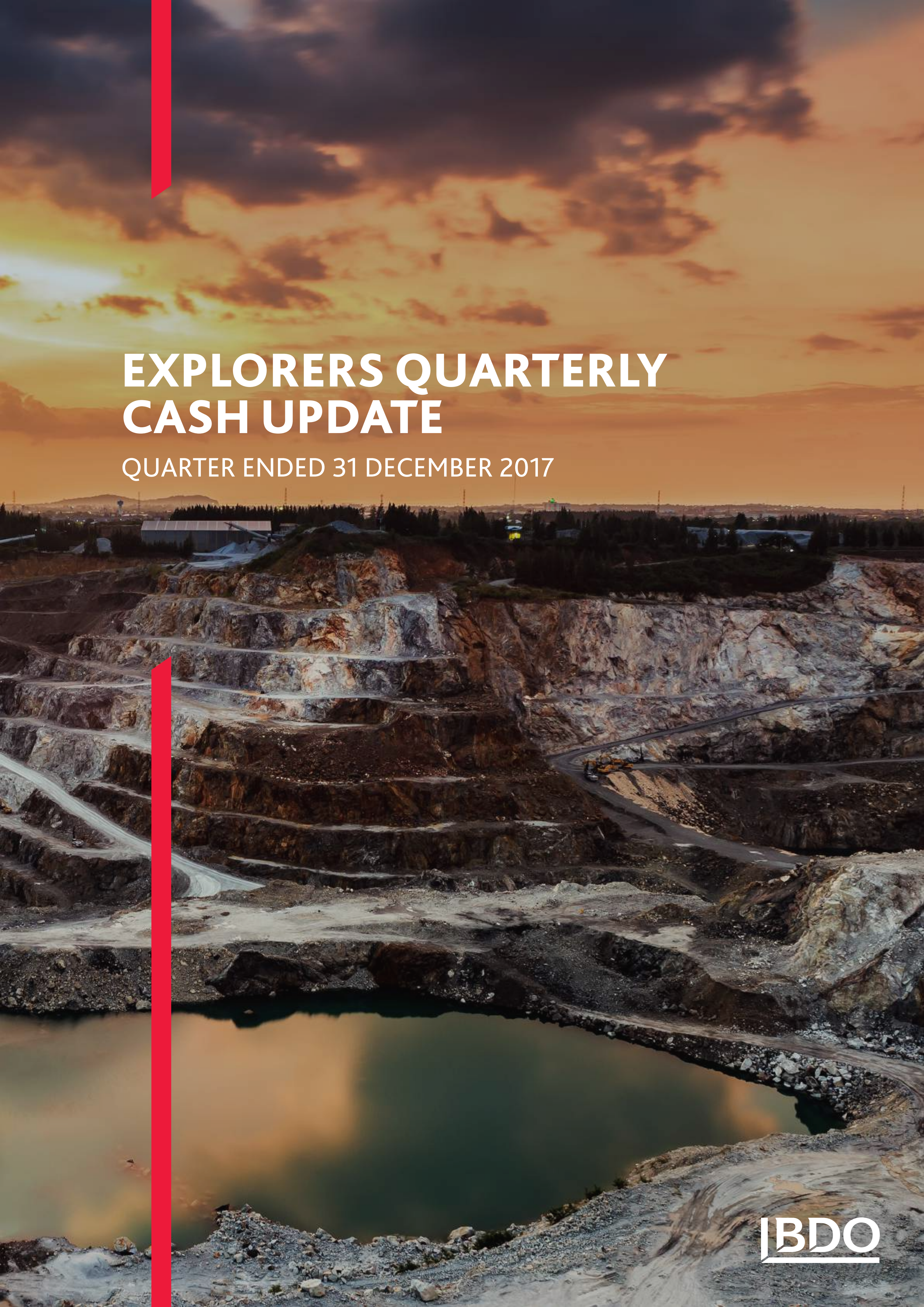
# EXPLORERS QUARTERLY CASH UPDATE

QUARTER ENDED 31 DECEMBER 2017



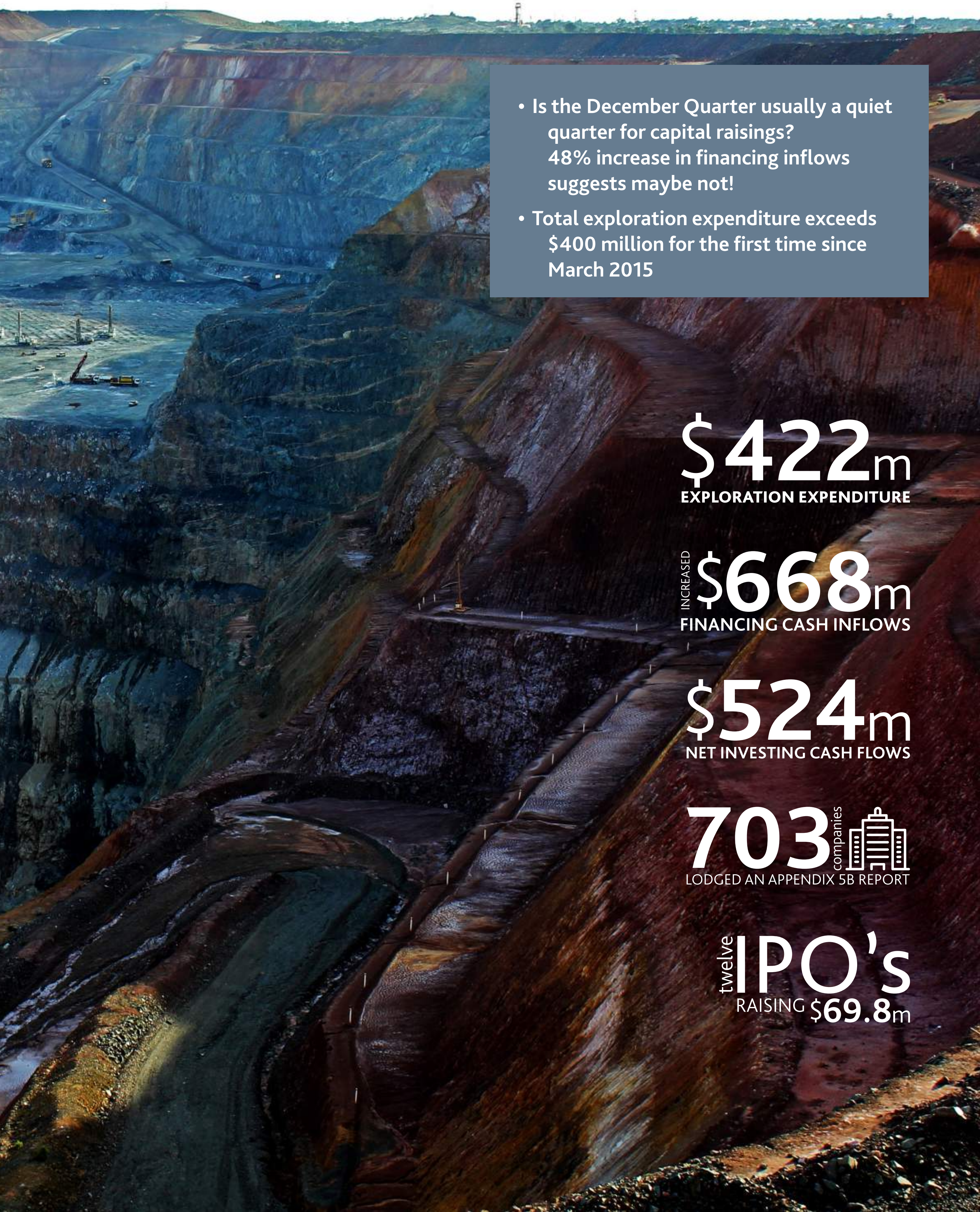
# RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

BDO's report on the cash position of Australian-listed explorers for the December 2017 quarter (based on quarterly Appendix 5B reports lodged with the ASX) confirms the growing positive sentiment towards the resources sector with the start of a new cycle of investment across a range of commodities. Stronger global economic growth and rising commodity prices is underwriting both new investment and mining operations, indicated by increases in both financing and investing cash flows for the December 2017 quarter.

Exploration expenditure for the December 2017 quarter exceeded $400 million for the first time since the March 2015 quarter, financing cash inflows increased by $668 million to $2.05 billion and net investing cash flows more than doubled to $524 million compared to the September 2017 quarter. These positive statistics become even more impressive when considered in light of the December quarter typically being the slowest quarter in terms of capital raisings and investment and exploration expenditure.

The number of companies lodging an Appendix 5B report increased to 703 for the December 2017 quarter, with 12 Initial Public Offerings ('IPOs') raising $69.8 million for the quarter. Two coal explorers and one gold explorer transitioned to production during the quarter and one company changed operations to focus on resource recovery.

Despite a projected 22% decrease in cash outflows for the March 2018 quarter, to $2.13 billion, we expect 2018 to be a big year for explorers. With automation and big data becoming a reality for the mining industry, we expect to see substantial productivity gains for the sector as a whole. Rio Tinto completed the first fully autonomous rail journey in Western Australia during the December 2017 quarter, with the automation of the rail network expected to deliver improvements in both safety and productivity. Real time data will drive better decision making with productivity gains through more reliable operations and reduced spare capacity.



- Is the December Quarter usually a quiet quarter for capital raisings? 48% increase in financing inflows suggests maybe not!
- Total exploration expenditure exceeds $400 million for the first time since March 2015

**$422m**
**EXPLORATION EXPENDITURE**

INCREASED **$668m**
**FINANCING CASH INFLOWS**

**$524m**
**NET INVESTING CASH FLOWS**

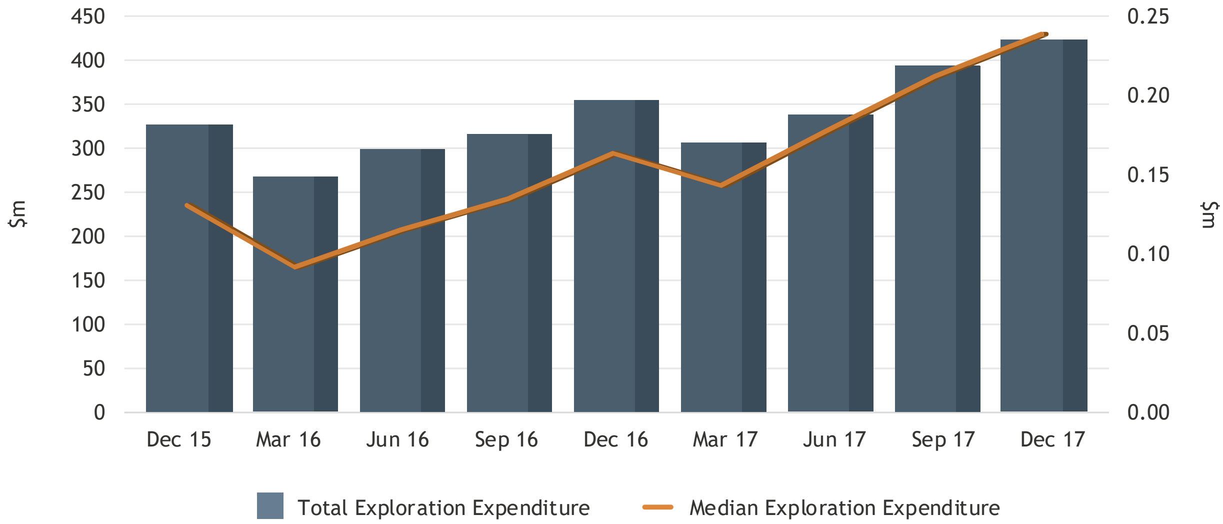
**703** companies
LODGED AN APPENDIX 5B REPORT

twelve IPO's
RAISING $69.8m

# EXPLORATION EXPENDITURE

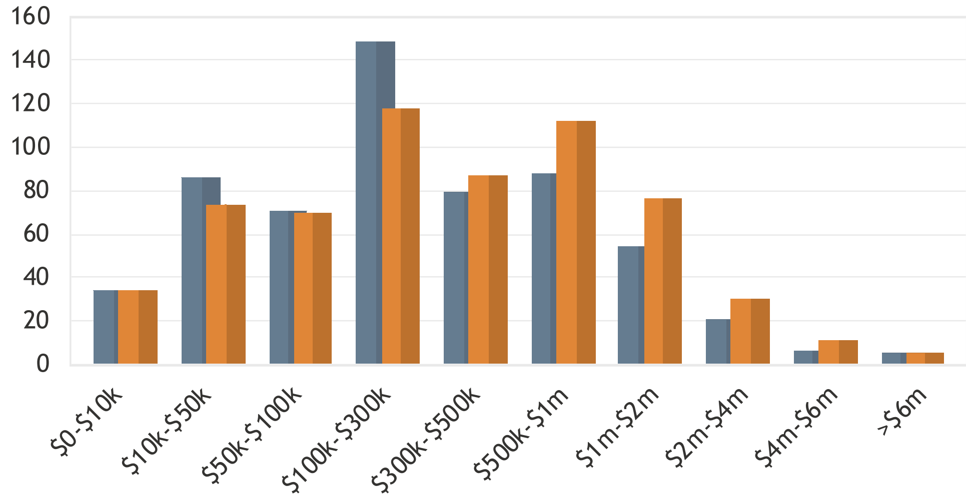
Total exploration expenditure increased by 7% for the quarter, from $393 million for the September 2017 quarter to $422 million for the December 2017 quarter. This is the first time exploration expenditure for a quarter has exceeded $400 million since the March 2015 quarter. Over the same period median exploration expenditure increased by 14% from $0.21 million for the September 2017 quarter to $0.24 million for the December 2017 quarter, indicating that the growth in exploration expenditure has been across the board and is not being artificially inflated by significant exploration expenditure at the higher end of the market. The last time the median exploration expenditure reached $0.24 million was the December 2013 quarter.

## EXPLORATION EXPENDITURE ($M)




On average, there were 88 companies with exploration expenditure between $500k and $1 million for a quarter over the last two years, compared to 112 companies for the December 2017 quarter. As shown below, there has been a shift towards higher exploration expenditure for the December 2017 quarter, with exploration expenditure from $300k upwards for the December 2017 quarter exceeding the two-year average.

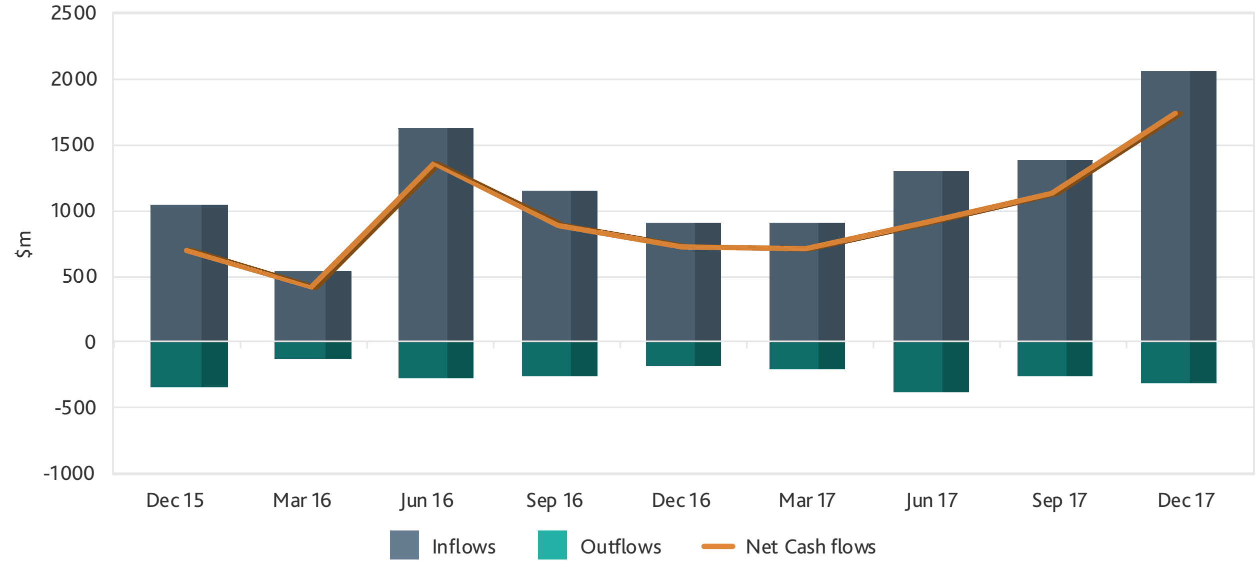
## NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE

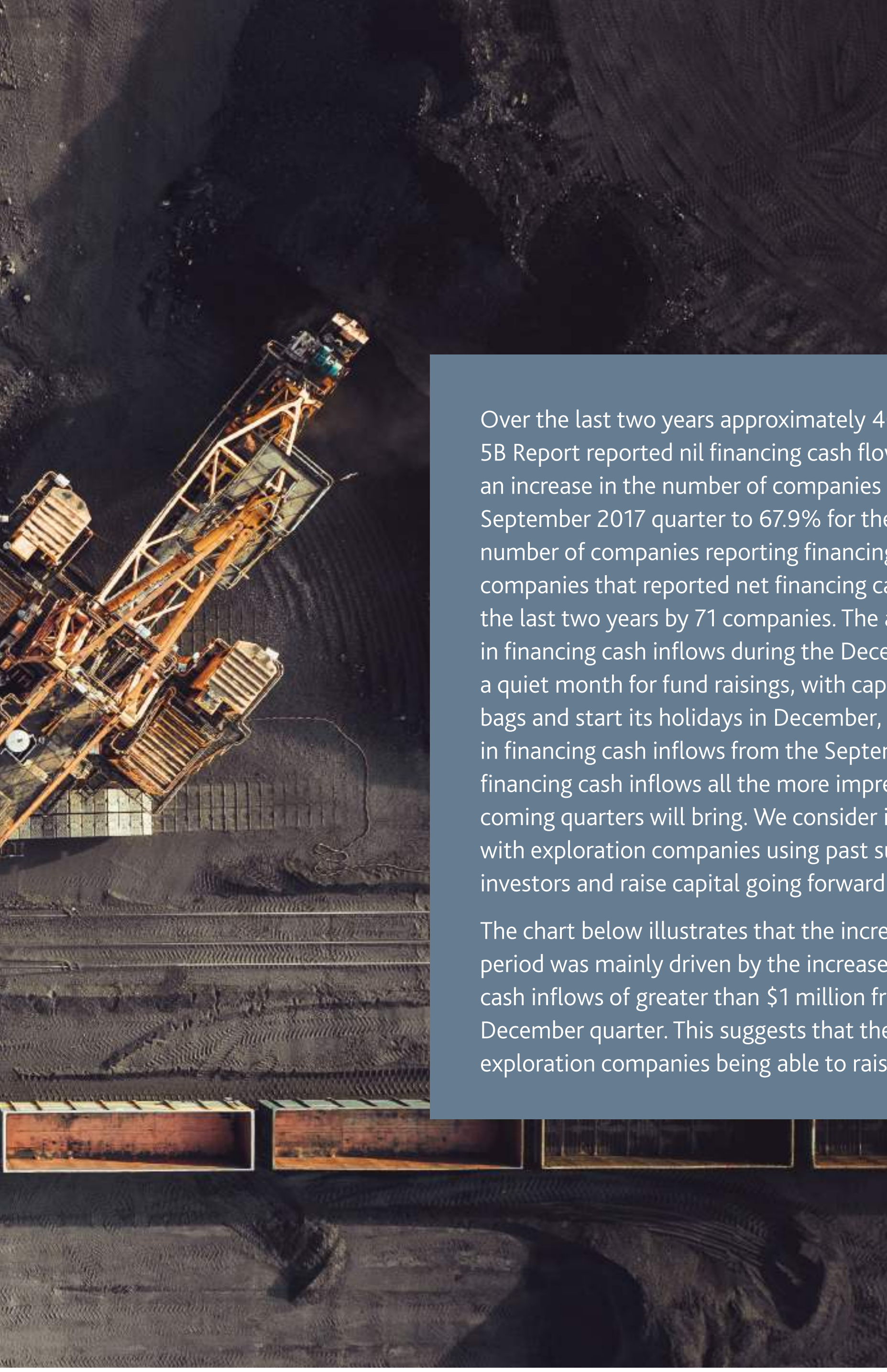


# NET FINANCING CASH FLOWS

Financing cash inflows increased for the fourth consecutive quarter as higher commodity prices and an improved market sentiment enabled more explorers to raise funds. Financing cash inflows increased by 48% during the quarter to reach $2.05 billion, compared to $1.39 billion for the September 2017 quarter. Financing cash outflows also increased for the quarter, up 21% to $314 million. The result was a 54% increase in net financing cash flows to $1.74 billion for the quarter.

FINANCING CASH FLOWS ($M)

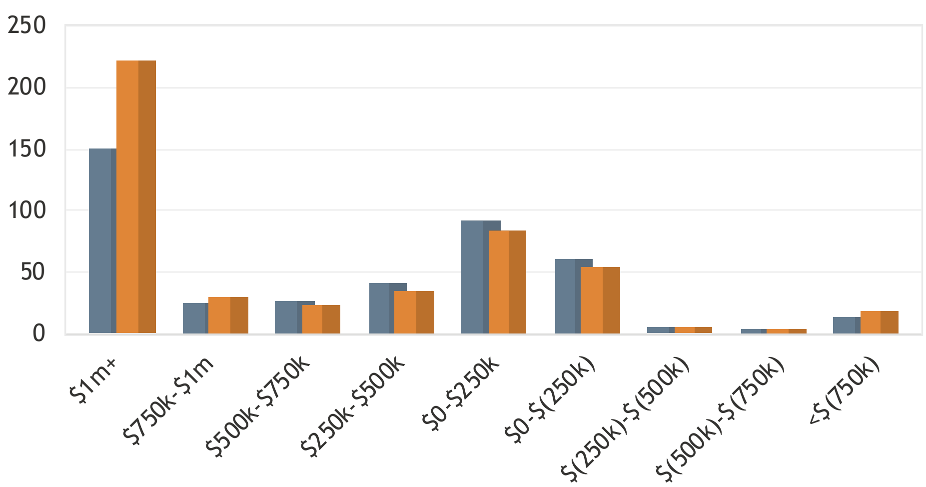


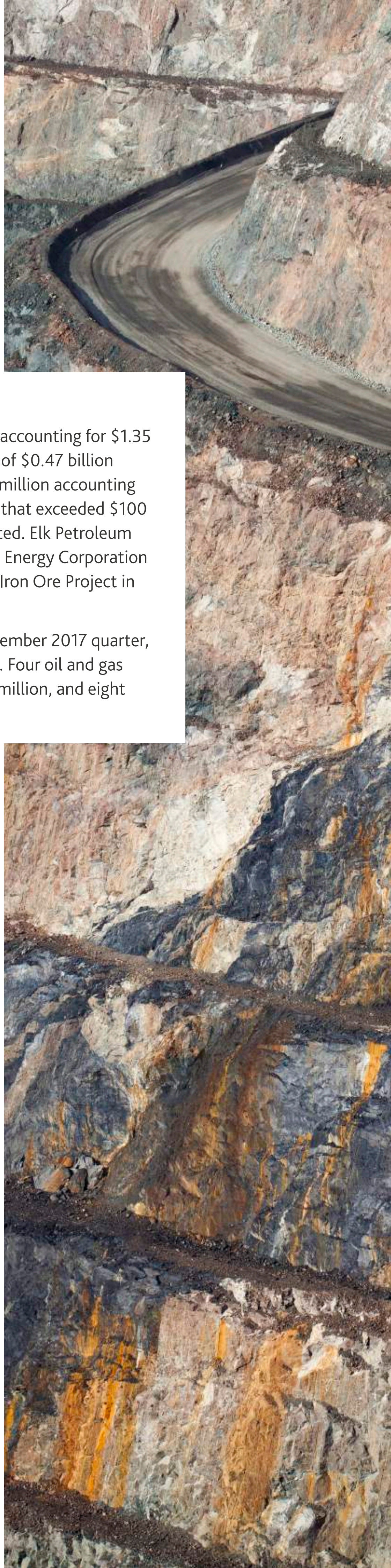


Over the last two years approximately 40% of companies that lodged an Appendix 5B Report reported nil financing cash flows. For the December 2017 quarter, we saw an increase in the number of companies with financing cash flows from 59.5% for the September 2017 quarter to 67.9% for the December 2017 quarter. In addition to the number of companies reporting financing cash flows for the quarter, there were 222 companies that reported net financing cash flows over $1 million, exceeding the average for the last two years by 71 companies. The above chart also illustrates the significant increase in financing cash inflows during the December 2017 quarter. This quarter is traditionally a quiet month for fund raisings, with capital markets known to metaphorically pack its bags and start its holidays in December, as was evidenced last year with a 21% decline in financing cash inflows from the September quarter. This makes the 48% increase in financing cash inflows all the more impressive and fosters great excitement about what the coming quarters will bring. We consider it likely that this trend will have a snowball effect, with exploration companies using past success stories as a platform to attract potential investors and raise capital going forward.

The chart below illustrates that the increase in net financing cash flows over the analysis period was mainly driven by the increase in the number of companies with net financing cash inflows of greater than $1 million from a two-year average of 151 to 222 in the December quarter. This suggests that the appetite is there from investors with more exploration companies being able to raise significant amounts of capital.

**NET FINANCING CASH FLOWS**



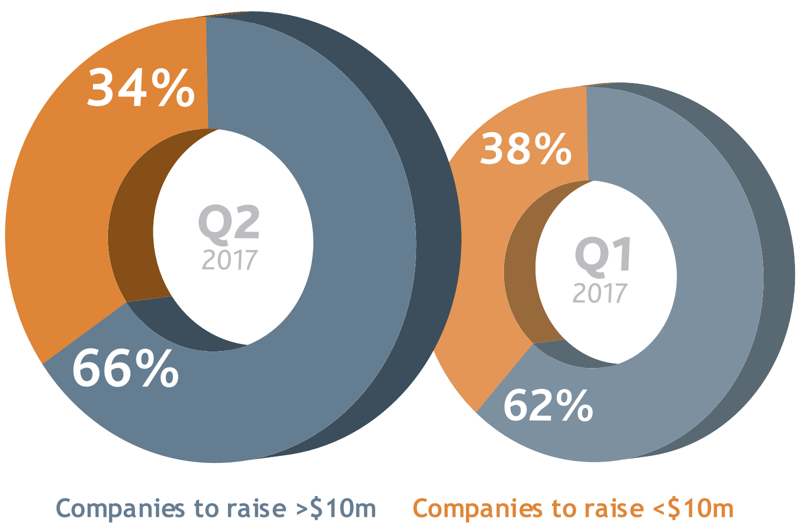


# FUND FINDERS

For the quarter ended 31 December 2017, 42 companies raised in excess of $10 million accounting for $1.35 billion or 66% of the total financing inflows for the quarter. This represents an increase of $0.47 billion compared to the September 2017 quarter, where 27 companies raised in excess of $10 million accounting for $0.88 billion or 63% of total financing inflows. Two explorers had financing inflows that exceeded $100 million for the December 2017 quarter; Elk Petroleum Limited and Champion Iron Limited. Elk Petroleum Limited raised $236 million to fund the acquisition of an oil field in Utah from Resolute Energy Corporation and Champion Iron Limited raised $144 million to restart operations at its Bloom Lake Iron Ore Project in Quebec, Canada.

When considering explorers with financing inflows greater than $10 million for the December 2017 quarter, oil and gas, gold and lithium explorers accounted for over 50% of the financing inflows. Four oil and gas explorers raised a combined $272 million, nine gold explorers raised a combined $229 million, and eight lithium explorers raised a combined $206 million.

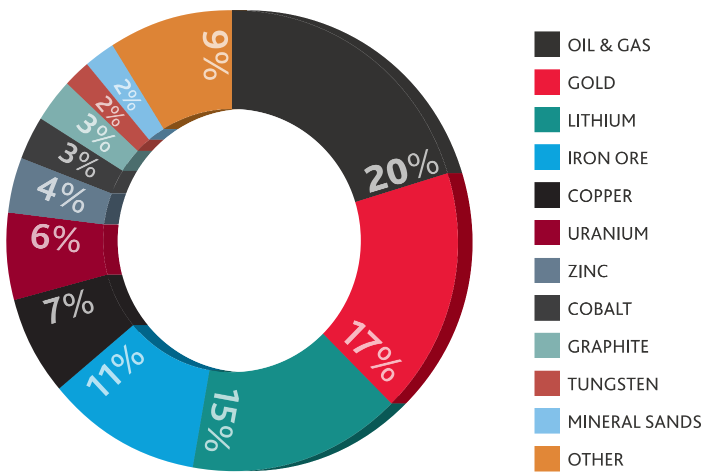
**FINANCING INFLOWS Q1 v Q2**

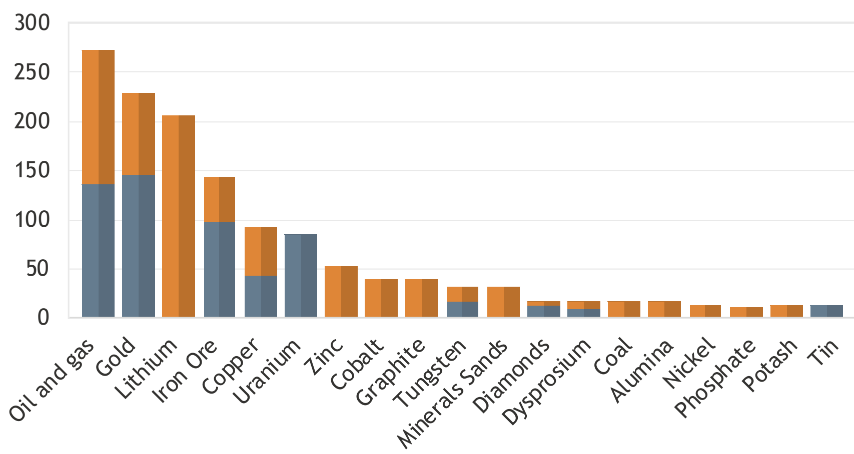


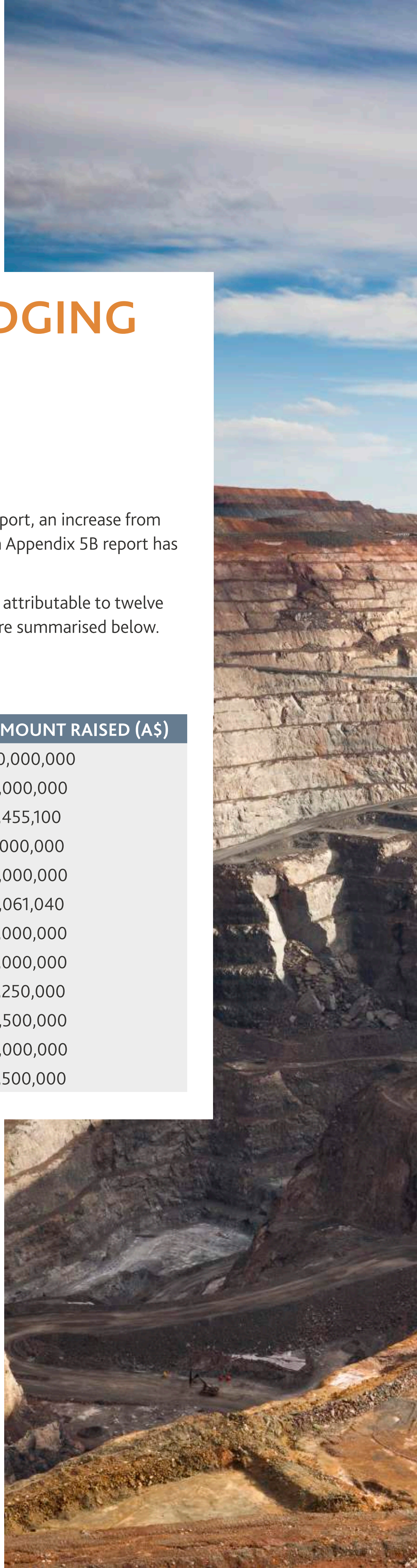
Explorers for commodities such as lithium, cobalt, graphite and zinc completed the full amount of their raisings via the equity market, while explorers for oil and gas, gold, iron ore and copper had a more balanced split between debt and equity. For the explorers raising in excess of $10 million, 42% was raised via debt markets and 58% via equity markets.

With most mining companies returning to profits and commodity prices rising, traditional forms of financing have become less constrained. Increasing commodity prices have meant that more explorers are able to fund their project, as indicated by the increase in total financing inflows for the December 2017 quarter.

## FINANCING INFLOW BY COMMODITY





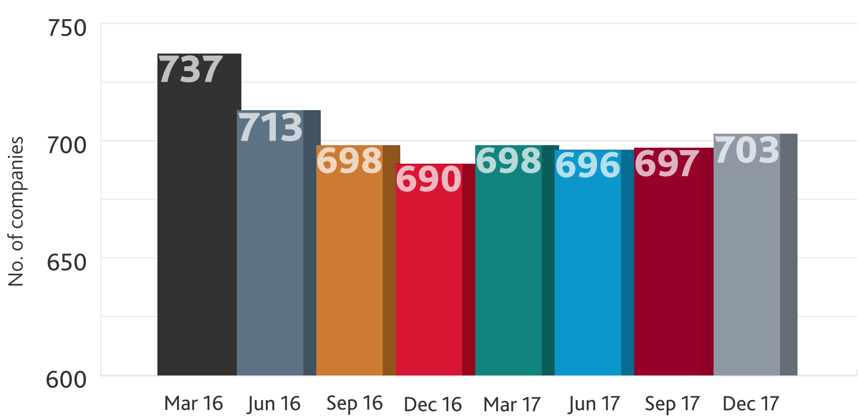
# NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS:

## MARCH 2016 – DECEMBER 2017

For the quarter ended 31 December 2017, 703 companies lodged an Appendix 5B report, an increase from 697 for the previous quarter, and the first time the number of companies lodging an Appendix 5B report has exceeded 700 since the June 2016 quarter.

The increase in the number of companies reporting exploration activity was largely attributable to twelve IPOs during the quarter. A summary of the IPOs from the December 2017 quarter are summarised below.

| COMPANY | COMMODITY | AMOUNT RAISED (A$) |
|---|---|---|
| AIC Resources Limited | Gold | 10,000,000 |
| Black Cat Syndicate Limited | Gold | 6,000,000 |
| BlackEarth Minerals NL | Graphite | 5,455,100 |
| Carawine Resources Limited | Gold, Copper, Base Metals | 7,000,000 |
| Cygnus Gold Limited | Gold | 6,000,000 |
| Frontier Diamonds Limited | Diamond | 4,061,040 |
| Lustrum Minerals Limited | Coal | 5,000,000 |
| Nelson Resources Limited | Gold | 5,000,000 |
| State Gas Limited | Oil & Gas | 5,250,000 |
| Tando Resources Limited | Zinc | 4,500,000 |
| Tietto Minerals Limited | Gold | 6,000,000 |
| TNT Mines Limited | Tin, Tungsten | 5,500,000 |

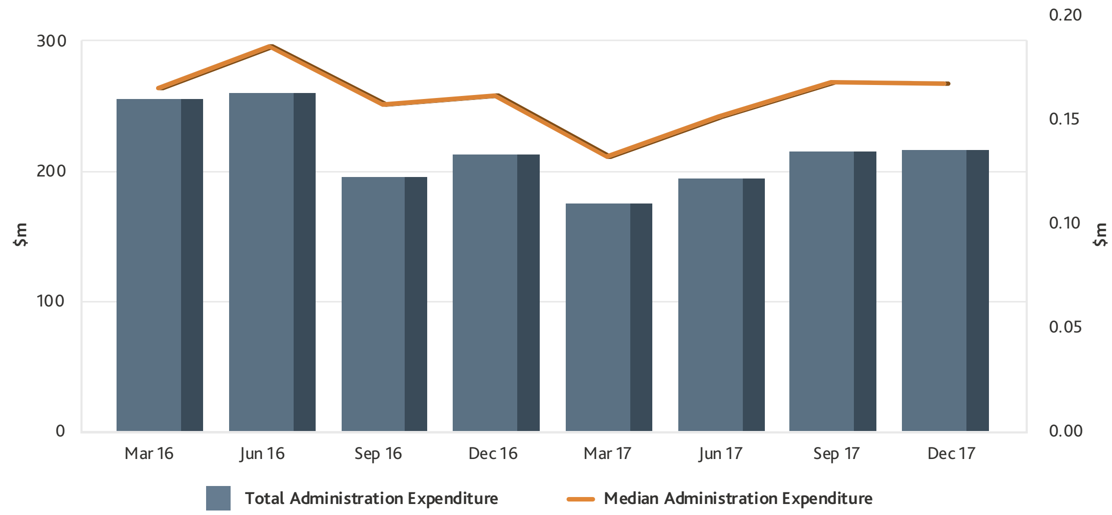


# ADMINISTRATION EXPENDITURE

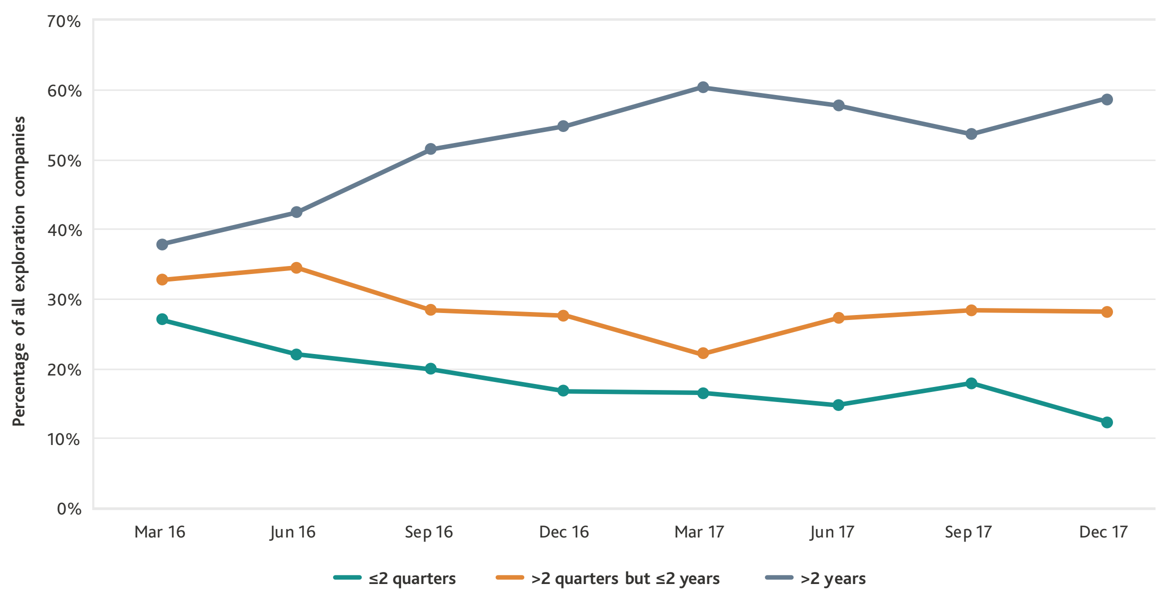
Despite growth in exploration expenditure, total administration expenditure remained relatively unchanged in the December 2017 quarter, increasing by only 1% to $0.22 million. This suggests that many explorers may have been able to maintain cost saving measures introduced in recent years, while ramping up exploration activities.

Based on the December 2017 quarter's administration expenses, the number of companies with cash sufficient to sustain these expenses for more than two years increased for the quarter by 5% to 59% of companies, while the number of companies with less than two quarters of cash reserves decreased to 13%.

## ADMINISTRATION EXPENDITURE ($M)



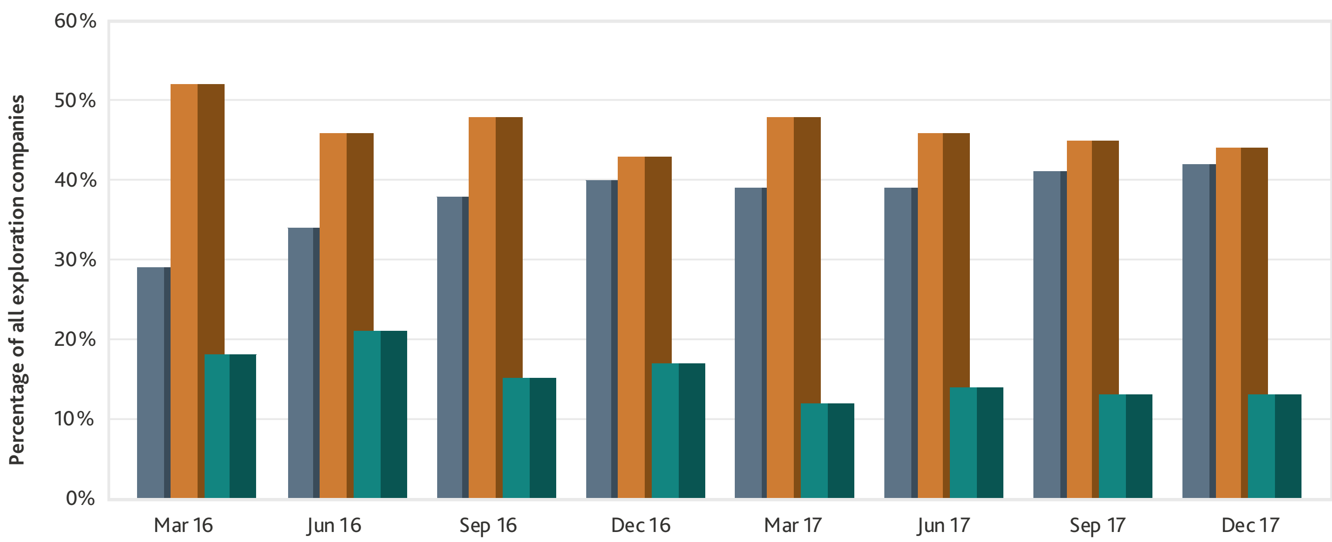

## ADMINISTRATION EXPENDITURE CASH BURN RATE




# NET INVESTING CASH FLOWS

Over the last two years we have seen an increase in the proportion of companies with investing cash flows, from 29% for the March 2016 quarter to 42% for the December 2017 quarter. In line with confidence returning to the sector we are seeing the number of companies with nil investing cash flows decrease, from 52% for the March 2016 quarter to 44% for the December 2017 quarter.

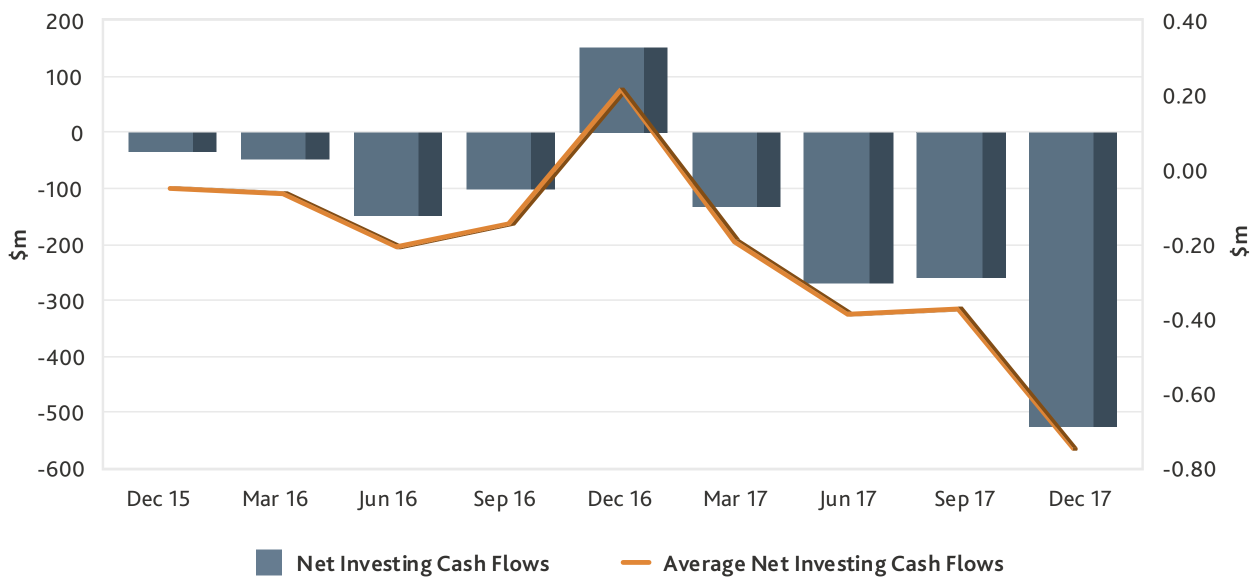
**INVESTING CASH FLOWS (%)**




Net investing cash outflows more than doubled in the December 2017 quarter to reach $524 million, the highest level of net investing cash outflows since the June 2013 quarter. A key driver for the increase in net investing cash outflows compared to the previous quarter is Elk Petroleum Limited's acquisition of an oil field in Utah from Resolute Energy Corporation, resulting in a net investing cash flow of $191.84 million for the quarter.

Overall, the increase in investing activity over the last year, and in particular the increase from the September to December 2017 quarter, confirms the markets renewed confidence in the sector.

## NET INVESTING CASH FLOWS ($M)



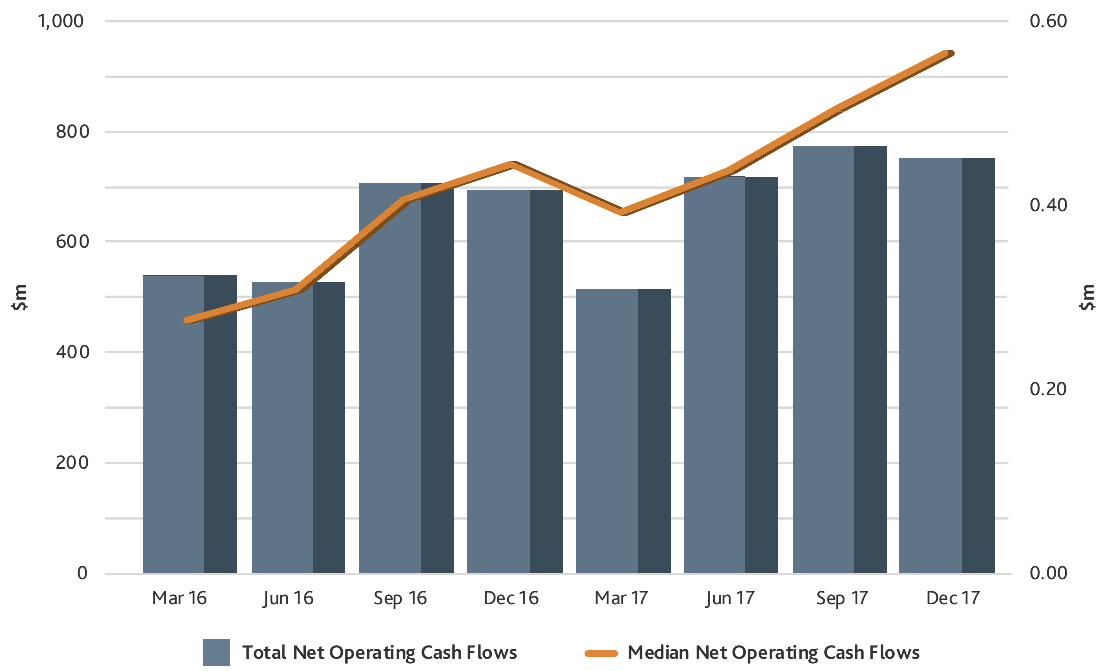
# NET OPERATING CASH FLOWS

Total net operating cash outflows decreased by 3% for the December 2017 quarter to $753 million, down from $774 million for the previous quarter. While the average net operating cash outflows decreased, the median increased to $0.57 million, the highest level in over two years, indicating the proportion of companies with operating cash flows is increasing.

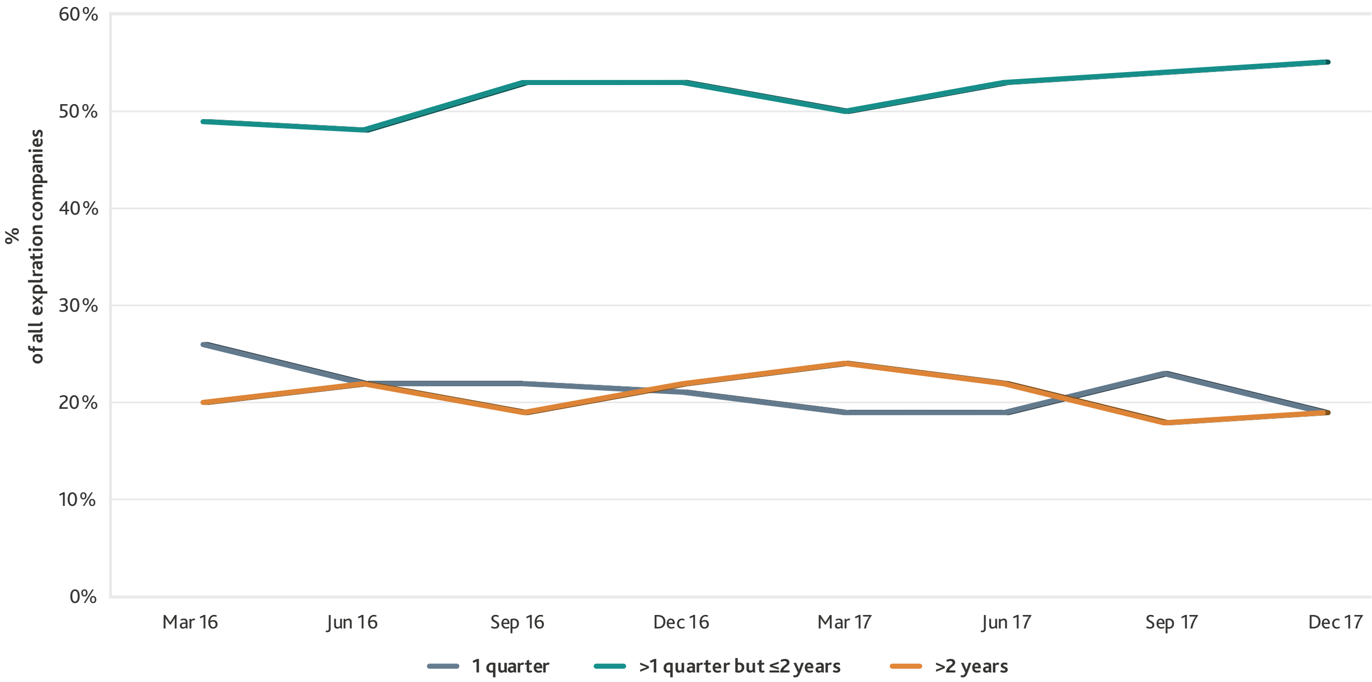
Based on current operating expenditure, the proportion of companies that will burn through their cash reserves in one year or less, decreased from 61% in the September 2017 quarter to 55% in the December 2017 quarter. This is a leading indicator that suggests that sentiment in the industry is improving, with estimated cash outflows increasing, the higher spend is being funded by an improvement in financing cash flows. Furthermore, there was a 4% decrease in the number of companies with less than one quarter's reserves while the proportion of companies with more than five years of cash reserves increased by 2% for the December 2017 quarter.

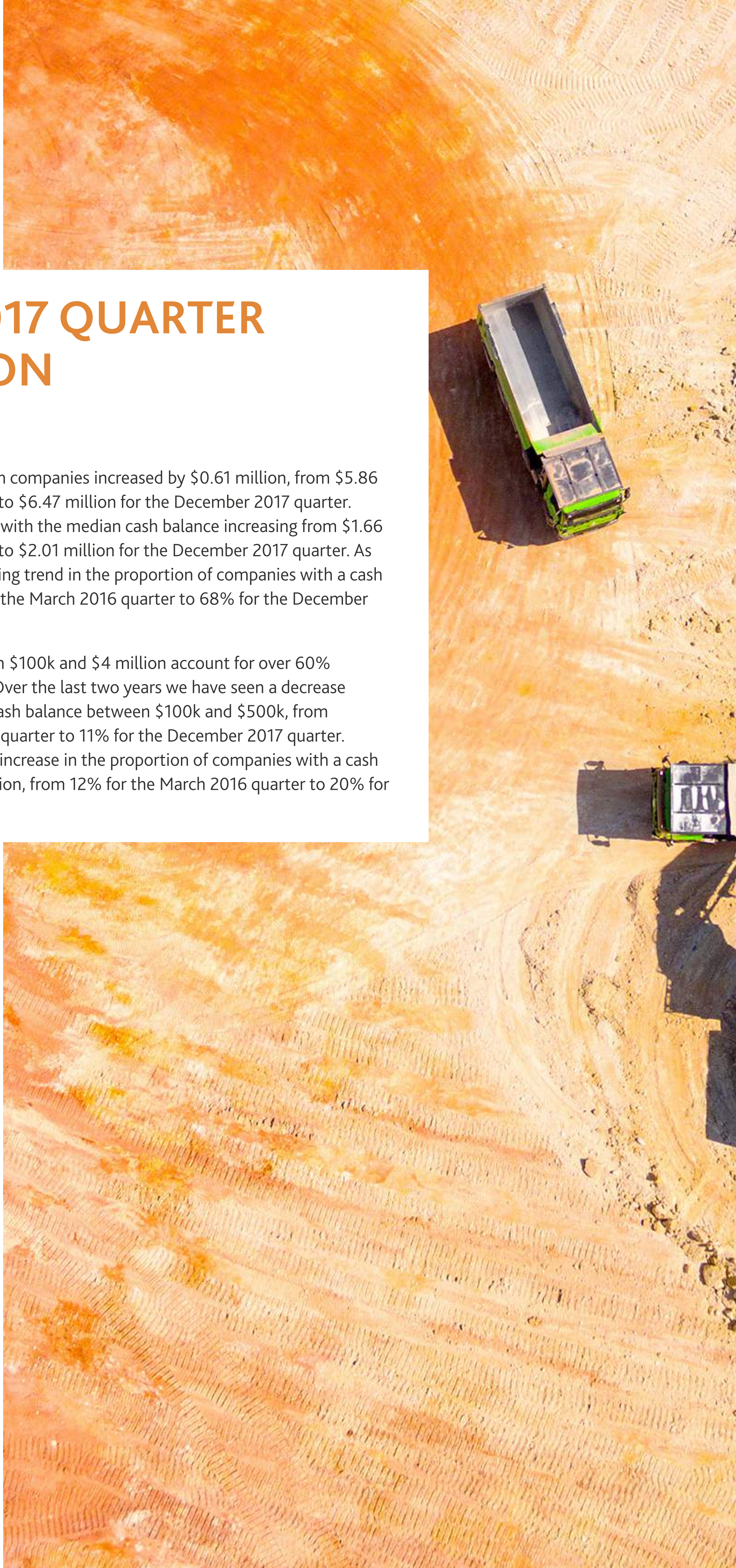
We also note that estimated cash outflows for the next quarter are $2.13 billion an increase of 34% from this time last year indicating that the appetite to spend and invest in the ground is, as was predicted in previous editions, increasing from last year.

## NET OPERATING CASH FLOWS ($M)



## OPERATING EXPENSES - CASH BURN RATE

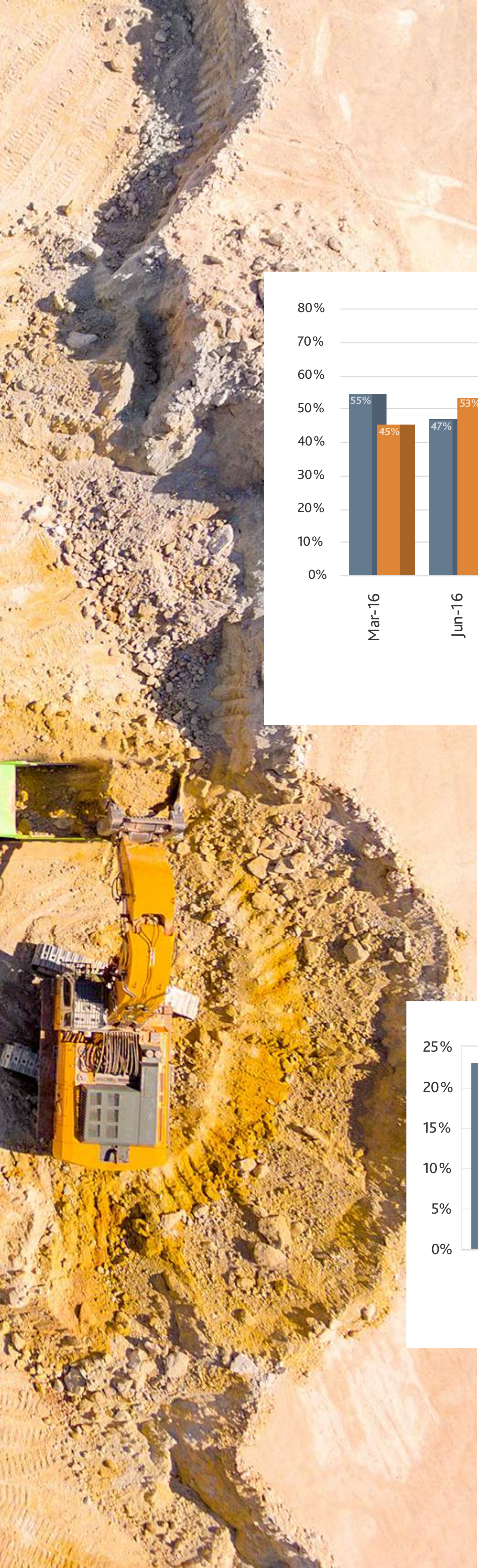




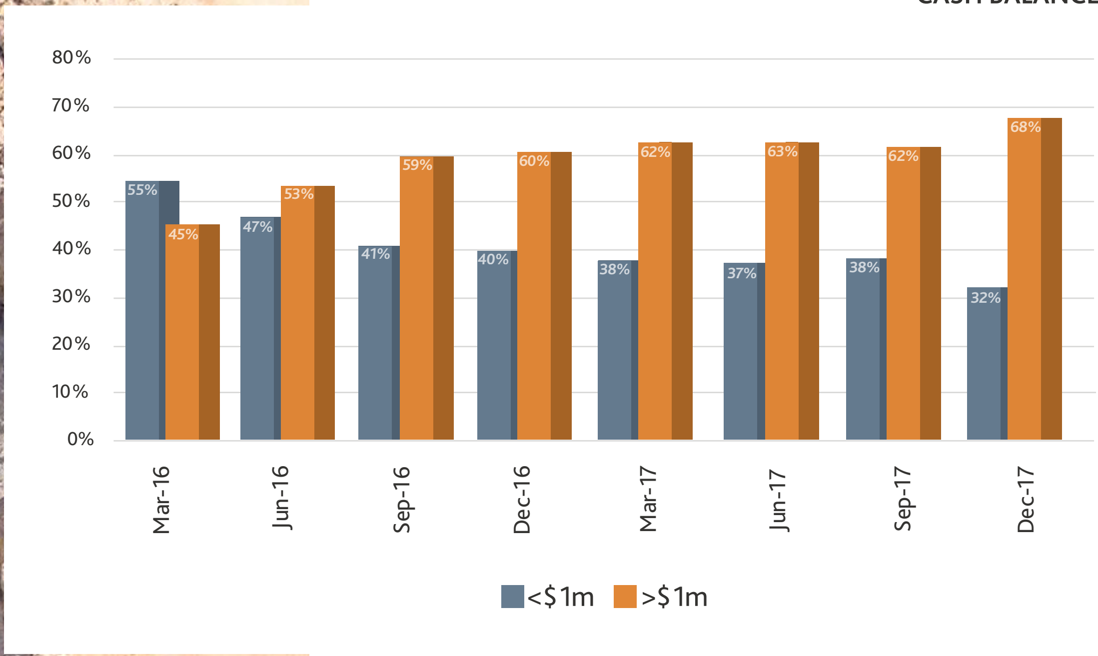
# DECEMBER 2017 QUARTER CASH POSITION

The average cash balance for exploration companies increased by $0.61 million, from $5.86 million for the September 2017 quarter to $6.47 million for the December 2017 quarter. This increase was seen across the board with the median cash balance increasing from $1.66 million for the September 2017 quarter to $2.01 million for the December 2017 quarter. As shown below, there has been an increasing trend in the proportion of companies with a cash balance above $1 million, from 45% for the March 2016 quarter to 68% for the December 2017 quarter.

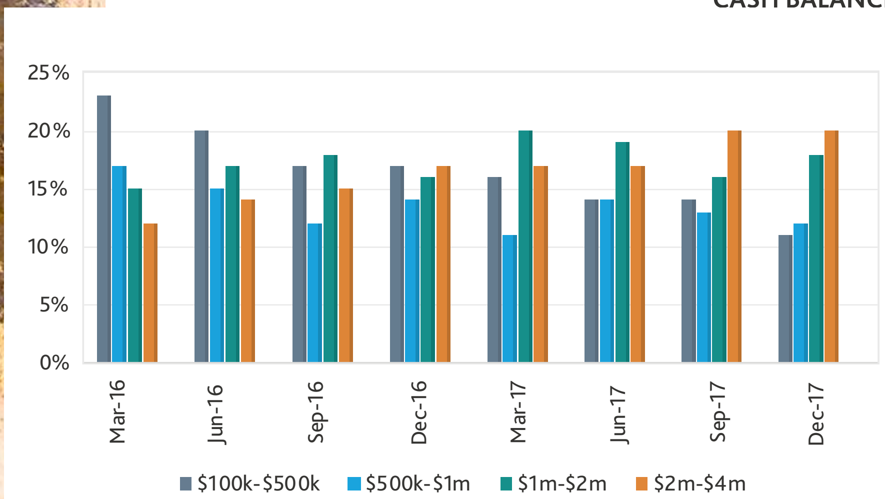
Companies with a cash balance between $100k and $4 million account for over 60% of companies lodging an Appendix 5B. Over the last two years we have seen a decrease in the proportion of companies with a cash balance between $100k and $500k, from approximately 23% for the March 2016 quarter to 11% for the December 2017 quarter. Over the same period, we have seen an increase in the proportion of companies with a cash balance between $2 million and $4 million, from 12% for the March 2016 quarter to 20% for the December 2017 quarter.



## CASH BALANCE




## CASH BALANCE



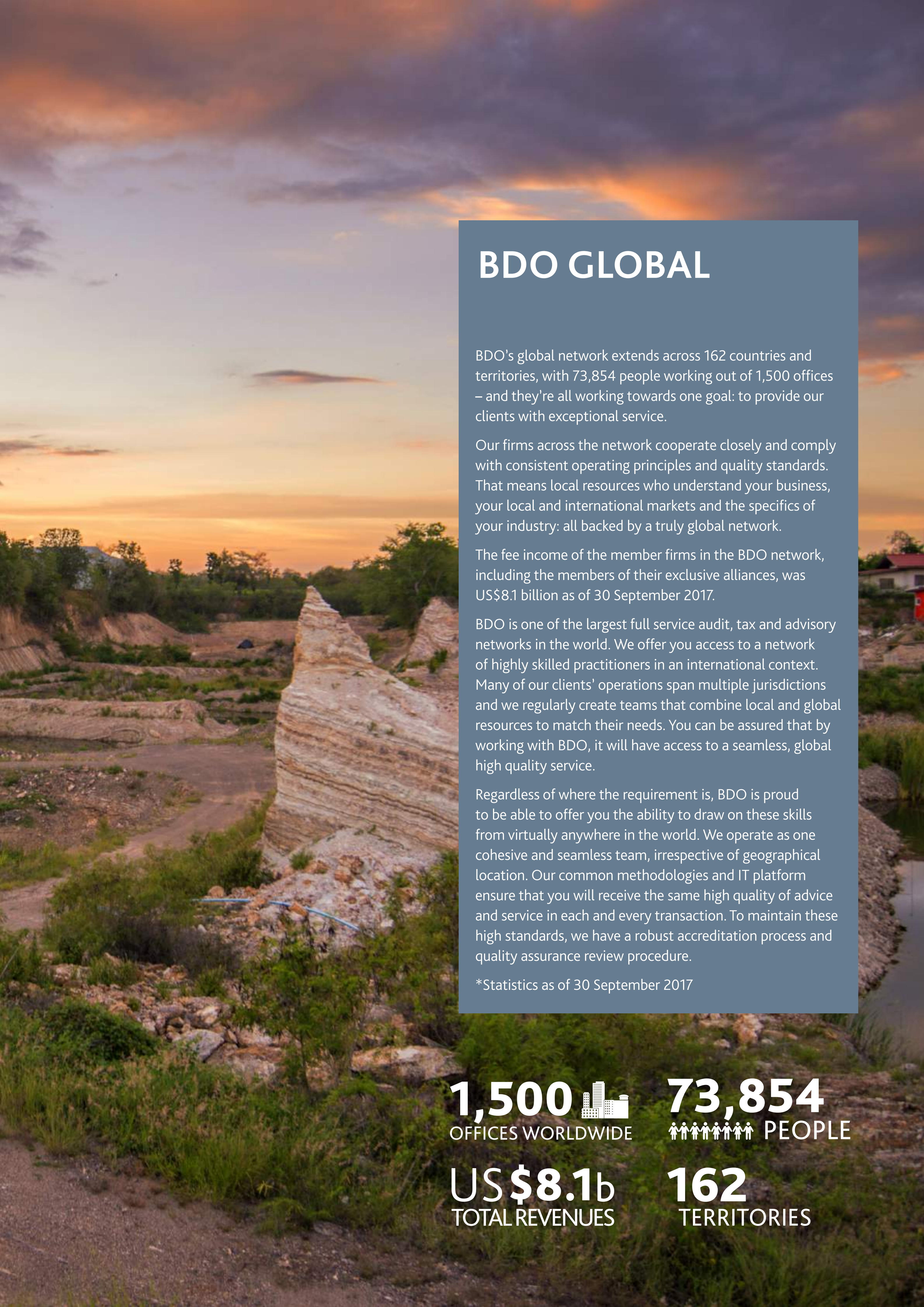
# INSIGHT

In our December 2016 Survey we saw the first green shoots of life coming back into Australian exploration companies when all of the indicators that had been consistently declining quarter on quarter for the previous few years started to plateau. The turnaround started in the March 2017 quarter and that has now progressed such that activity is healthy on all fronts as shown by the indicators in this survey. It is particularly welcome to see the number of exploration companies once again going above 700 for the first time since the June 2016 quarter.

The survey results support the sentiment that we are seeing in the market and have experienced at the key industry conferences such as The Mining Indaba in Cape Town and the RIU Explorers' Conference in Fremantle. At both of these conferences, which were held in February 2018, the sentiment was strongly positive with explorers being able to talk with excitement about their plans for the future with the funds that they now have access to.

A feature for exploration companies is the relative speed that sentiment has turned. The lifeblood of exploration companies is the equity that the capital markets provide. With 42 companies raising over $10 million each in the quarter it is clear that there is plenty of life in the sector now. While much of the focus has quite rightly been on battery minerals, such as lithium, cobalt and graphite, the funds being raised are across the board with oil & gas, gold and iron representing three of the top four commodities by the amount raised.

Whilst it is not reflected in the figures, perhaps one of the most significant but unnoticed changes in the financing of exploration companies happened during the quarter. The Corporations Amendment (Crowd-sourced Funding) Act 2017 was passed and the first licences were issued to equity crowdfunding platforms in early 2018. Crowd sourced funding is an attractive option for exploration companies and it is highly likely that in the future, maybe 10 or 20 years from now, the numbers of exploration companies featuring in this report will have reduced substantially because the standard route for an early stage exploration company to raise funds will no longer be the ASX, but instead it will be equity crowd funding.



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*Statistics as of 30 September 2017

**1,500** OFFICES WORLDWIDE

**73,854** PEOPLE

**US$8.1b** TOTAL REVENUES

**162** TERRITORIES

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