a 32 per cent increase from the previous quarter. This shows that funds continue to be available in the sector, bolstered by strong support from equity markets. Equity market support continues off the back of softening inflation and anticipated interest rate cuts in major global economies in 2024. Accordingly, the S&P/ASX 200 came close to surpassing the record high set in August 2021.

43 companies, which we have termed Fund Finders, raised funds of $10 million or more and made up 75 per cent of the total funds raised for the quarter. Lithium explorers raised the most funds for the second consecutive quarter, primarily led by Liontown Resources Limited (Liontown) and Wildcat Resources Limited (Wildcat). Despite an 80 per cent decline in pricing for 2023 due to oversupply and reports of anticipated weakened electric vehicle demand, lithium explorers continued to fill the coffers, being the leading commodity for our Fund Finders analysis over the 2023 calendar year. This underscores the resilience of Australian lithium explorers to attract financial support, despite global supply and demand concerns. Similarly, aggregating our Fund Finders analysis over 2023 shows that graphite claimed third place, a two-position climb from 2022.

Gold explorers earned a silver medal for the most funds raised in the December 2023 quarter and similarly for the 2023 calendar year. Driven by geopolitical tensions, heightened demand for the safe haven asset saw its price reach an all-time high (at the end of the quarter) of US$2,077 per ounce in the final month of 2023, before increasing further in 2024.

Interestingly, uranium explorer, Boss Energy Resources Limited (Boss Energy) sparked the commodity's first podium finish in our Fund Finder analysis since the June 2022 quarter, as it restarted operations at its Honeymoon Mine located in South Australia. Although Australia is yet to decide on whether the radioactive element will make up part of its future energy mix, it appears that uranium explorers should find themselves well positioned in the near term to meet increasing demand from abroad for nuclear power.

Despite the large exploration and funding spend, explorer cash balances on aggregate remained consistent with the preceding quarter, albeit at a strong level, with 77 per cent of explorers holding a cash balance of greater than $1 million. It is worth noting that average cash balances have consistently declined over the calendar year, in tandem with increasing exploration spend.

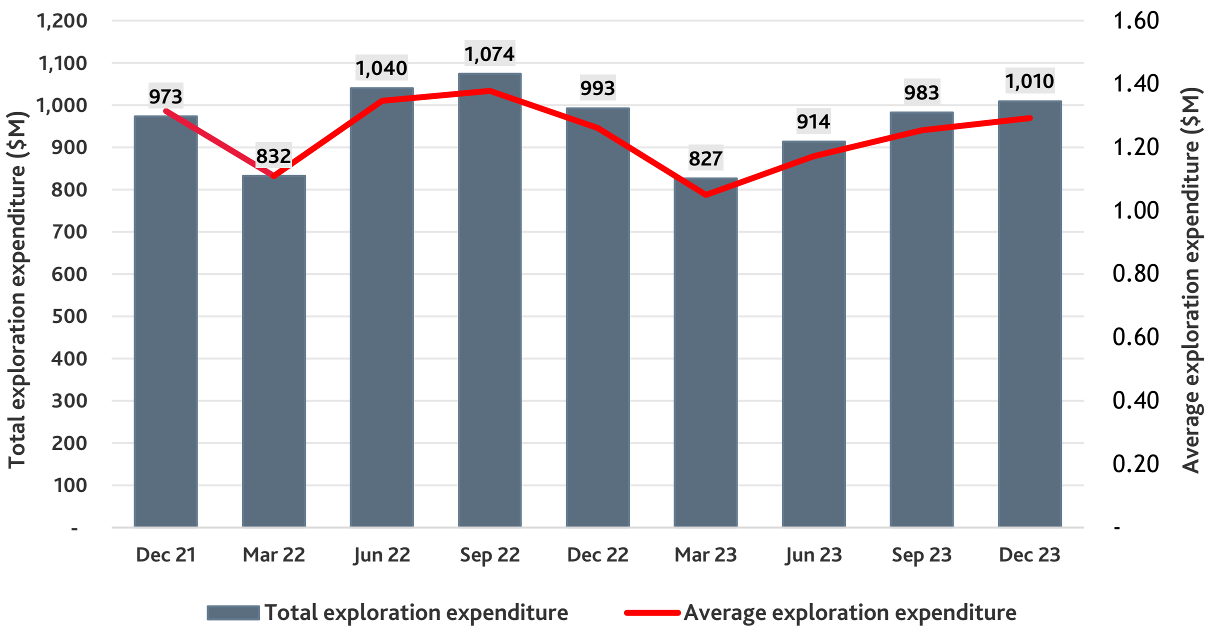
Our analysis, not only for the December 2023 quarter but also for the 2023 calendar year, illustrates that the Australian exploration sector is in good health, which will give us the best chance of meeting the future mineral demand required for the energy transition.

Sherif Andrawes
Partner and BDO's Global and National Head of Natural Resources
Corporate Finance
sherif.andrawes@bdo.com.au
+61 8 6382 4763
+61 412 902 444

Exploration expenditure

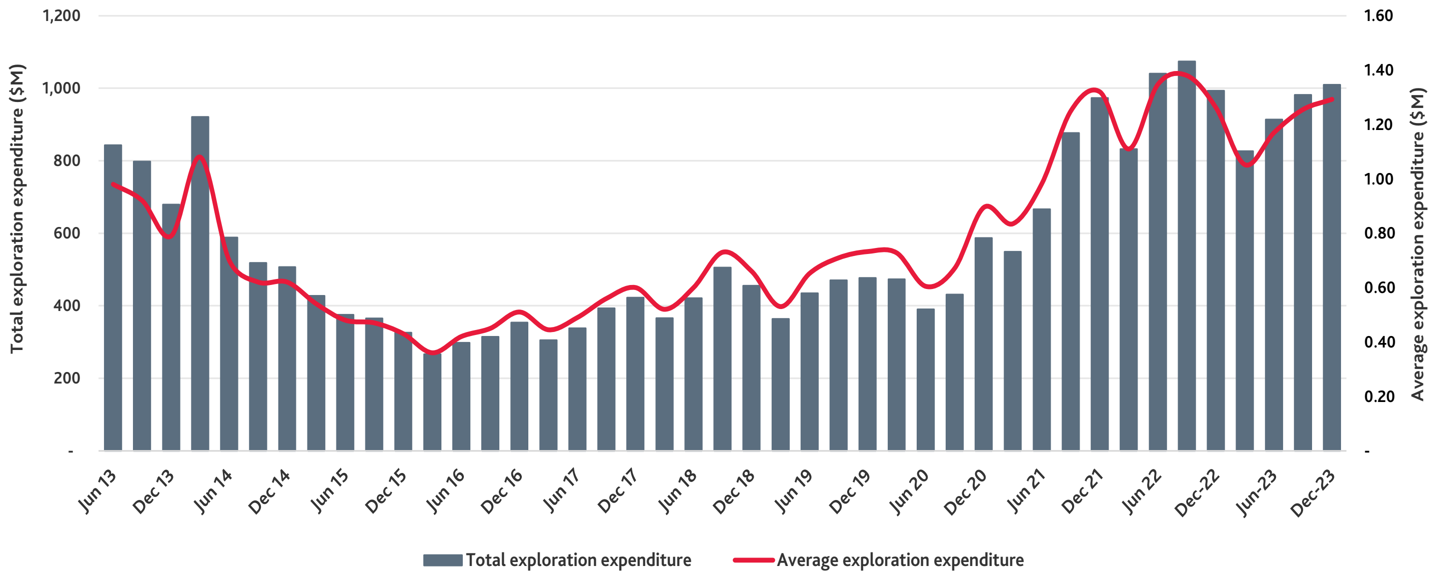
Exploration expenditure for the December 2023 quarter approached the record billion-dollar spend seen in the June and September quarters of 2022, reaching a total $1.01 billion, which is 5 per cent higher than the two-year average of $960 million. After a couple of quieter quarters for exploration spend in the March and June 2023 quarters, largely as a result of uncertainty around the availability of capital at that time, we have observed a continuous rise in exploration spending since the start of the 2023 calendar year. This aligned with an improvement in domestic macroeconomic conditions and renewed confidence in explorers' ability to go back to the well.

Total exploration expenditure — Last two years ($M)



As seen from the long-term chart below, there has been an increasing trend in exploration spending since the $267 million low for the March 2016 quarter. This trend has been particularly prominent over recent quarters as explorers took advantage of the favourable capital raising conditions since late 2020. Average exploration spend per company increased each quarter of 2023, representing an increase of 1.7 per cent over the year, which signalled continued confidence in the sector.

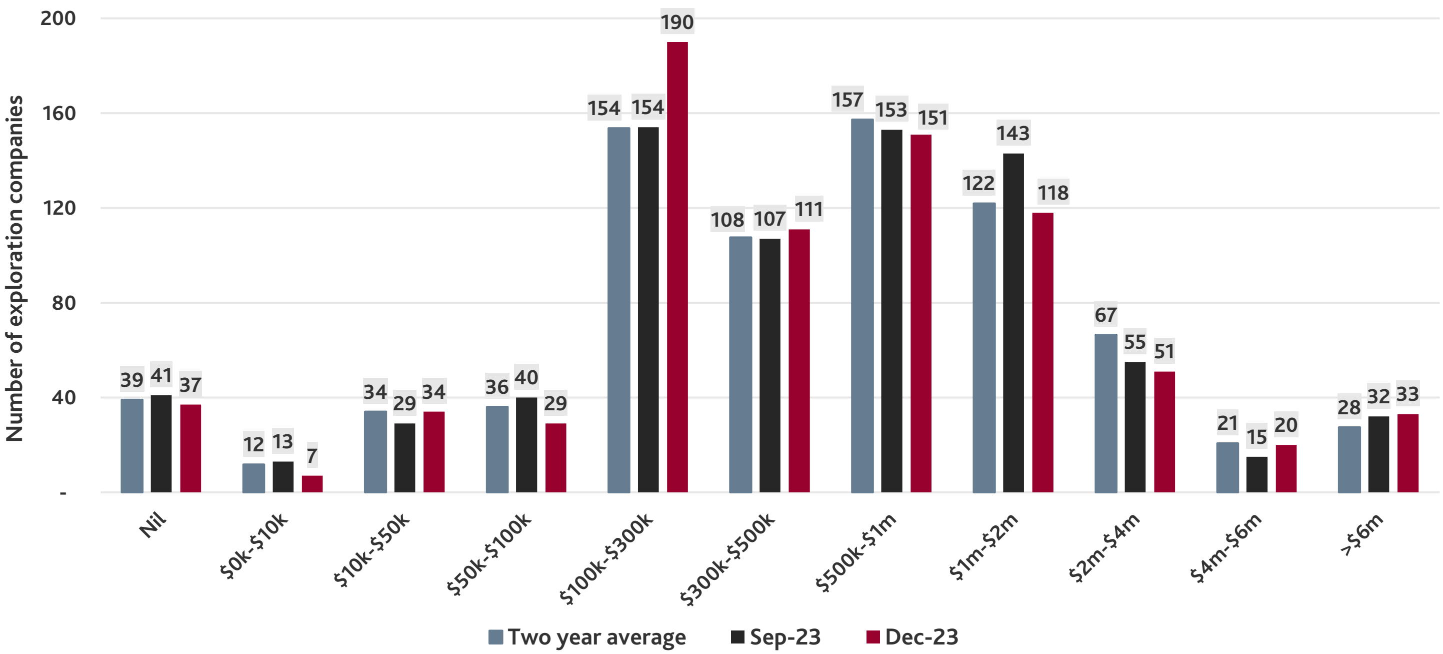
ASX explorers' total exploration expenditure ($M)



The following graph illustrates the breakdown in exploration expenditure patterns and shows a significant increase in the number of explorers undertaking exploration spends of between $100k and $300k. This indicates a positive trend in exploration expenditure within the small to mid-market, as opposed to exploration spending being driven solely by a small number of large spends.

The top ten exploration spends, totalling $185.5 million, included three oil and gas companies and three lithium companies, with the remaining companies distributed across various commodities, including gold, helium, nickel, copper, and cobalt. Despite the recent decline in battery metal prices, exploration efforts in lithium and nickel seemed to persist during the December 2023 quarter. Such battery minerals, coupled with oil and gas presence in the top ten exploration spends, align with the narrative of the importance of optimising both traditional and modern energy sources in the context of the energy transition. Further, it also indicates that recent price declines for lithium are more a function of short to medium-term demand and supply imbalances driven by slower-than-anticipated electric vehicle demand, with the long-term view remaining that the demand will be there. This likely explains why lithium explorers of today continue to invest in the ground, as their returns are not intrinsically linked to the current spot or short-term lithium forecast, with economic extraction targeted for the long term.

Number of companies by exploration expenditure



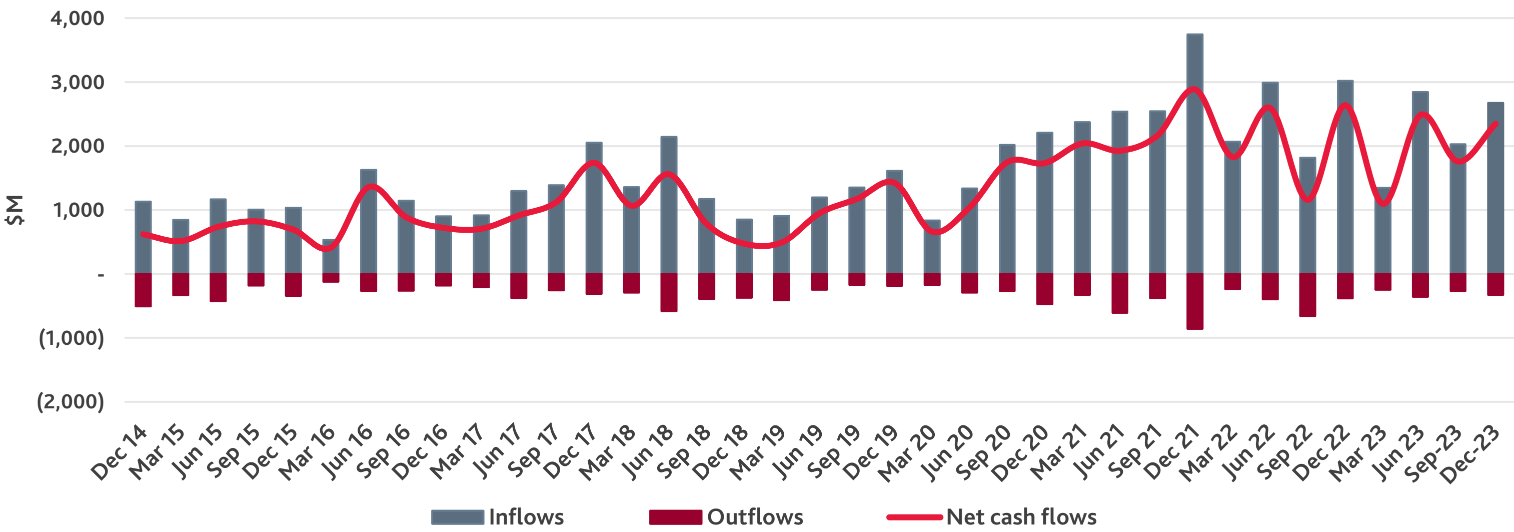
Gold explorer and developer, De Grey Mining Limited (De Grey), who last featured in the top ten spends in December 2022, reported an exploration spend of $27.1 million for the December 2023 quarter. The exploration expenditure was primarily directed to upgrade the mineral resource estimate for its Hemi Gold Project.

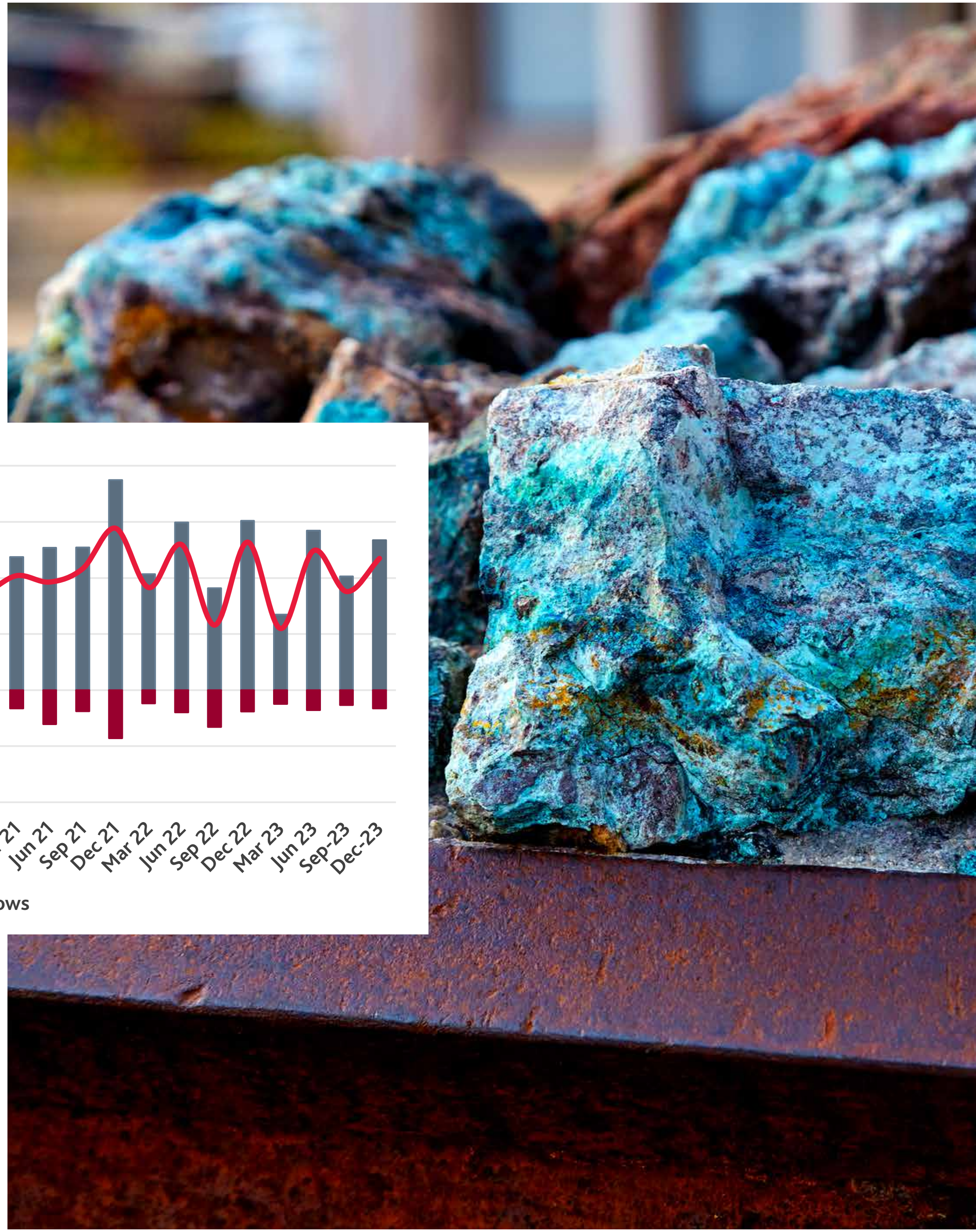
Notably, oil and gas exploration spending for the December quarter represented a 33.6 per cent increase from the prior quarter. Largely driven by oil and gas players, Strike Energy Limited (Strike Energy) and Tamboran Resources Corporation (Tamboran) recording exploration spends of $25.3 million and $20.3 million, respectively, for the December 2023 quarter. Over the quarter, Strike Energy continued to focus on its 100 per cent owned South Erregulla gas field project (after its acquisition of Talon Energy which was completed on 27 December 2023), whilst Tamboran engaged in drilling activities at the SS-1H well, specifically EP 76, 98 and 117.

Financing cash flows

Financing cash inflows grew to $2.68 billion in the December 2023 quarter, representing a 32 per cent increase on the $2.03 billion of funds raised in the prior quarter. In addition, financing inflows averaged $3.43 million per company, which is 5 per cent higher than the two-year average of $3.26 million since December 2021. The increase in financing inflows, coupled with a 21 per cent increase in financing cash outflows, resulted in a net financing cash flow increase of 34 per cent from the September 2023 quarter.

ASX explorers' financing cash flows ($M)



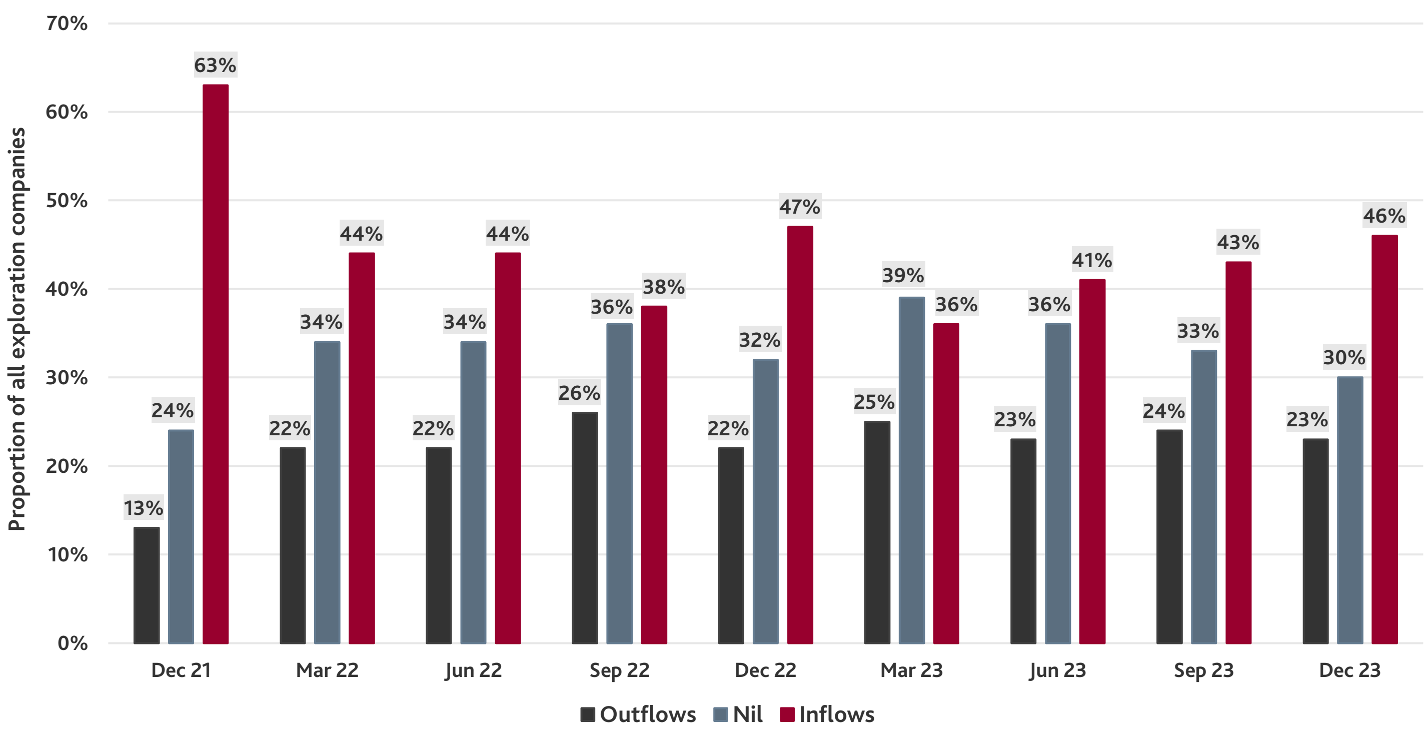


The strength in financing inflows this quarter was largely driven by the 43 Fund Finder companies, which are companies that recorded debt and equity raises of $10 million or more in the quarter. On average, the Fund Finders of the December 2023 quarter raised $46.7 million each and contributed to 75 per cent of the total financing inflows in the quarter. The December 2023 quarter Fund Finders were led by lithium, gold and uranium explorers (see the Fund Finder section on page 9 for more details). With the uranium price soaring, we saw the return of uranium to the top three Fund Finders for the first time since the June quarter of 2022.

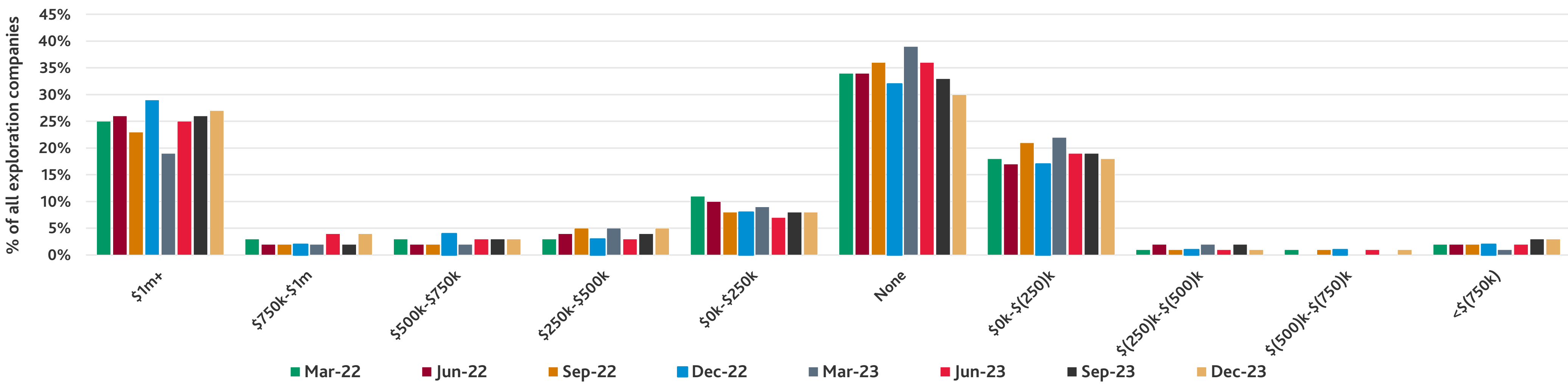
As illustrated in the chart (right), the proportion of companies reporting a financing inflow increased from 43 per cent in the September 2023 quarter to 46 per cent in the December quarter, suggesting that funding is not just available to the explorers and developers at the larger end of the market. This also ties in with the increasing number of exploration companies spending between $100k and $300k, with the smaller exploration companies willing to commit to (albeit small) exploration programs with the confidence that future capital raisings are available to them.

As observed below, there has been an increase in the proportion of funds raised across most inflow tranches, in particular, between tranches of between zero and $1 million, and $1 million to $2 million. Whilst our Fund Finder analysis demonstrates optimism for explorers approaching the development and production stages, this suggests that capital availability extends beyond the top end of the sector.

Financing cash flows (%)



Net financing cash flows (%)



Fund Finders

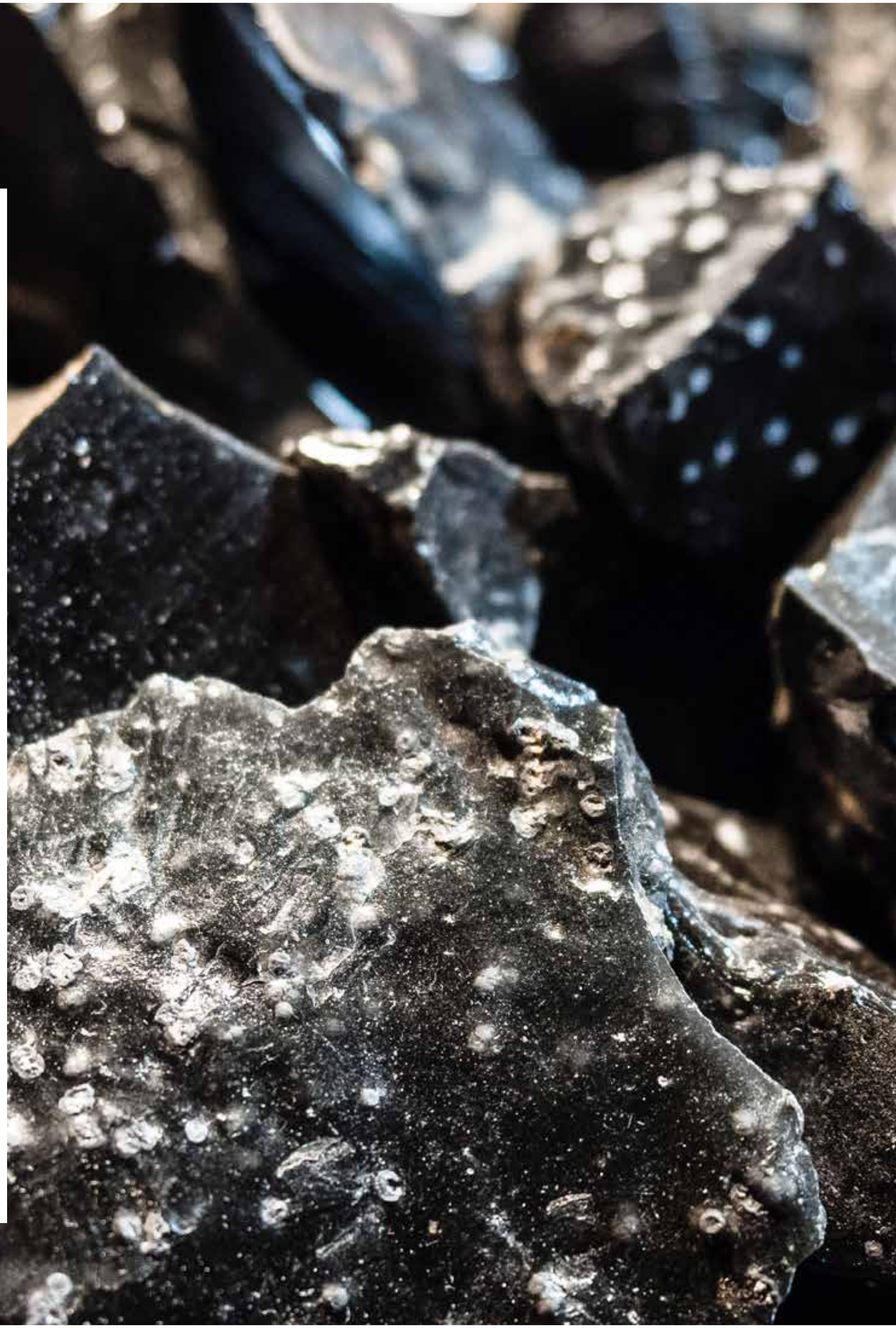
In the December 2023 quarter, 43 companies raised $10 million or more, remaining unchanged from the number of Fund Finders in the previous quarter. Fund Finders of the current quarter comprised ten gold companies, ten lithium companies and three graphite companies. The remaining 20 companies were split across 14 commodities, broadly consisting of copper, copper-gold, rare earth metals, oil and gas, titanium, and diversified metals.

Liontown recorded the largest financing inflow for the December 2023 quarter, raising approximately $442.6 million primarily through a $365 million institutional placement, which was supplemented by a $10.8 million placement to the Chair, Mr Tim Goyder. Additional funds were received from a share purchase plan, the exercise of options and a $52.7 million drawdown of its remaining capacity under its $300 million debt facility with a subsidiary of Ford. The funds raised were committed towards the remaining capital costs of the Kathleen Valley Project, in particular, the construction of infrastructure, including a hybrid renewable power station and building the pre-production run-of-mine stockpiles.

De Grey reported the second-largest financing inflow for the December 2023 quarter, with an inflow of $300.7 million from a placement. The funds raised were dedicated to advancing the Hemi Gold Project toward production, including detailed engineering, ordering of long lead items and camp facilities. Additionally, funds were allocated to exploration expenditure with the aim of extending the project's life of mine.

The final podium position belonged to uranium developer, Boss Energy, which raised approximately $205 million through an equity raise. Funds were primarily used to fund the acquisition of a 30 per cent interest in the Alta Mesa Project in Texas, creating a joint venture with enCore Energy Corp (enCore). In particular, the funds are intended to be used for exploration activities and working capital required to bring the project into production during the first half of 2024. Additionally, the remaining funds will further fund production and resource growth initiatives for the Honeymoon Project in South Australia. In particular, Boss Energy aims to conduct a study on increasing production at the Honeymoon Project from 2.45 million pounds (Mlb) a year to the Federal Government's annual export permit of 3.3Mlb.

Wildcat recorded the fourth largest financing inflow for the December 2023 quarter, raising approximately $100.1 million, primarily through a placement to institutional and sophisticated investors. Funds were allocated towards progressing the exploration and evaluation of the Tabba Tabba Lithium Project.



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

Company name	Commodity	Mechanism of raising
Liontown Resources Limited	Lithium	$389.94 million in proceeds from the issue of equity securities and $52.65 million in proceeds from borrowings
De Grey Mining Limited	Gold	$300.65 million in proceeds from the issue of equity securities
Boss Energy Limited	Uranium	$205.00 million in proceeds from the issue of equity securities
Wildcat Resources Limited	Lithium	$100.00 million in proceeds from the issue of equity securities and $0.09 million in proceeds from the exercise of options
Syrah Resources Limited	Graphite	$50.25 million in proceeds from the issue of convertible notes and $47.30 million in proceeds from borrowings
Delta Lithium Limited	Lithium	$68.94 million in proceeds from the issue of equity securities and $0.14 million in proceeds from the exercise of options
Bowen Coking Coal Limited	Coal	$56.75 million in proceeds from the issue of equity securities
Firefly Metals Limited	Copper-Gold	$51.30 million in proceeds from the issue of equity securities and $1.27 million in proceeds from the exercise of options
Brazilian Rare Earths Limited	Rare Earth Metals	$50.00 million in proceeds from the issue of equity securities
Tamboran Resources Corporation	Oil & Gas	$40.79 million in proceeds from the issue of equity securities

Equity continued to be the primary source of investment for explorers, accounting for 83 per cent of total Fund Finder funds raised, while debt and other funds accounted for 14 per cent and 3 per cent, respectively.

Financing inflow by commodity — Fund Finders, December quarter 2023

For the second consecutive quarter, lithium was the leading commodity, accounting for 37.7 per cent of the $2.01 billion raised by Fund Finders in the quarter. Before lithium reclaimed its top position in the September 2023 quarter, gold had led all comers over the period from June 2022 to June 2023. In spite of recent lithium price drops, this is particularly encouraging as lithium explorers continue to remain a preferred destination for capital, with investors embracing a positive outlook on long-term demand.

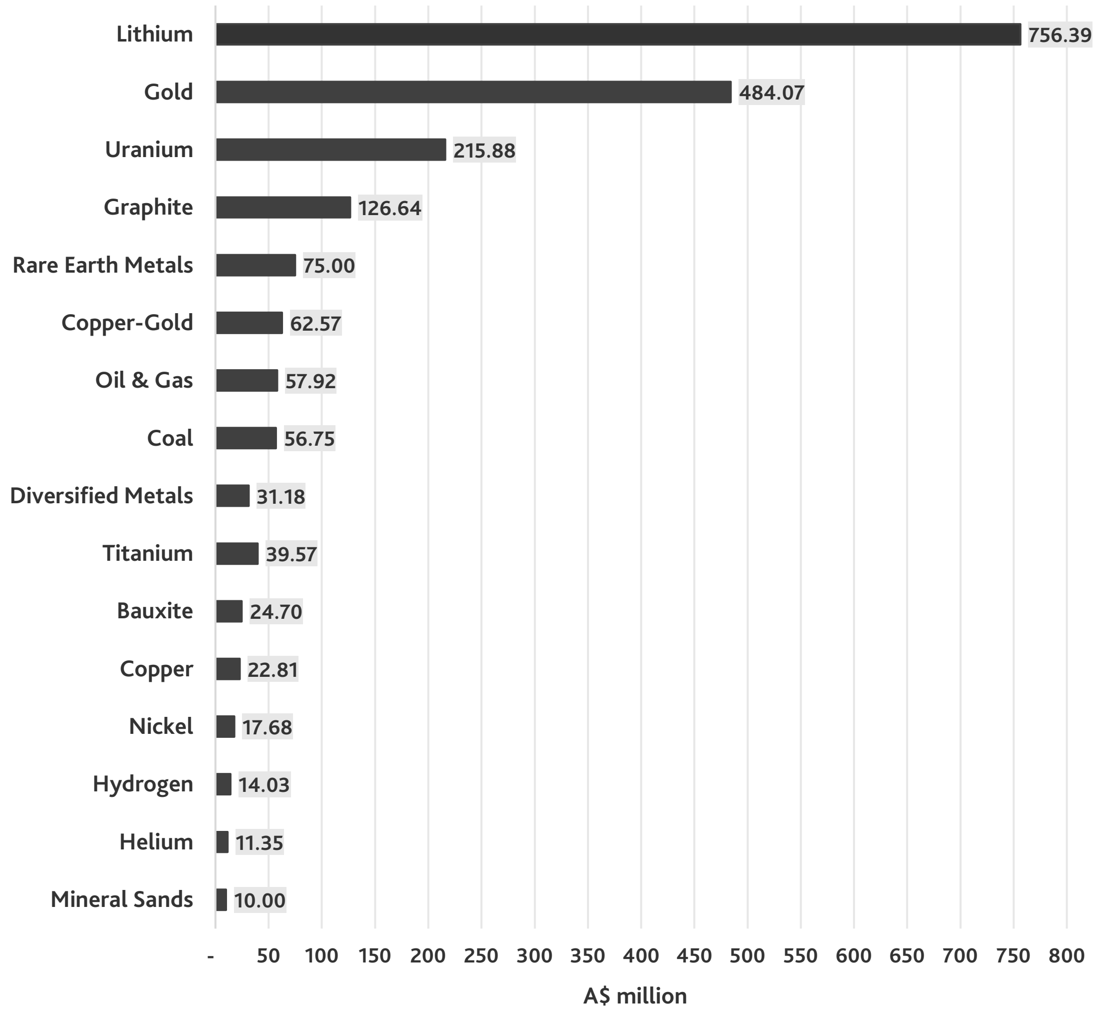
Building on the findings from the September 2023 Fund Finder, gold once again demonstrated its significance, securing the second position in our Fund Finder analysis. Gold Fund Finders raised a combined $484.1 million and accounted for approximately 24.1 per cent of all Fund Finder funds. Investors presently grappling with macroeconomic challenges, including elevated interest rates and inflation, and geopolitical conflict, appear to be actively pursuing the stability offered by safe-haven assets like gold.

Interestingly, uranium Fund Finders raised the third most funds in the December 2023 quarter. Comprising of two companies, uranium Fund Finders raised approximately $215.9 million, accounting for approximately 10.8 per cent of funds raised by all Fund Finders. This increase in capital raised, as compared to the September 2023 quarter, was largely a result of supply and demand, which saw the uranium spot price nearly doubling within the December 2023 quarter.

The key factors driving this shift in price were heightened demand combined with limited near-term supply. Supply challenges primarily stemmed from a downward revision in supply forecasts from Cameco Corporation, one of the largest global uranium producers, which was prompted by disruptions at its two Canadian facilities. In addition, Kazatomprom, the world's largest uranium producer based in Kazakhstan, further warned of a downgrade in the company's production over the next two years as it looks to fall short of its production targets. Meanwhile, increased demand was underpinned by the World Nuclear Association's announcement that uranium consumption would need to double by 2040 to meet net-zero commitments, alongside the deployment of new nuclear reactors across North America, Asia and Eastern Europe.

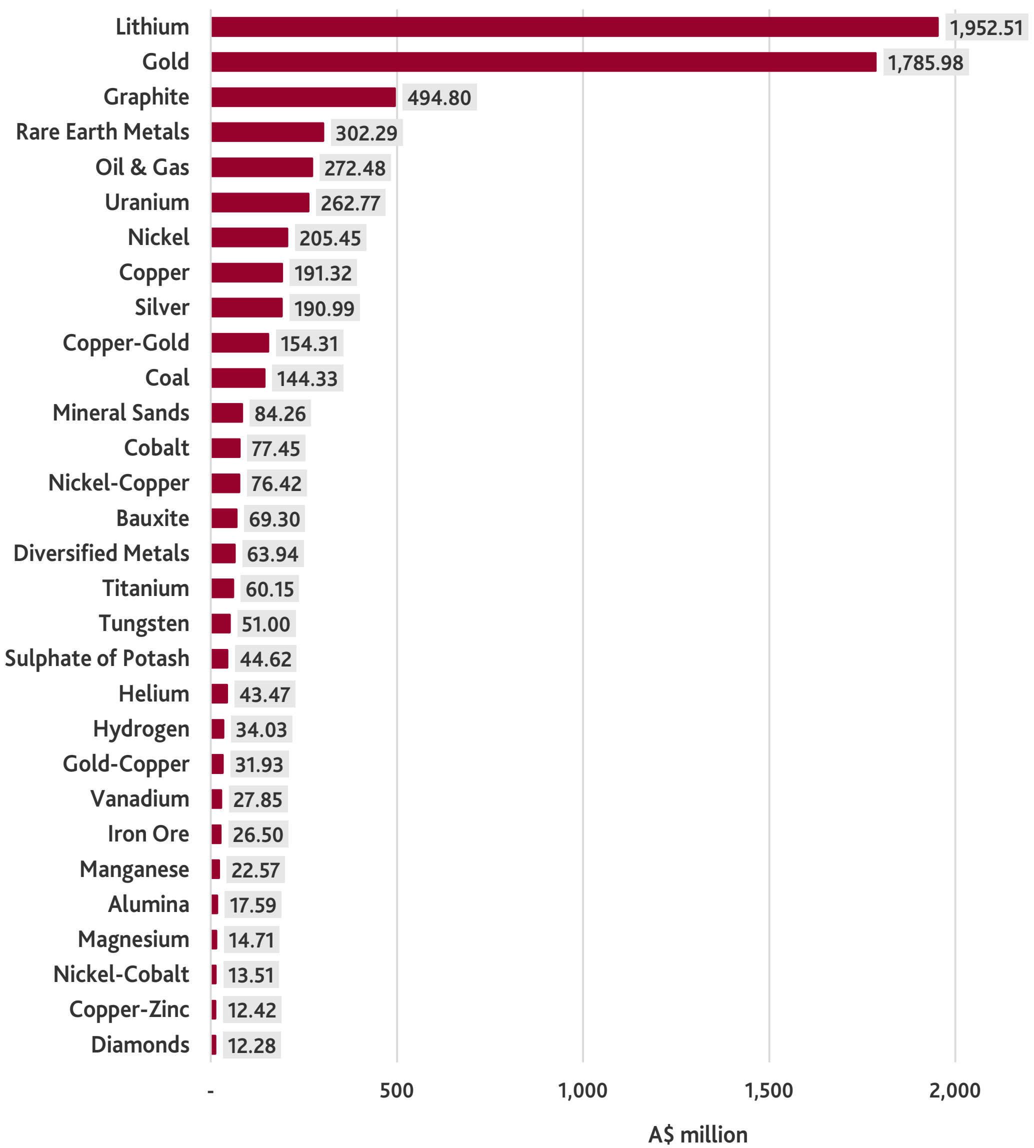
Australian uranium explorers find themselves in a position to capitalise, with an abundance of available resources to meet the increasing global demand for nuclear power. The biggest challenge Australian uranium explorers face is the federal and respective state governments' political stance on uranium exploration and mining, with different policies across states as well as restrictions on both the quantity and the recipients of Australian uranium exports.

Financing inflow by commodity — Top 43 explorers, December quarter 2023

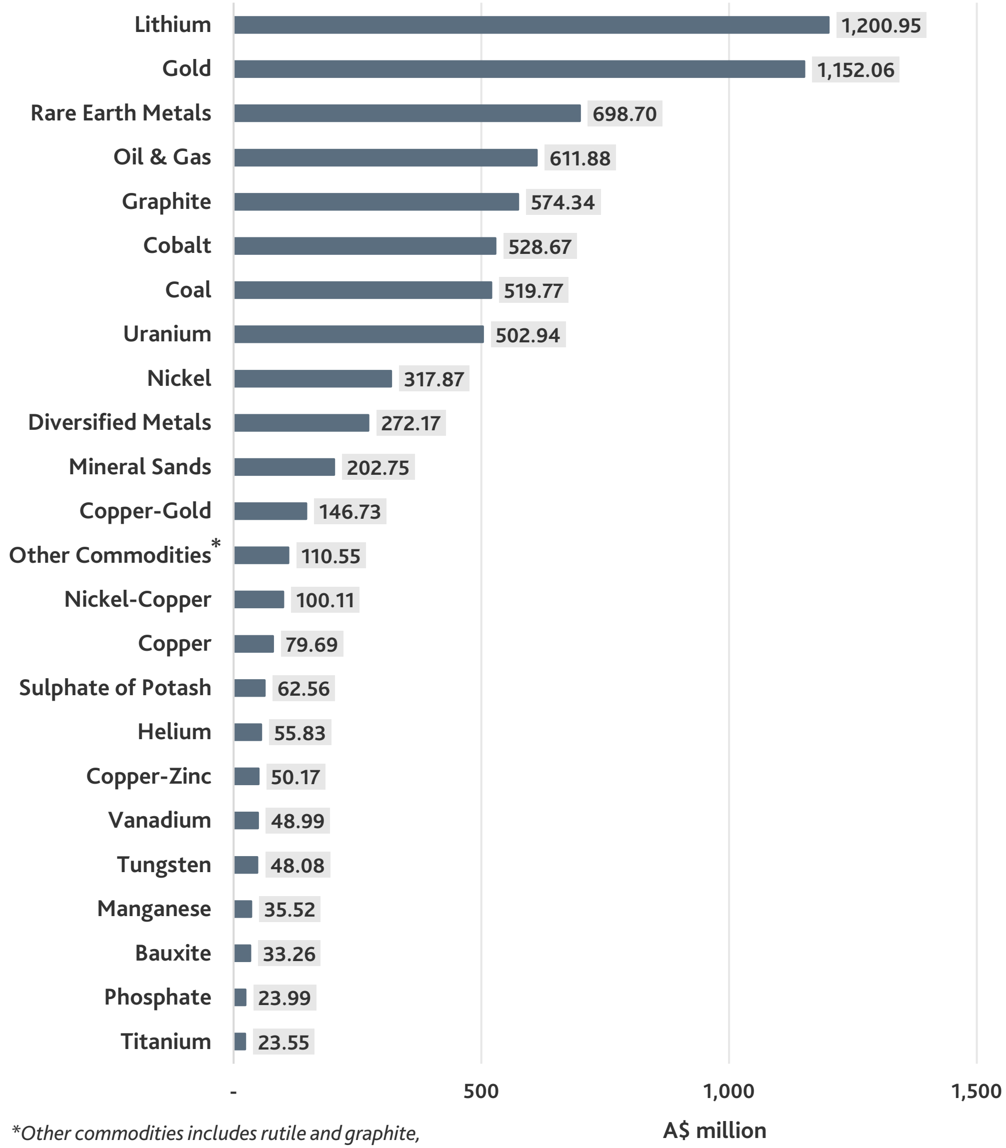


Financing inflow by commodity — Fund Finders, by calendar year

Financing inflow by commodity — calendar year 2023



Financing inflow by commodity — calendar year 2022



**Other commodities includes rutile and graphite, palladium, urea, iron ore, kaolin, silica sands and magnesium*

For each quarter of the past two years, gold and lithium have persistently battled for the top position of the Fund Finders, reflecting the prominence of these two commodities over a sustained period. Securing the leading position for the September 2023 and December 2023 quarters, lithium concluded the 2023 calendar year as the commodity attracting the most funds, a title it has claimed for the third consecutive year. Advanced lithium explorers, developers, and early-stage producers, including Liontown, Sayona Mining Limited and Core Lithium Limited, maintained a recurring presence in the top Fund Finders, raising funds towards progressing their existing projects to production. Meanwhile, emerging explorers such as Azure Minerals Limited and Wildcat accounted for 12.8 per cent of the total funds raised by Lithium Fund Finders for 2023. These funds were earmarked for initial exploration activities and resource-defining activities.

The steady flow of funds to lithium explorers increased after a challenging 2022 calendar year, increasing from $1.20 billion in 2022 to $1.95 billion in 2023. The key drivers behind this growth can be attributed to the ongoing push for investment in critical minerals essential for the energy transition to achieve net-zero targets. Whilst lithium has taken centre stage, investment into other battery minerals such as rare earth metals, graphite, cobalt, and nickel (to a lesser extent) has remained strong as investors continue to see growth opportunities on a long-term basis.

Gold remained the second largest Fund Finder commodity for 2023. Over time, the safe haven asset has consistently held a prominent position in our Fund Finder analysis, evidenced by the increase in the total amount raised by Fund Finder gold companies from $1.15 billion in 2022 to $1.79 billion in 2023. The increase in funds raised by gold explorers from the previous year is linked to continued price increases during 2023, which reached an all-time high (at the time) in the month of December. Investment in gold explorers has persisted as a reflection of market sentiment towards the conventional safe haven asset, amid high interest rates, inflation, and economic uncertainty. Global political tension and conflicts were additional drivers behind the increased investment.

For the third consecutive year, investment in rare earth metals maintained its position in the top five Fund Finders, albeit a decline from $698.70 million in 2022 to $302.29 million in 2023. The prominence of rare earth metals in 2023 was boosted by a $240 million funding package provided by the Australian Government in 2022, with the goal of establishing an ‘Australian Rare Earths Mineral industry’. However, the key challenge that continues to be faced by rare earths companies is the processing know-how and the level of investment required for infrastructure.

Although the first half of 2023 only accounted for 8.1 per cent of the total uranium Fund Finders for 2023, the commodity placed sixth in the top Fund Finders, climbing two positions from 2022. While Fund Finders for the radioactive metal generated $262.77 million in 2023, marking a decrease from the total $505.94 million in the prior year, it is worth noting that Boss Energy’s capital raising constituted 95 per cent of the total for 2023, as mentioned earlier.

Whilst some view oil and gas as an industry that is contrary to the green energy transition, our Fund Finder data shows that a significant portion of investment continues to be directed toward natural gas exploration as an alternative energy source. Despite oil and gas maintaining a position in the top five spot in 2023, investment dropped from $611.88 million in 2022 to $272.48 million in 2023.

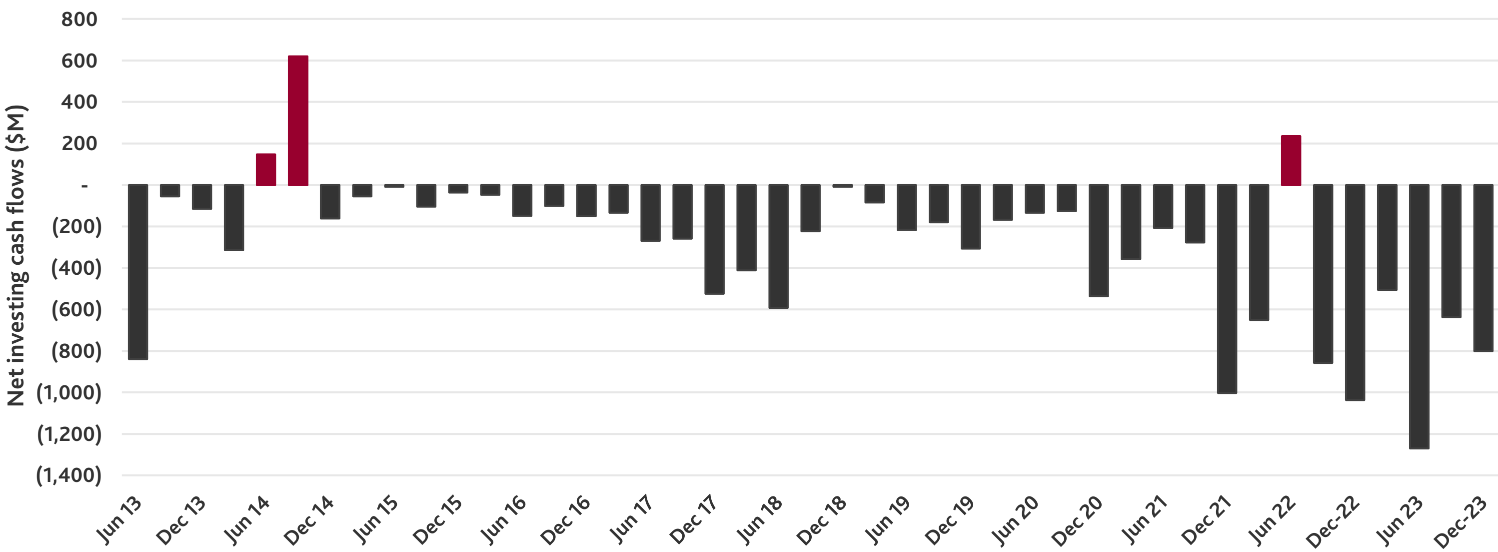
Net investing cash flows

Net investing cash outflows for the December 2023 quarter totalled $800 million, representing a 25.5 per cent increase from the $637 million recorded in the prior quarter. The current quarter followed a similar trend to preceding quarters, with lithium and gold leading total net investment cash flows, primarily driven by consolidation in the sector and ongoing demand to advance critical mineral projects, vital for the energy transition.

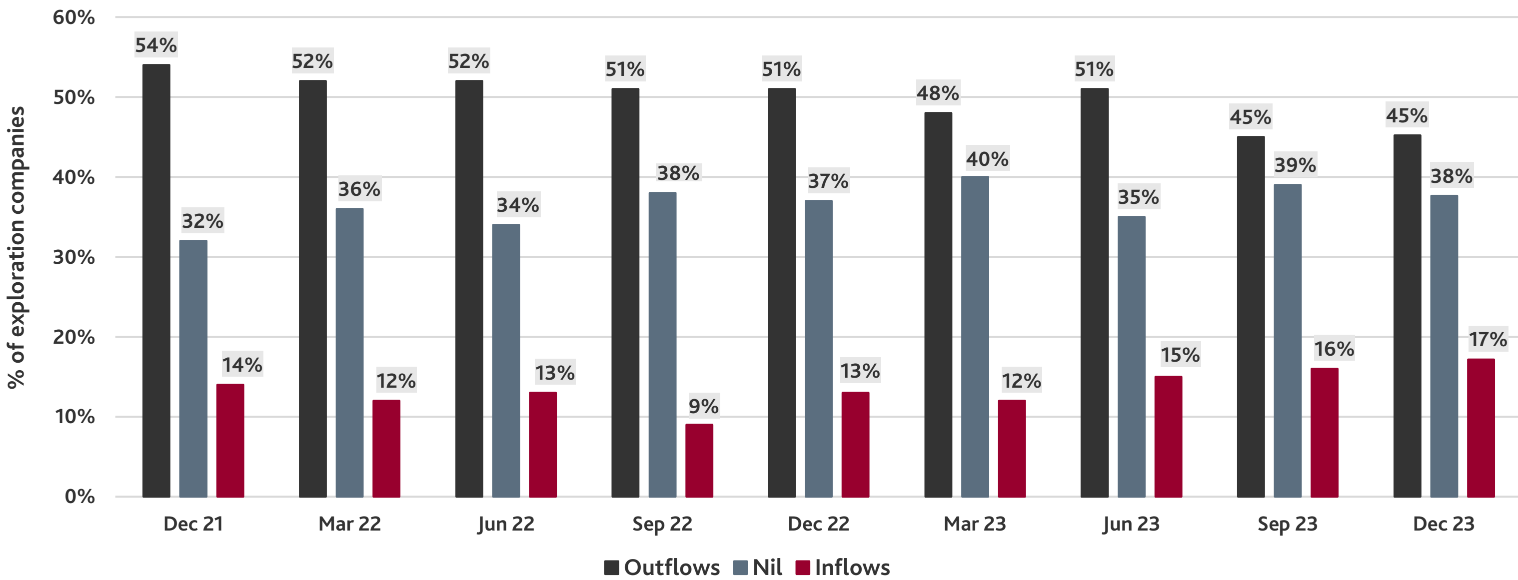
Of the net cash outflows of $800 million recorded for the quarter, $188 million related to Liontown and its development of the Kathleen Valley Lithium Project which is targeted to achieve first production by mid-2024. Additionally, West African Resources Limited and Bellevue Gold Limited (Bellevue), recorded outflows of $61 million and $52 million, respectively, signifying the continuing strength of gold. Bellevue directed this investment towards its flagship Bellevue Gold Project, which achieved its first pour in October 2023.

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

ASX explorers' net investing cash flows ($M)



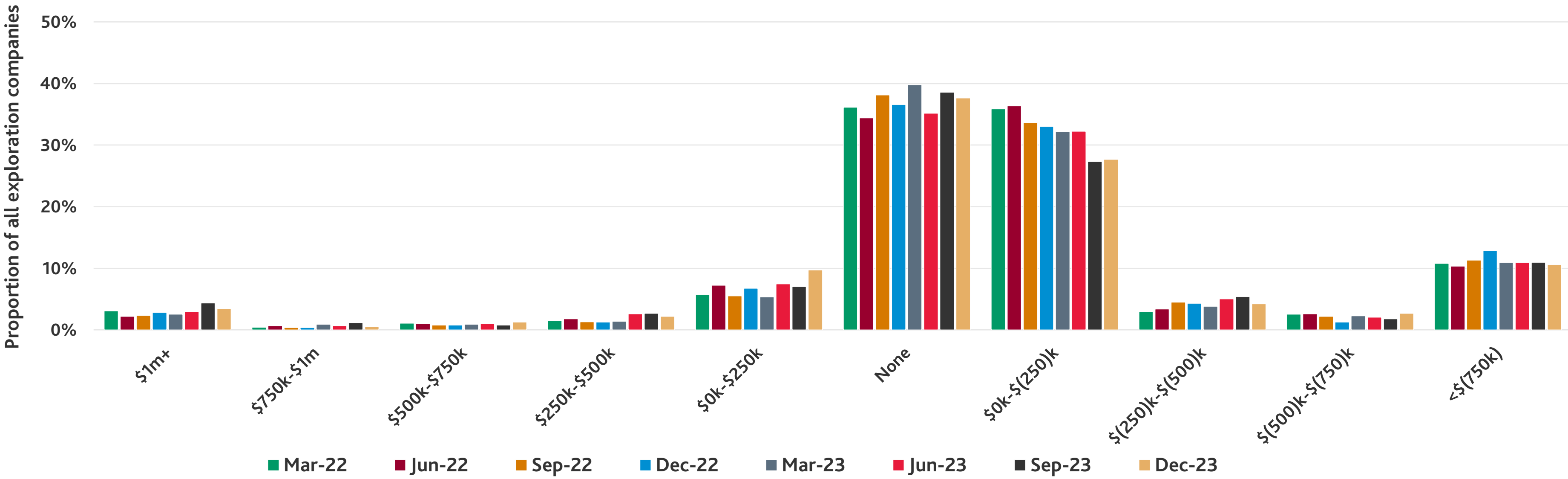
Investing cash flows (%)



The major investment inflows for the quarter were Meteoric Resources NL's (Meteoric) sale of its Juruena Gold Project in Brazil to Keystone Resources Limited for $27.65 million and Pantoro Limited's (Pantoro) sale of its lithium, copper, and nickel rights at the Norseman Gold Project to Mineral Resources Limited (Mineral Resources). Meteoric is a rare earths company, therefore, the sale represented a sale of its non-core assets, allowing it to focus on its core asset, the Caldeira Rare Earth Ionic Clay Project.

Pantoro's sale of its lithium, copper and nickel rights at the Norseman Gold Project represents an addition to the themes that emerged in previous quarters with lithium rights acquisitions from the likes of Mineral Resources, a subsidiary of Wesfarmers Limited and Delta Lithium Limited. Additionally, during the current quarter, Rio Tinto Exploration Pty Limited signed a farm-in agreement for a lithium project in Western Australia, showing that the top end of town is on the hunt for early-stage exploration assets.

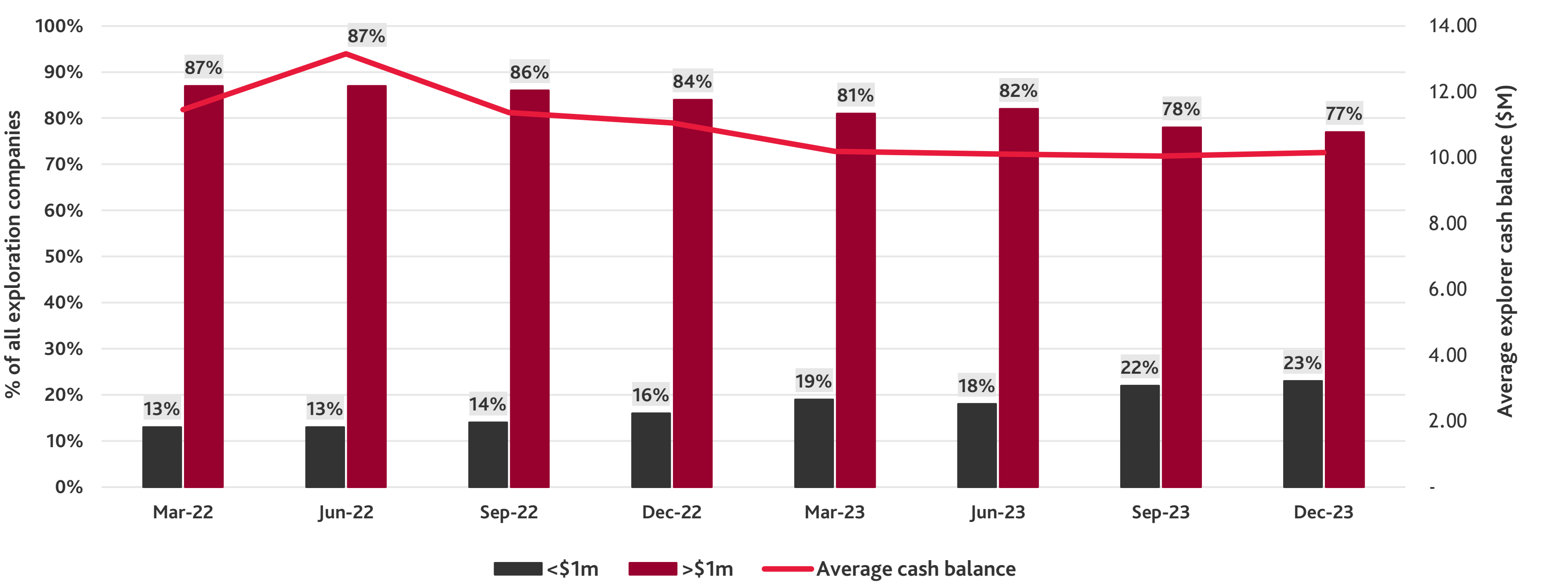
Net investing cash flows

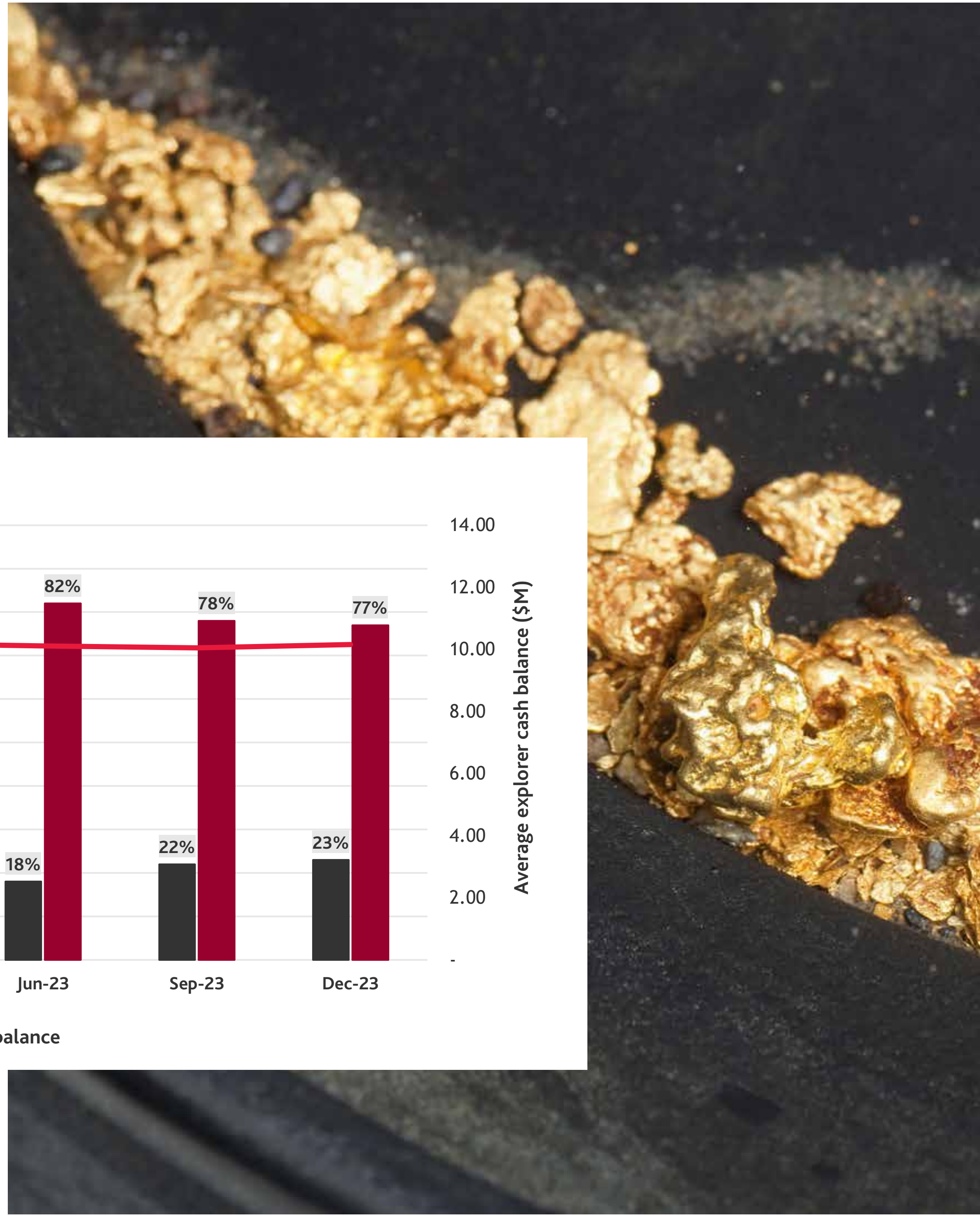


December 2023 quarter cash position

Despite the increased level of financing cash flows for the December 2023 quarter, average explorers' cash balances only increased marginally from $10.1 million in the previous quarter to $10.2 million. While average cash balances have remained stable over the past four quarters, the percentage of companies with more than $1 million in cash decreased to 77 per cent in the December 2023 quarter, representing the second consecutive quarter in which this measure has dipped below 80 per cent (first two periods since December 2020.)

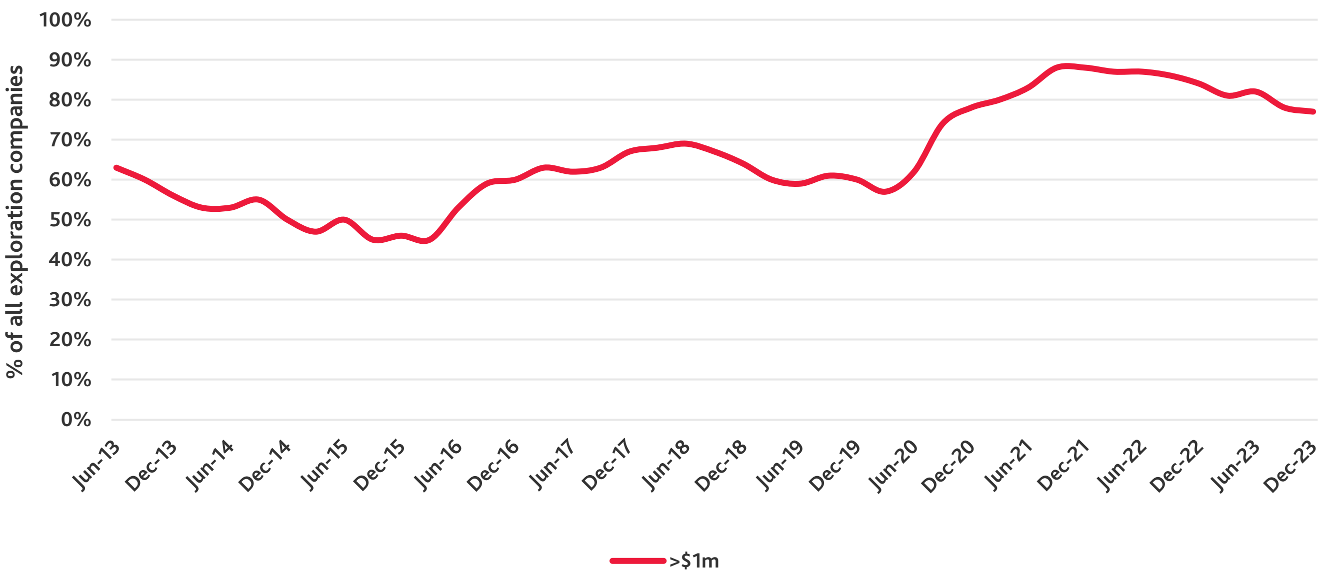
ASX explorers' cash balance (%)





The overall cash position still remains relatively strong when compared to the average cash position at the commencement of our analysis in June 2013. However, despite the optimism depicted by the proportion of explorers with an excess of $1 million remaining high relative to historical levels, the impact of inflation over time must be considered. The purchasing power of explorers today, with an excess of $1 million in funds, is far less than an explorer in 2013. Hence, while the proportion of companies within excess of $1 million seems robust when compared to historical levels, the simultaneous increases in both corporate and exploration costs underscore the necessity for additional funding. We consider this to be one of the key drivers for the spark of merger & acquisition (M&A) activity seen in the December 2023 quarter and expect this trend to continue into 2024.

ASX explorers' cash balance (%)

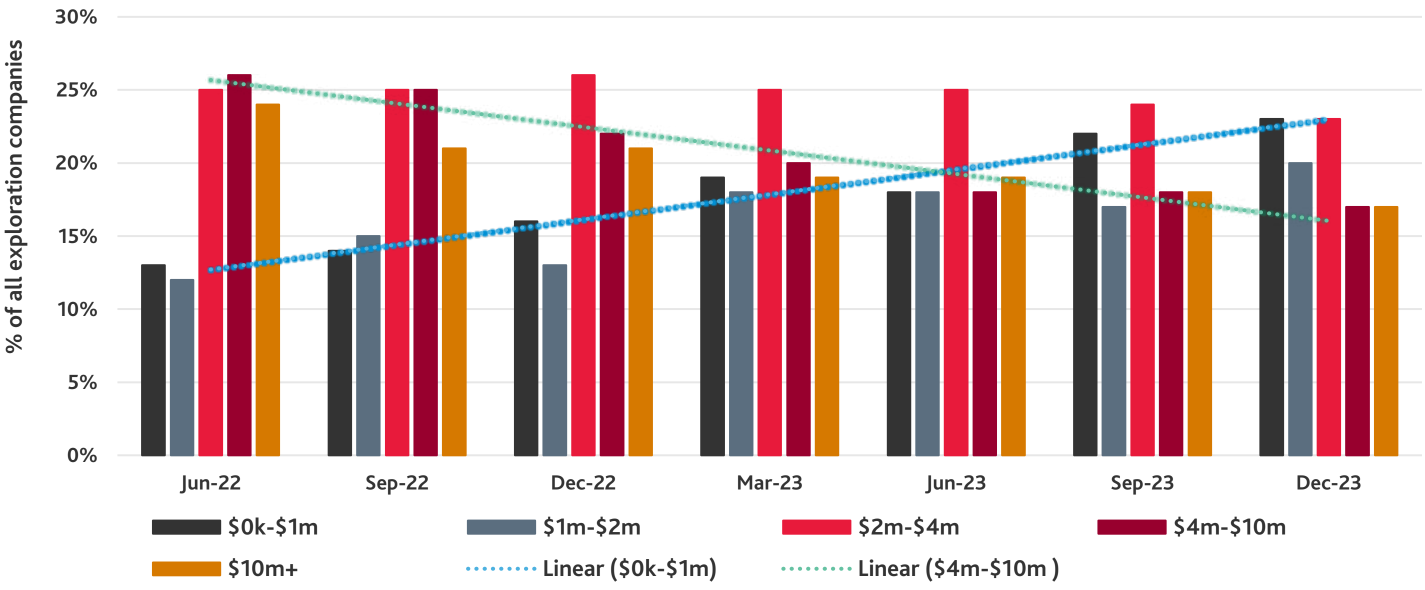


As indicated by the trendlines in the graph below, we have observed a declining trend in the proportion of explorers with cash balances between $4 million and $10 million. Simultaneously, we have seen a general increase in those with a balance between nil and $1 million. Together, these trends indicate that those explorers in the mid-segment of the market by cash balances are spending far more than they are raising and are therefore moving from the $4 million to $10 million bracket to the less than $1 million bracket.

We have observed an uptick in exploration and investing activity within the small to mid-market during the December 2023 quarter, indicated by an increase in the number of explorers undertaking exploration spends of between $100k and $300k. The decreasing cash balances caused by the net impact of exploration and investment activities in the small to mid-market, will lead to explorers seeing to replenish their cash reserves in the upcoming quarters or to consolidate through merger and acquisition activity.

We also observed that the proportion of explorers with a cash balance of greater than $10 million has been on a declining trend since the June 2022 quarter, representing a decrease of 7 per cent over the period. Despite participants at the top end of the market continuing to successfully secure funding, in recent quarters, we have identified a net cash burn effect, likely the result of increased exploration expenditure and investing activity, with near term developers and producers allocating funds raised to cover capital expenditure bills.

ASX explorers' cash balance (%)



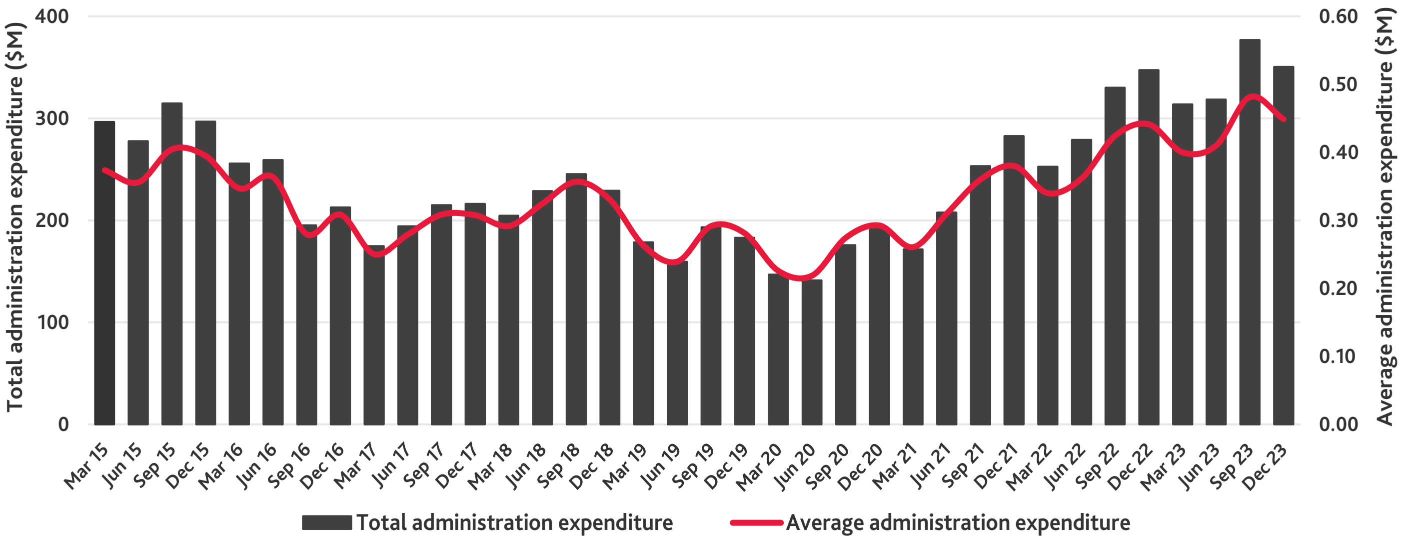
Administration expenditure

Total administration expenditure (comprising mainly of listing fees, professional fees, director fees and other corporate costs) recorded a 7 per cent decrease in the December 2023 quarter to $350 million. This marks a decline from the record peak of $377 million in the previous quarter. Despite this decline, total administration expenditure remained 9 per cent higher than the two-year average of $321 million. Furthermore, the average administration expense per company of $0.45 million remained relatively high, marking a 29 per cent increase when compared to the five-year average of $0.35 million since the December 2019 quarter.

The high levels of administration expenditure incurred over the last two quarters has primarily resulted from inflation filtering through to corporate costs. We also suspect that a tight labour market has also contributed to the increase in the last two quarters, placing upward pressure on staff remuneration and the quantum of fees paid to external advisers. We also typically observe a seasonal trend in administration spending for which administration expenditure tends to be higher in the September and December quarters.

As inflation forecasts continue to ease in line with softening global cost pressures, we anticipate a slowdown in the rate of increase in average administration costs in the medium to long term. However, we are likely to witness the lingering impact of inflationary pressures on administration expenditure in the coming quarters.

ASX explorers' administration expenditure ($M)



Number of companies lodging Appendix 5B reports: June 2013 – December 2023

781 companies lodged an Appendix 5B in the December 2023 quarter, a decrease of two companies from the 783 seen in the September 2023 quarter. Over the calendar year of 2023, there was a total net decrease of six companies lodging an Appendix 5B, as opposed to the net increase of the 47 companies in the 2022 calendar year.

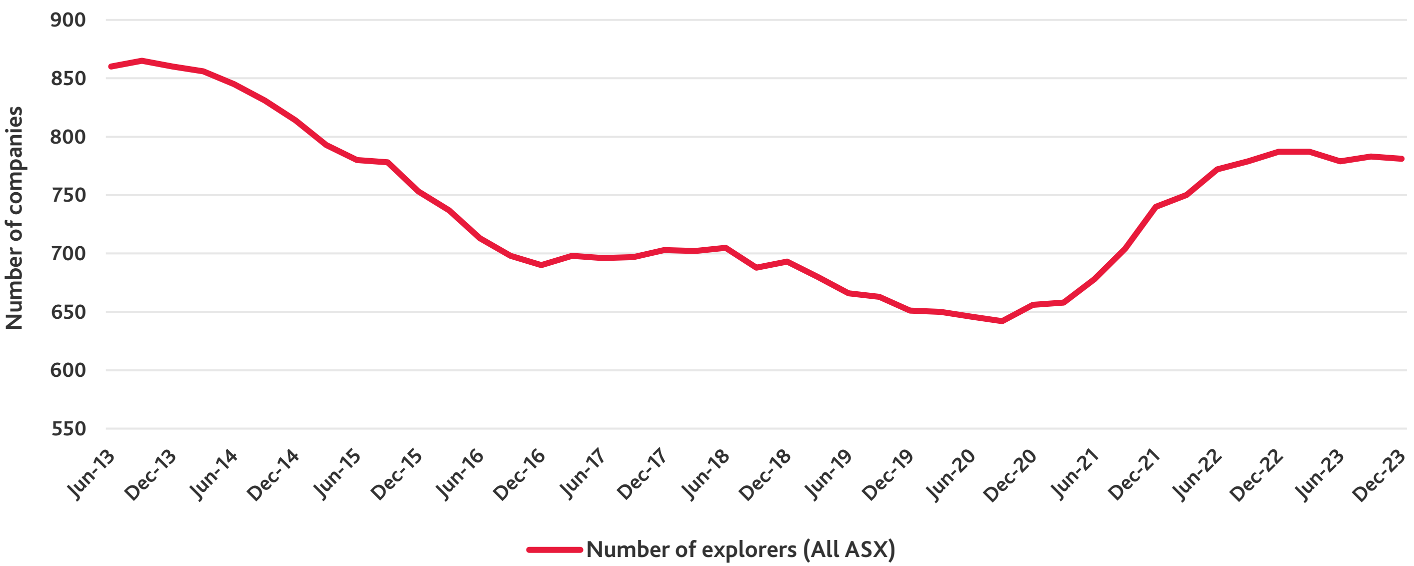
Five exploration companies completed an IPO and lodged an Appendix 5B in the December 2023 quarter, including:

- Brazilian Rare Earths Limited
- Chariot Corporation Limited
- Great Dirt Resources Limited
- Kali Metals Limited
- Tolu Minerals Limited.

Among the five newly listed companies, we note that four related to 'clean energy' minerals, such as lithium, manganese and rare earths and one was a gold explorer.

Interestingly, following a voluntary delisting from the TSX Venture Exchange, Toubani Resources Limited registered as an Australian company and lodged its first Appendix 5B during the quarter. This underscores a broader trend that emerged during 2023, whereby we have seen a number of Canadian listed metals and mining companies seeking a transition to the ASX, either via a dual listing or delisting from their home exchanges. This shift is driven by Australia being viewed as a better destination for risk capital, with explorers preferring ASX as the exchange to provide them with the best chances of completing fund raisings. We expect to see this trend continue into 2024.

Number of companies to lodge 5B reports from June 2013 – December 2023



As noted in previous quarters, there has been a declining trend in the number of companies lodging an Appendix 5B since June 2013. 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.

However, between September 2020 and the end of 2021, we observed a reversal of this trend due to the surge in the number of IPOs by exploration companies on the ASX, which was supported by favourable financial conditions coupled with strong commodity prices.

Throughout 2020, there was an average of seven IPOs per quarter. In 2021, this increased to around 26 IPOs per quarter. Down from this peak, the 2022 calendar year witnessed the average number of IPOs per quarter to be 17. The IPO market experienced a noticeable slowdown in 2023, as reflected by an average of six IPOs per quarter during the calendar year.

The market's enthusiasm for IPOs has appeared to wane, influenced by higher interest rates, providing for better alternative sources of returns for investors. Uncertainty regarding future rate increases has also had an effect on the ability of explorers to raise funds, consequently impacting the appetite for exploration company IPOs. Despite this, we have observed successful IPOs to have originated from explorers within the prime commodities of 'energy transition' metals, such as lithium, rare earths, and other critical metals, in addition to gold, for which investor appetite remains robust.

Notwithstanding ongoing macroeconomic and geological risks, we foresee an expansion in the market's appetite for IPO activity in the coming quarters, as market conditions are likely to continue to become more favourable. Furthermore, we note that anecdotally BDO has observed a strengthening in its pipeline of prospective IPOs targeted for the 2024 calendar year. Funds remain readily accessible for explorers particularly in the battery mineral sector, primarily comprising lithium and rare earth metals, in addition to gold. We anticipate this trend to continue into 2024 as companies strategically position themselves for the energy transition.

The December 2023 quarter saw a decrease of two companies lodging an Appendix 5B compared to the previous quarter. A total of six companies that reported Appendix 5Bs in the December 2023 quarter were not captured in our September 2023 quarter data for the following reasons:

- Five aforementioned companies that recently completed an IPO and lodged an Appendix 5B in the December 2023 quarter
- One company registered as an Australian company and lodged an Appendix 5B in the December 2023 quarter.

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

- One company was suspended from trading following the appointment of voluntary administrators
- One company delisted as a result of its securities having been suspended from trading for a continuous period of two years, pursuant to ASX Listing Rule 17.12
- Four companies were delisted as a result of being acquired, for which BDO prepared an Independent Expert's Report for each transaction*, namely:
  - Dacian Gold Limited was acquired by Genesis Mineral Limited, by way of compulsory acquisition following an off-market takeover
  - Essential Metals Limited (Essential Metals) was acquired by Develop Global Limited, by way of a scheme of arrangement
  - A-Cap Energy Limited was acquired by Lotus Resources Limited, by way of a scheme of arrangement
  - Talon Energy Limited was acquired by Strike Energy Limited, by way of a scheme of arrangement.
- One company was no longer required to lodge an Appendix 5B given their position as a producing company
- One company did not lodge an Appendix 5B, with no identifiable reason. However, it has recently appointed voluntary administrators. We further note this company lodged its Appendix 5B late for the September 2023 quarter.

**We note BDO completed the Independent Expert's Report for the original acquisition of Dacian Gold Limited via a scheme of arrangement rather than the compulsory acquisition.*

BDO insight — Australian explorers geared up to fuel global future energy demand

In spite of softening battery mineral prices, lithium sat atop our Fund Finder analysis for the second consecutive quarter, and for the second consecutive calendar year. Although the market has devalued most lithium explorers compared to this time last year, we find it encouraging that despite the decrease in the lithium price, equity capital markets continue to support Australian lithium explorers. Gold also once again showcased its status as a safe haven asset, as prices surged to a then-all-time high of $2,077/ounce in the final month of 2023. According to the World Gold Council, central banks continued to amass gold at levels close to those witnessed in 2022. This was reflected in our Fund Finder analysis, where gold explorers earned a silver medal for funds raised in the current quarter as well as the calendar year as a whole.

We expect the wave of M&A in the sector to continue into 2024, largely driven by the segmented market that we are currently seeing. The smaller end of the market is likely to continue to turn to consolidation in light of rising costs of exploration and corporate costs. The mid-market explorers and developers may also look to consolidation in order to spread the cost of infrastructure investments or to obtain scale for existing or nearby infrastructure. This consolidation strategy becomes much more prominent in times of rising costs and/or declining commodity prices, both of which are at play for a number of commodities, with gold being the fortunate exception. Consolidation in the gold sector is not price driven but rather about consolidating infrastructure as well as a number of seasoned dealmakers such as Raleigh Finlayson of Genesis Minerals looking to consolidate Western Australian gold assets.

The companies at the larger end of the market, with abundant cash reserves, may deploy their war chests and continue to drive M&A activity in 2024. With rising costs of drill programs and the skills and equipment shortage, we may see the cashed-up explorers look to gobble up smaller companies or projects as a means of expanding their mineral resource inventory or exploration potential rather than conducting the exploration themselves. The rising cost environment and depressed commodity prices also provide larger players who are capable of weathering the storm, with an opportunity to absorb smaller players at suppressed valuations. Notwithstanding the transactions for which we prepared Independent Expert's Reports in the December 2023 quarter, the majority have been scrip deals, so it remains to be seen whether cash is actually king.

As the global community shifts away from the reliance on fossil fuels, and with projects in tier one mining jurisdictions already spoken for, we are seeing capital being invested in areas that have been typically viewed as high risk and have therefore been undeveloped. The move to these higher sovereign risk locations is to source a low-cost supply of renewable energy-related minerals.

There is no doubt that Australia is blessed with an endowment of mineral resources but a key theme that is emerging from discussions with company leaders in the critical minerals space is around how the Federal and State Governments can be doing more for the sector in providing funding for common-use infrastructure, or to a lesser extent, through incentivising producers via production tax offsets.

Additionally, nickel, a key component in batteries, faced market challenges throughout the year due to supply from Indonesia coming on stream. The global supply-demand imbalance caused the closure of several nickel mines worldwide, with junior nickel explorers not immune to movements in the nickel price and the general worsening of industry sentiment. With the likelihood of dual pricing for 'clean' and 'dirty' nickel unlikely in the short term, we expect the nickel explorers to pivot to other commodities within their portfolio of tenements or pursue other tenement packages via acquisition.

Meanwhile, the December 2023 quarter saw a spike in uranium prices due to heightened demand for nuclear power and constrained near-term supply. Australia, abundant in uranium, finds itself at a crossroads regarding its stance on uranium exploration and mining. Differing policies across states, with restrictions on quantity and recipients of national uranium exports, adds to the overall uncertainty surrounding the industry. The political landscape, especially with upcoming state and federal elections, holds significant power in shaping Australia's future energy mix, presently excluding nuclear power. Notably, the Federal Liberal Party advocates for domestic nuclear power opportunities and recognises the potential value of exporting uranium.

Similarly, the upcoming 2024 major elections in the US, India, Indonesia, and the European Union are also set to shape climate action initiatives and potentially disrupt the current supply and demand dynamic for raw materials. Particularly, the Biden administration's Inflation Reduction Act in the US incentivises green energy initiatives, impacting the sourcing of raw or processed minerals from countries with free trade agreements, including Australia. Alongside increasing political discussions, we foresee demand for the safe haven asset of gold to persist in 2024.

Our data suggests that Australian explorers are poised to meet the growing demand of the energy transition toward net zero. In the wake of the global pursuit of cleaner energy, the future energy mix is in constant flux, with political influence and sustainable initiatives shaping supply and demand.

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

Brett Spicer
Partner, Sustainability
+61 7 3237 5989
brett.spicer@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

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

Wai Aw
Partner, International Business - China
+61 3 9603 1873
wai.aw@bdo.com.au

For more information

X (formerly known as Twitter):
@BDOglobalNR
@BDOAustraliaNR

LinkedIn Groups:
BDO Global Mining
BDO Global Energy

1300 138 991
www.bdo.com.au

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