

The background image is a wide-angle photograph of a massive open-pit mine. The mine's terraced levels are visible, showing the rugged, rocky terrain. In the foreground, a calm body of water reflects the warm, orange and yellow light of the setting or rising sun. The sky is filled with dramatic, dark clouds. A solid red vertical bar is positioned on the left side of the image, partially obscuring the mine's edge.

EXPLORER QUARTERLY CASH UPDATE

QUARTER ENDED 30 SEPTEMBER 2018

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

BDO's report on the cash position of Australian-listed explorers for the September 2018 quarter (based on quarterly Appendix 5B reports lodged with the ASX) indicates the natural resources sector in Australia had a mixed performance, with the highlight including a 20% increase in exploration expenditure and the lowlight being a 45% decline in financing cash inflows.

The increase in exploration expenditure reflects the favourable economic and market conditions in recent quarters which have buoyed Australian-listed explorers. The growth in exploration was reinforced by Australian Bureau of Statistics ('ABS') data which reported total metres drilled by exploration companies increased by 5.8% for the September 2018 quarter. Interestingly, this was 22.5% higher than the September quarter in 2017.

Net investing cash out flows for ASX-listed explorers declined by 62% in the September quarter to \$223 million. However, this was from a high base of \$592 million in June 2018, with the average over the seven quarters from September 2016 to March 2018 being \$221 million.

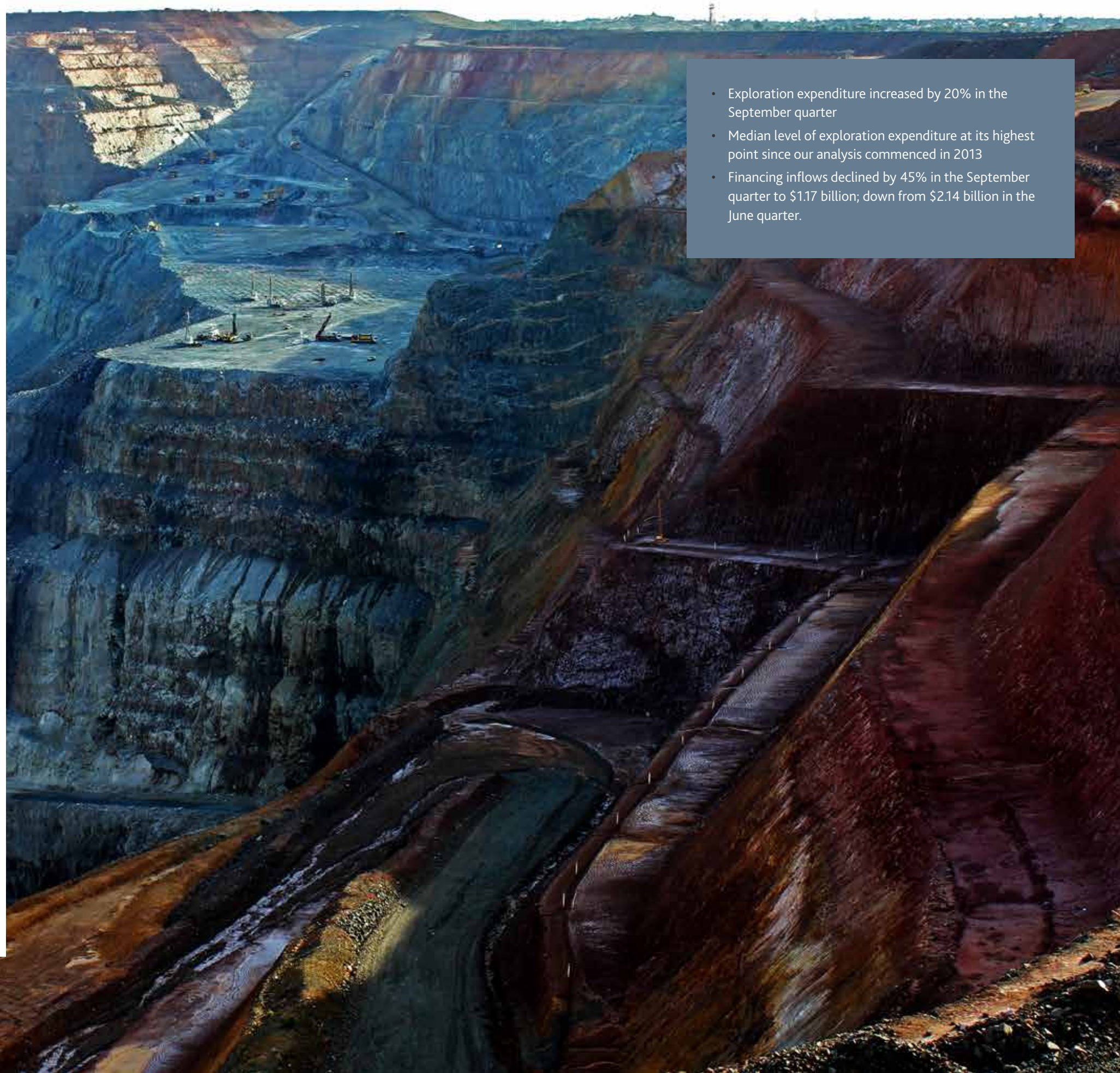
The September quarter witnessed a decline in ASX-listed exploration companies to lodge Appendix 5B reports, breaking the recent upward trend. A total of 688 Appendix 5B reports were lodged in the September quarter, down from 705 in the June quarter and 702 in the March quarter. Notably, during the September quarter, 5 exploration companies were delisted from the ASX, which contributed to the overall decline.

The September quarter was characterised by higher share market volatility caused by rising concerns about the impact of global trade tensions and rising interest rates on economic growth. Larger companies were more resilient to the volatility with BHP Group Limited ('BHP'), Fortescue Metals Group Ltd ('FMG') and Rio Tinto Limited ('RIO') continuing with major greenfield and expansion projects.

The September quarter saw the continued emergence of the lithium mining industry in Australia, with a number of companies announcing plans to build new lithium refineries and processing plants. This included Australian lithium miner Neometals Ltd, which revealed plans to build a downstream processing plant at Kalgoorlie for an estimated cost of \$200 million. The refinery is expected to create more than 100 jobs and is the fifth lithium refinery planned for WA. This trend reveals the desire of Australian-based mining companies to capture the higher value that can be generated from downstream lithium processing.

The raft of new major projects revealed by Australia's largest miners including BHP, Rio and FMG is positive for the Australian economy. However, the global political landscape is tenuously poised and we believe the outcome of trade negotiations (positive or negative) between China and America will have a significant influence on the trajectory of future economic growth and commodity demand.

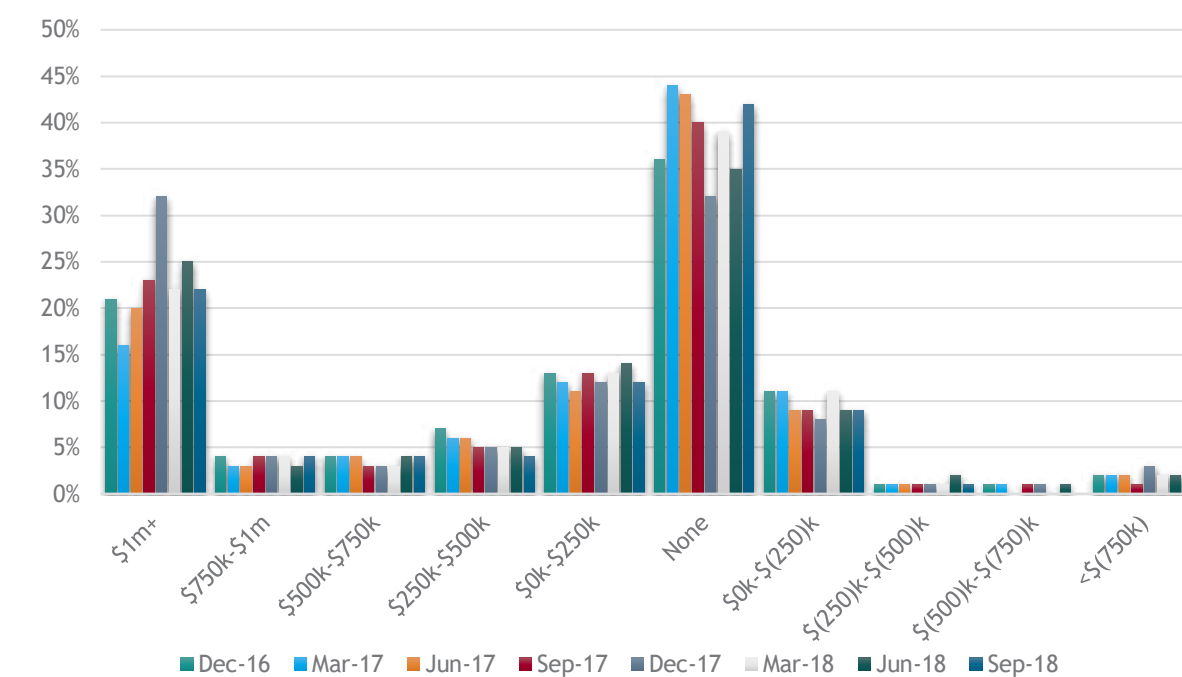
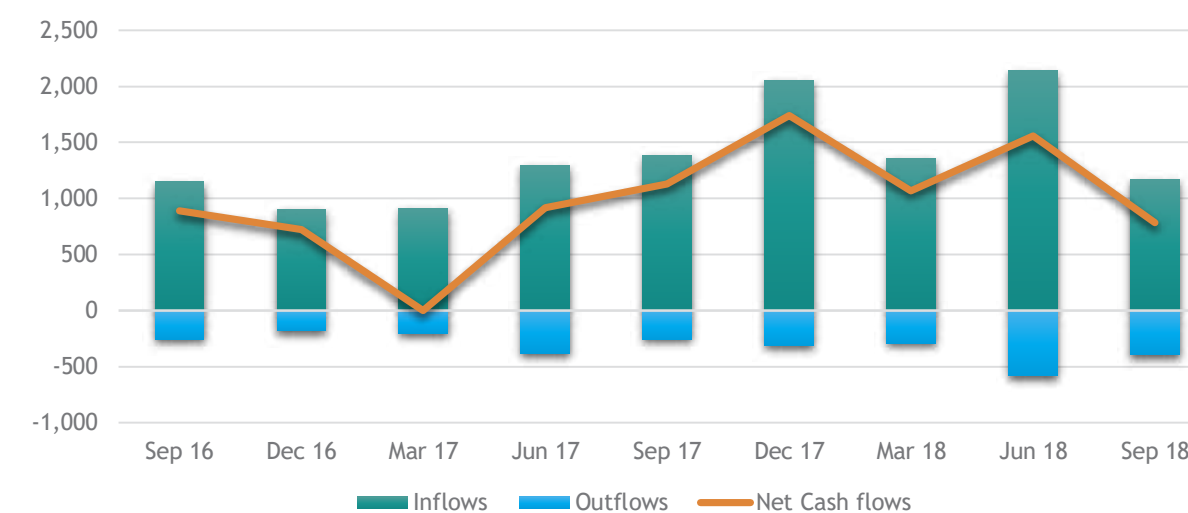
- Exploration expenditure increased by 20% in the September quarter
- Median level of exploration expenditure at its highest point since our analysis commenced in 2013
- Financing inflows declined by 45% in the September quarter to \$1.17 billion; down from \$2.14 billion in the June quarter.



FINANCING CASH FLOWS

Financing cash inflows for the September quarter 2018 were \$1.17 billion, representing a decline of 45% from the June quarter (\$2.14 billion). This was the lowest amount raised for a quarter since the March quarter of 2017.

The proportion of exploration companies with net financing inflows declined from 52% in the June quarter to 46% in the September quarter of 2018. Furthermore, there was an increase in the number of companies with no financing cash flows from 247 (35%) in the June quarter to 290 (42%) in the September quarter of 2018.



FUND FINDERS

There were 24 exploration companies that raised in excess of \$10 million during the September quarter of 2018. Of these, there were five gold companies, two lithium companies and six oil & gas companies.

Syrah Resources Limited ('Syrah') had the largest financing inflow of approximately \$93.4 million entirely from the issue of shares. The funds will be used to complete the ramp-up of the company's Balama Graphite Operation, progress their Battery Anode Material strategy to the end of 2019, and fund evaluation of the vanadium resource at the Balama Graphite Operation.

The second largest financing inflow during the quarter was recorded by Poseidon Nickel Limited ('Poseidon'). Poseidon raised \$74.8 million from the issue of shares. The funds will be used to restart Poseidon's Silver Swan and Black Swan Operations, with the aim to allow Poseidon to restart its Windarra and Lake Johnston nickel operations through utilising cash flow from Silver Swan and Black Swan.

In total, the 24 companies that raised in excess of \$10 million accounted for \$658 million or ~56% of the \$1.17 billion in total financing inflows recorded during the September quarter. Of the \$658 million raised by the 24 companies, gold explorers accounted for 20%, followed by oil and gas with 19% and graphite with 16%.



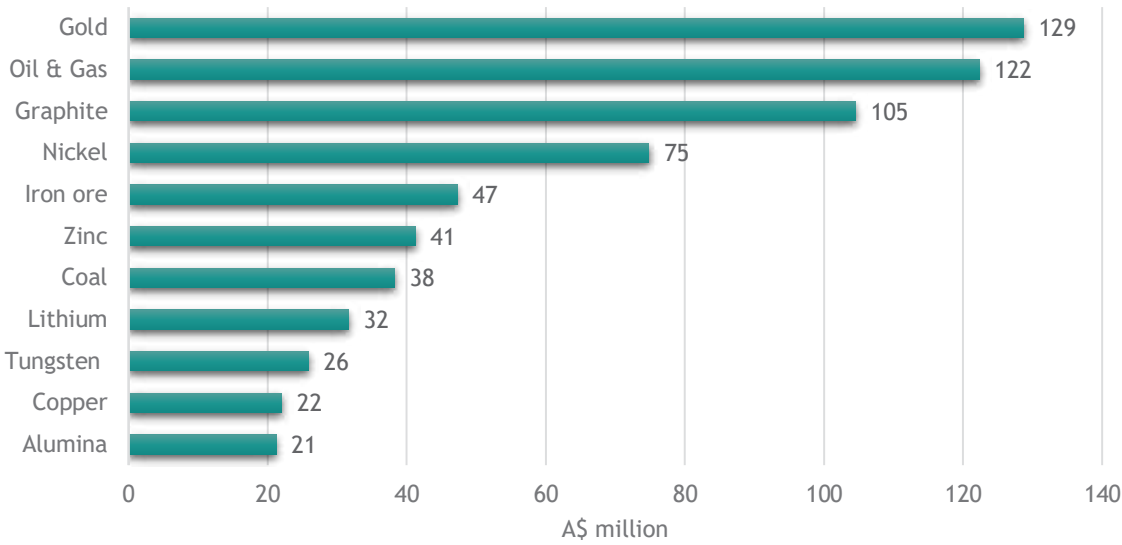
Companies that raised funds through debt and/or equity in excess of \$10 million in the September quarter 2018, are set out below:

COMPANY	COMMODITY	FUNDS RAISED
Syrah Resources Limited	Graphite	\$93.41 million in proceeds from issue of shares
Poseidon Nickel Limited	Nickel	\$74.81 million in proceeds from issue of shares
Dacian Gold Limited	Gold	\$48.33 million in proceeds from issue of shares and \$0.12 million in proceeds from exercise of share options
Champion Iron Limited	Iron Ore	\$1.45 million in proceeds from exercise of share options and \$45.81 million in proceeds from borrowings
Elk Petroleum Limited	Oil & Gas	\$8.12 million in proceeds from issue of shares, \$26.37 million in proceeds from borrowings and \$0.05 million in proceeds from other sources
Cardinal Resources Limited	Gold	\$0.08 million in proceeds from exercise of share options and \$33.65 million in proceeds from its credit facility, net of costs
Sundance Energy Australia Limited	Oil & Gas	\$27.71 million in proceeds from borrowings
Heron Resources Limited	Zinc-copper	\$26.71 million in proceeds from borrowings
Tungsten Mining NL	Tungsten	\$25.44 million in proceeds from issue of shares and \$0.42 million in proceeds from exercise of share options
Finders Resources Limited	Copper	\$0.20 million in proceeds from issue of shares and \$21.82 million in proceeds from borrowings
Altech Chemicals Limited	Alumina	\$21.21 million in proceeds from issue of shares
Paringa Resources Limited	Coal	\$20.79 million in proceeds from borrowings
Otto Energy Limited	Oil & Gas	\$20.41 million in proceeds from issue of shares
Gascoyne Resources Limited	Gold	\$19.23 million in proceeds from issues of shares and \$0.35 million in proceeds from borrowings
Altura Mining Limited	Lithium	\$19.40 million in proceeds from borrowings
Comet Ridge Limited	Coal	\$17.42 million in proceeds from issue of shares
Empire Energy Group Limited	Oil & Gas	\$14.53 million in proceeds from issue of shares
Orion Minerals Limited	Zinc, Copper, Gold	\$14.51 million in proceeds from issue of shares
Hastings Technology Metals Limited	Gold	\$13.89 million in proceeds from issue of shares
Pantoro Limited	Gold, Silver & Copper	\$13.00 million in proceeds from issue of shares and \$0.01 million in proceeds from exercise of share options
Calima Energy Limited	Oil & Gas	\$12.64 million in proceeds from issue of shares
Armour Energy Limited	Oil & Gas	\$5.90 million in proceeds from issue of shares and \$6.56 million in proceeds from borrowings
Pilbara Minerals Limited	Lithium-tantalum	\$12.23 million in proceeds from a drawdown of its secured bond facility
Magnis Energy Technologies Ltd	Graphite	\$11.10 million in proceeds from issue of shares

Gold and oil & gas exploration companies attracted the most investor interest during the September quarter, together accounting for ~40% of the total financing inflows of those companies raising in excess of \$10 million.

The rise in gold exploration activity has been driven by rising political and share market volatility which has boosted the appeal of gold. This was evidenced by a report released by the ABS which revealed WA spending on gold exploration hit a 30-year high in the September quarter of 2018. The ABS report also revealed an 8.5% increase in gold exploration spending across Australia during the September quarter in 2018.

FINANCING INFLOW BY COMMODITY



Interestingly, the price of gold declined throughout 2018, possibly due to the strengthening of the US Dollar. We believe that rising gold exploration activity in Australia reflects the view amongst explorers that share market volatility will continue in the short to medium term, which will enhance the attractiveness of gold.

GOLD (COMEX) HISTORICAL PRICE JAN 2018 - SEP 2018



EXPLORATION EXPENDITURE

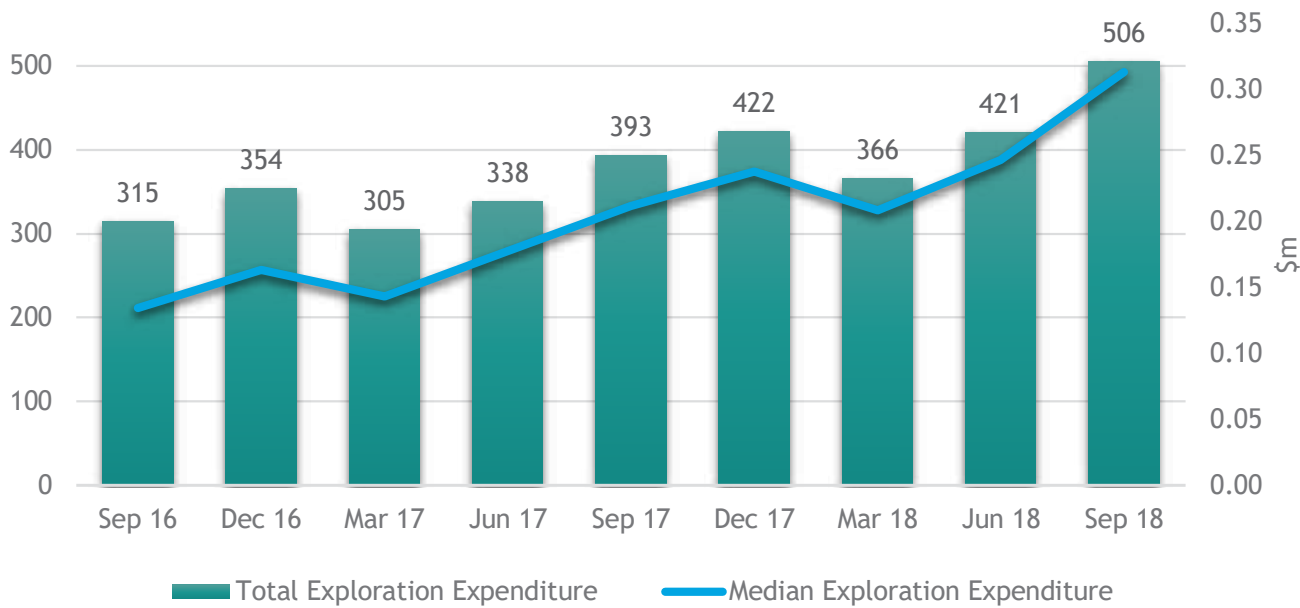
Median exploration expenditure increased to \$0.31 million for the September quarter, the highest since we commenced our coverage in the September quarter of 2013. The median exploration expenditure amongst explorers in the June quarter was \$0.25 million.

The increase in the average exploration expenditure came more from the top end of the market, showing that those larger exploration companies are willing to invest its cash into the ground. The number of companies spending more than the two-year average increased across all threshold levels above \$300,000.

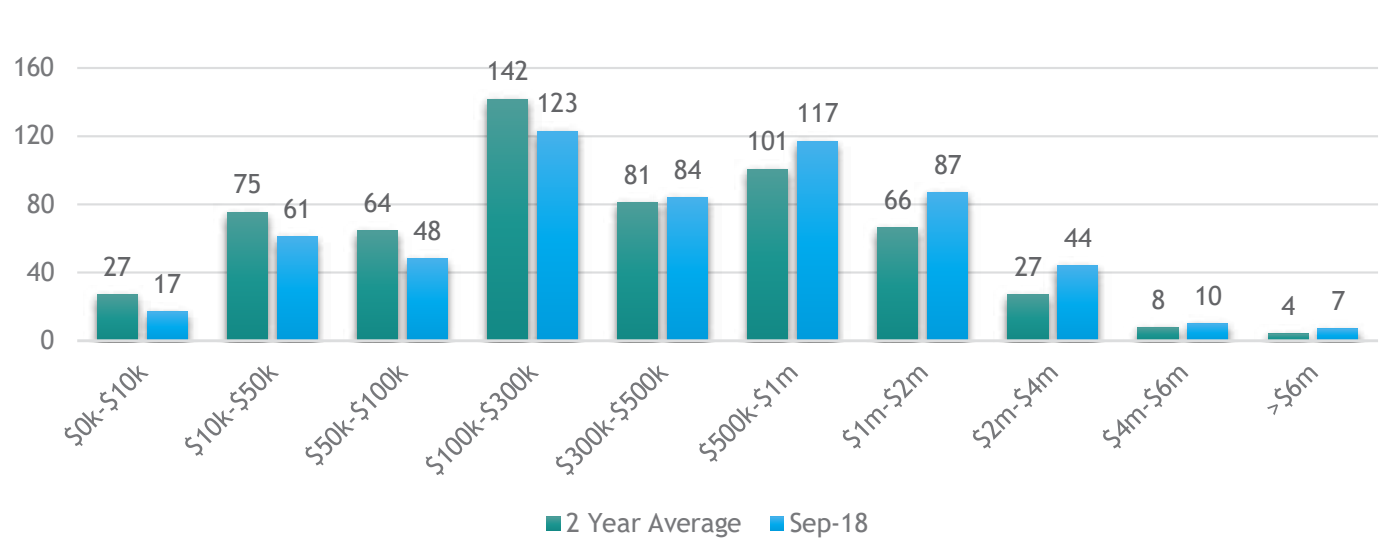
We expect to see sustained exploration expenditure over the coming quarters as junior explorers continue to take advantage of the Junior Minerals Exploration Incentive ('JMEI'). The JMEI allows mineral exploration companies with no mining income to pass their tax losses through to eligible investors who take up shares that are issued through a capital raise.

The funds raised must be spent on Greenfields mineral exploration in Australia. 46 companies have secured funds through the JMEI in its second round, with the funds becoming available in the 2019 financial year. For further information on the JMEI please refer to BDO's paper (<https://www.bdo.com.au/en-au/insights/tax/tax-industry/junior-minerals-exploration-incentive>).

EXPLORATION EXPENDITURE (\$M)



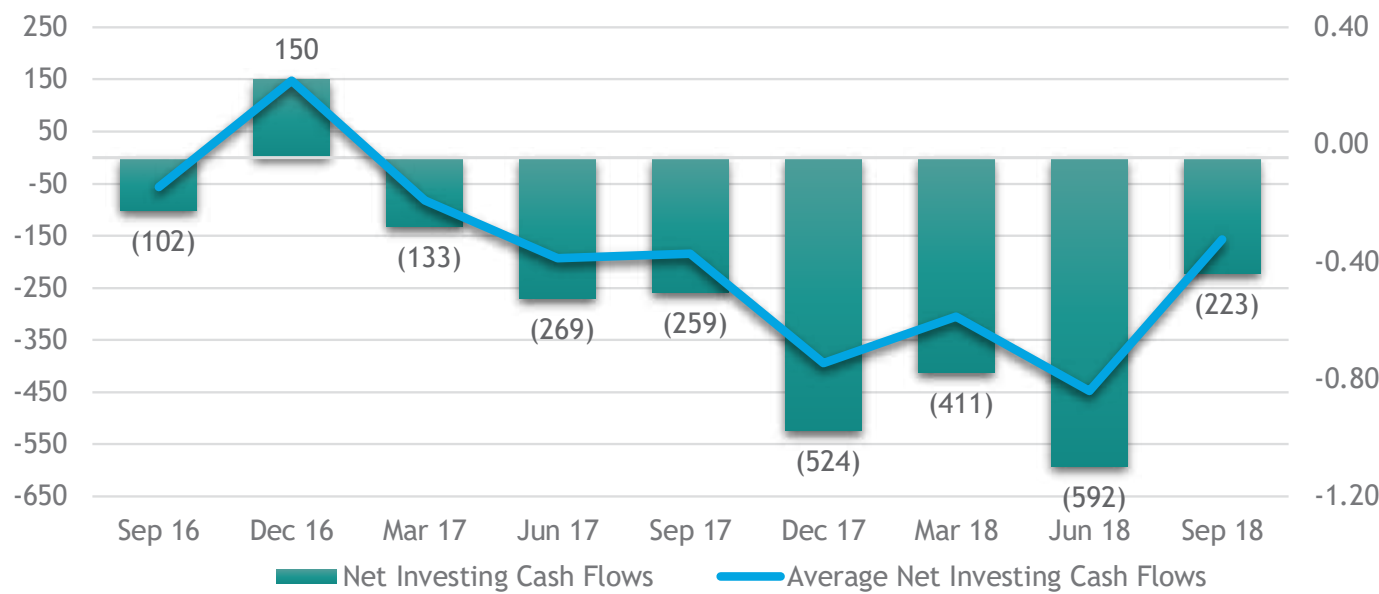
NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE



NET INVESTING CASH FLOWS

Net investing cash flows declined by 62% from \$592 million in the June quarter to \$223 million in the September quarter of 2018.

NET INVESTING CASH FLOWS (\$M)



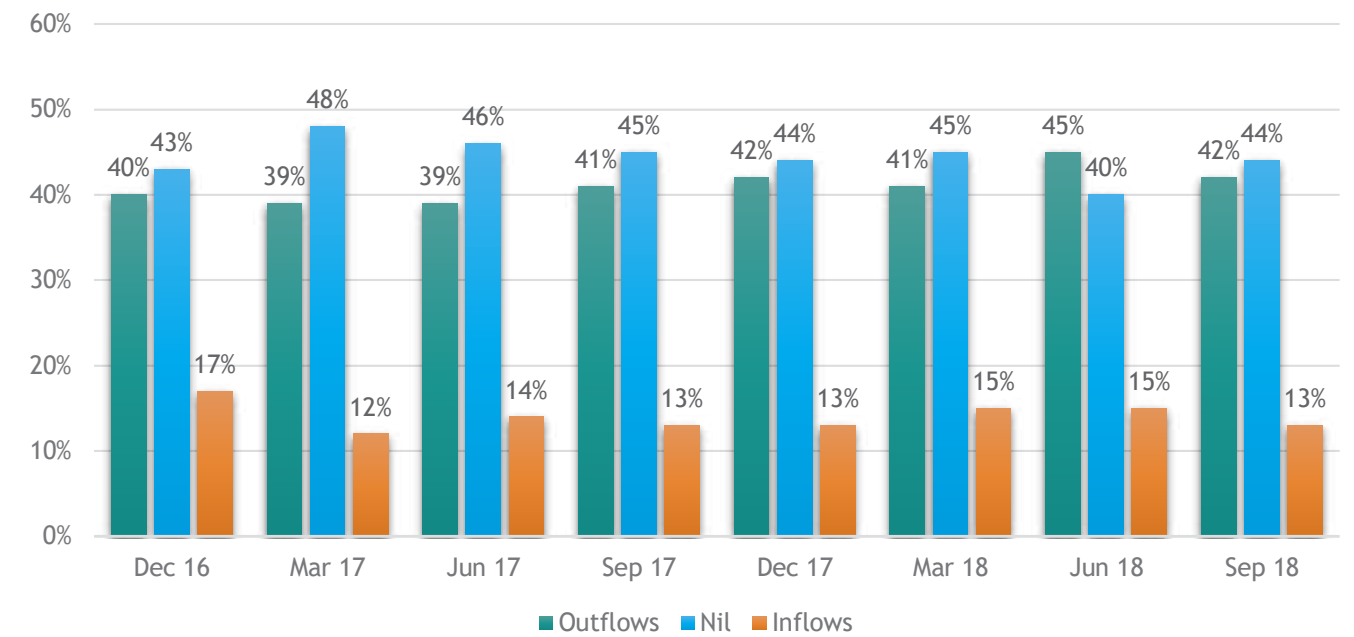
The proportion of exploration companies with investment expenditure during the September quarter was 42%. This was down from 45% in the June quarter 2018, which was the highest percentage for a given quarter since we commenced our coverage in September 2013.

The September quarter saw an increase in the total percentage of companies with nil investment cash flows; rising to 44% from 40% in the June quarter 2018. We have also observed an increase in the average cash position of exploration companies to \$6.53 million, its highest point during our analysis period. This suggests that exploration companies are well poised to spend once the right conditions prevail.

The slowing trend in capital expenditure in the September quarter contrasted the strength of recent quarters, when more exploration companies were actively pursuing investment opportunities to strengthen or expand their scale of operations, and not focussing purely on exploration activities.



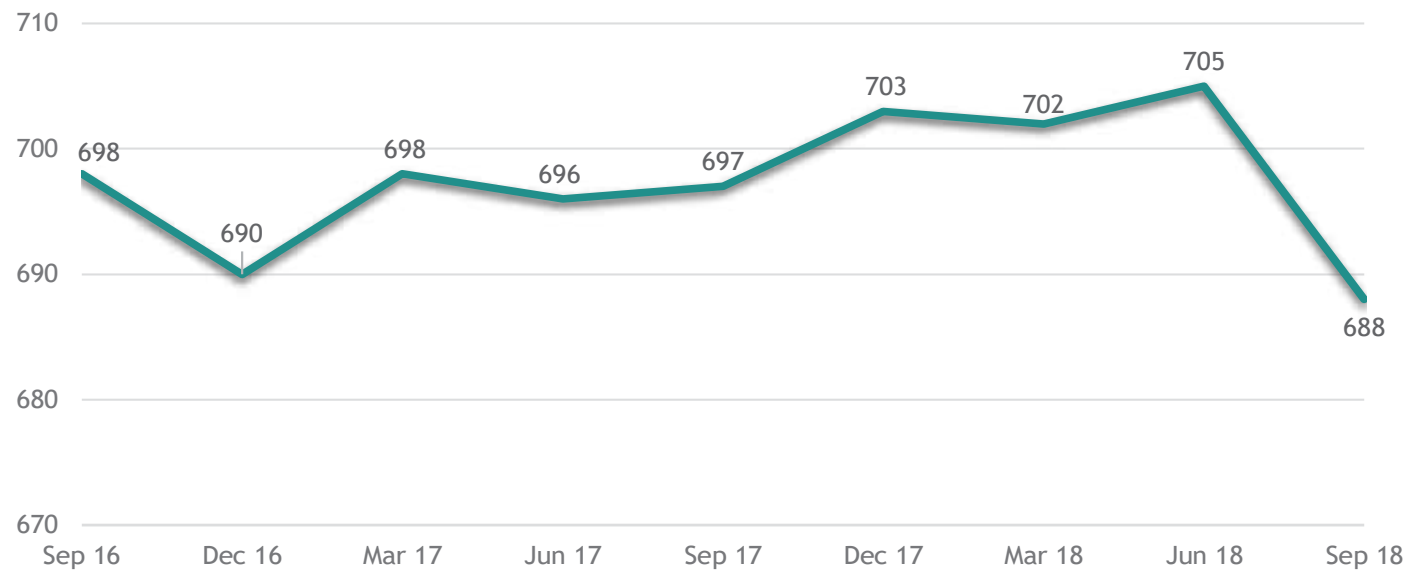
INVESTING CASH FLOWS (%)



NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: SEP 2016 - SEP 2018

For the quarter ended 30 September 2018, 688 companies lodged an Appendix 5B report, which was down from 705 in the June quarter 2018 and 697 in the September quarter of 2017.

NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS



The net decrease of 17 companies to lodge an Appendix 5B report from the June 2018 quarter to the September 2018 quarter was a result of the following:

- 5 companies were delisted from the ASX during the September quarter
- 4 companies that reported in June were acquired during the September quarter
- 6 companies were suspended during the September quarter, and
- 10 companies were late to report or did not report Appendix 5B's for the September quarter.

The decline in the number of companies lodging an Appendix 5B report over the September quarter was partially offset by:

- 2 Initial Public Offerings ('IPOs') of exploration companies during the September quarter
- 1 newly named exploration company following a three way merger
- 5 companies that were late to lodge Appendix 5B's in the June 2018 quarter (and were therefore excluded from our analysis) were captured in our September data.



The two IPOs recorded during the September 2018 quarter included Tempus Resources Limited and Kingwest Resources Limited, which raised \$5 million each.

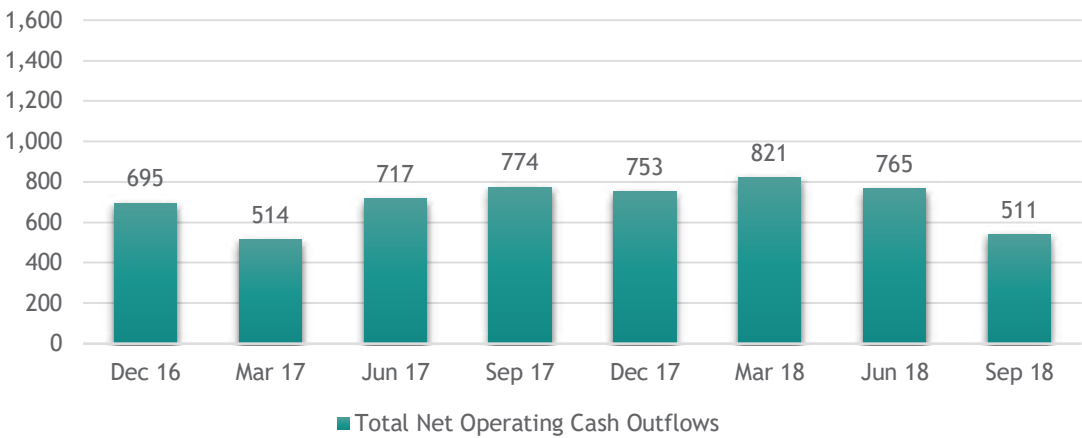
COMPANY	COMMODITY	AMOUNT RAISED (A\$MILLION)
Tempus Resources Limited	Copper	5
Kingwest Resources Limited	Gold	5

NET OPERATING CASH OUTFLOWS

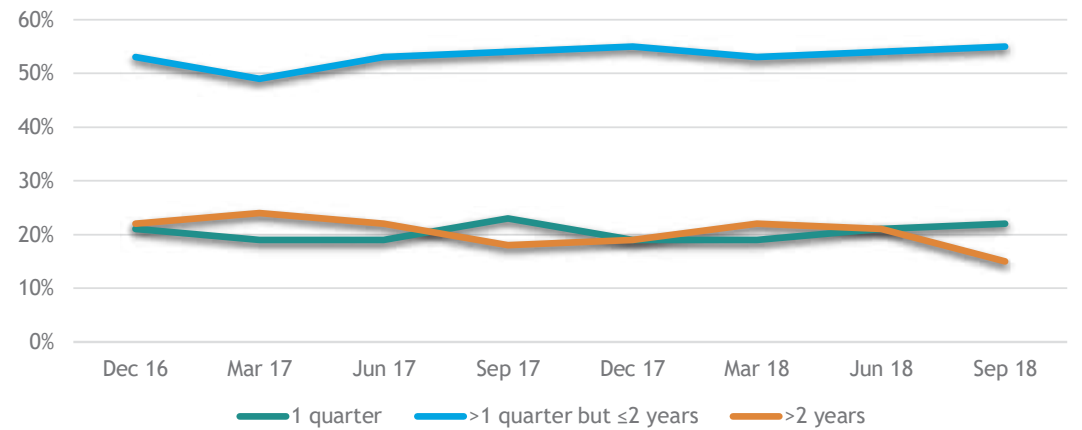
Total net operating cash outflows declined by 33% between the June and September quarters of 2018, with the average net operating cash out flows decreasing from “\$1.1 million to \$0.74 million from the June quarter.

Based on current operating expenditure, the proportion of companies that will burn through their cash reserves in one quarter or less, increased from 21% in the June 2018 quarter to 22% in the September quarter. The number of companies that will burn through their cash reserves between one quarter and two years increased from 54% to 55%, while the number for more than two years declined from 21% to 15%, over the same period.

NET OPERATING CASH OUTFLOWS (\$M)



OPERATING EXPENSES - CASH BURN RATE



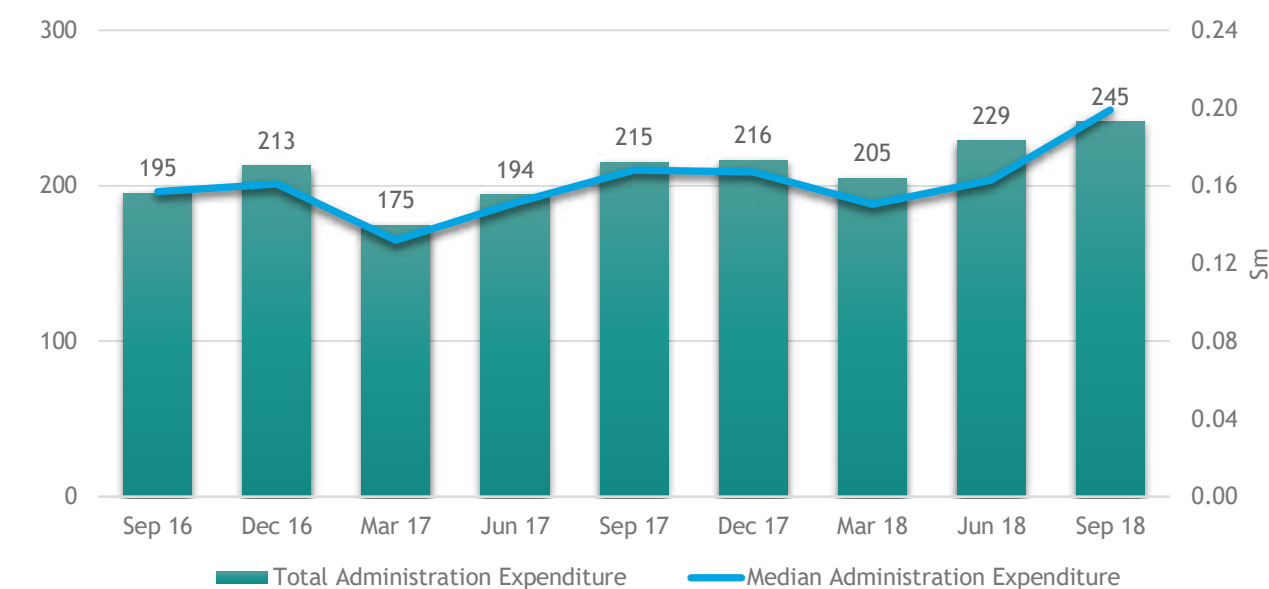
ADMINISTRATION EXPENDITURE

Total administration expenditure increased from \$229 million for the June quarter to \$245 million for the September 2018 quarter, representing a 7% increase. The median administration expense incurred by exploration companies increased from \$0.16 million to \$0.20 million over the same period.

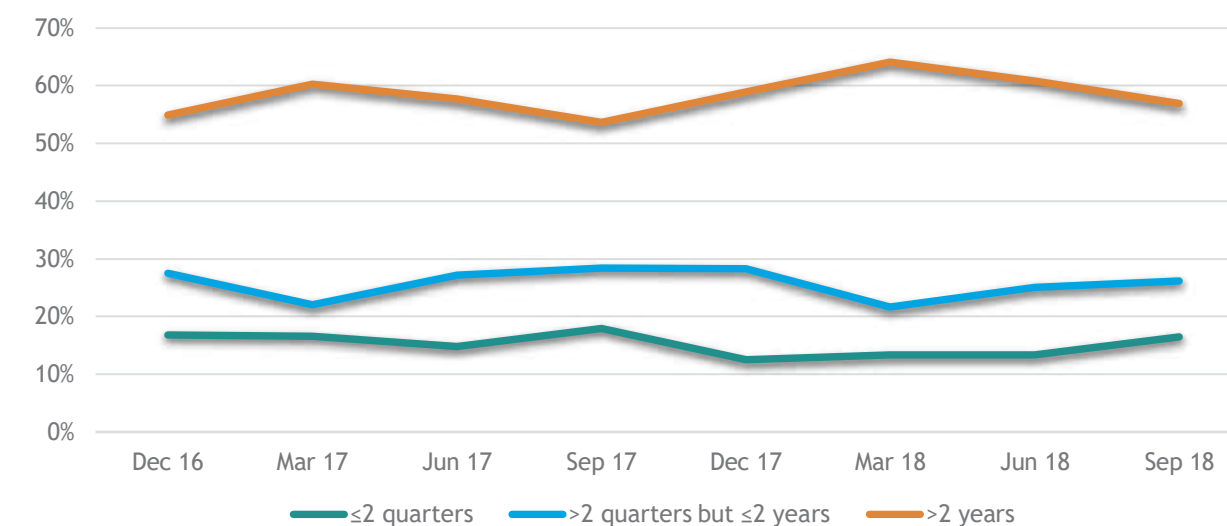
In recent years we have observed a declining trend in administration expenditure, as explorers strived to streamline operations by reducing the administrative function as much as possible. The increasing trend in administration expenditure since the March 2018 quarter may reflect a resilient longer term outlook by industry participants which looks beyond the recent share market volatility.

Based on administration expenses for the September quarter in 2018, the proportion of companies with cash sufficient to sustain these expenses for greater than two years declined from 61% for the June 2018 quarter to 57%. The proportion of companies with more than two quarters and less than two years increased from 25% to 26% over the same period.

ADMINISTRATION EXPENDITURE (\$M)



ADMINISTRATION EXPENSES - CASH BURN RATE

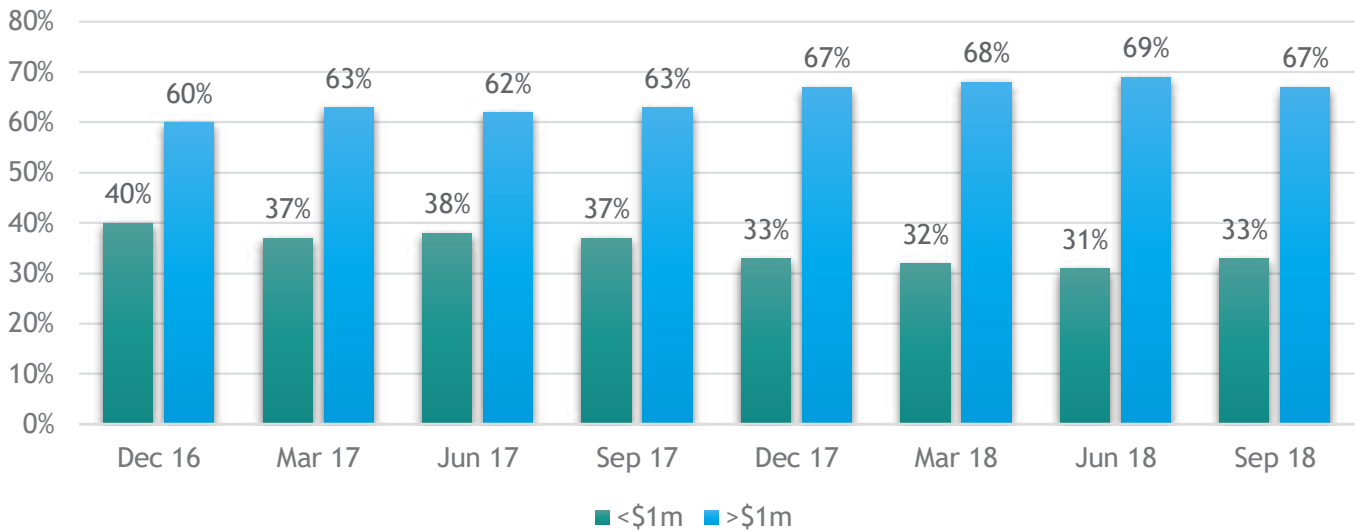


SEPTEMBER 2018 QUARTER CASH POSITION

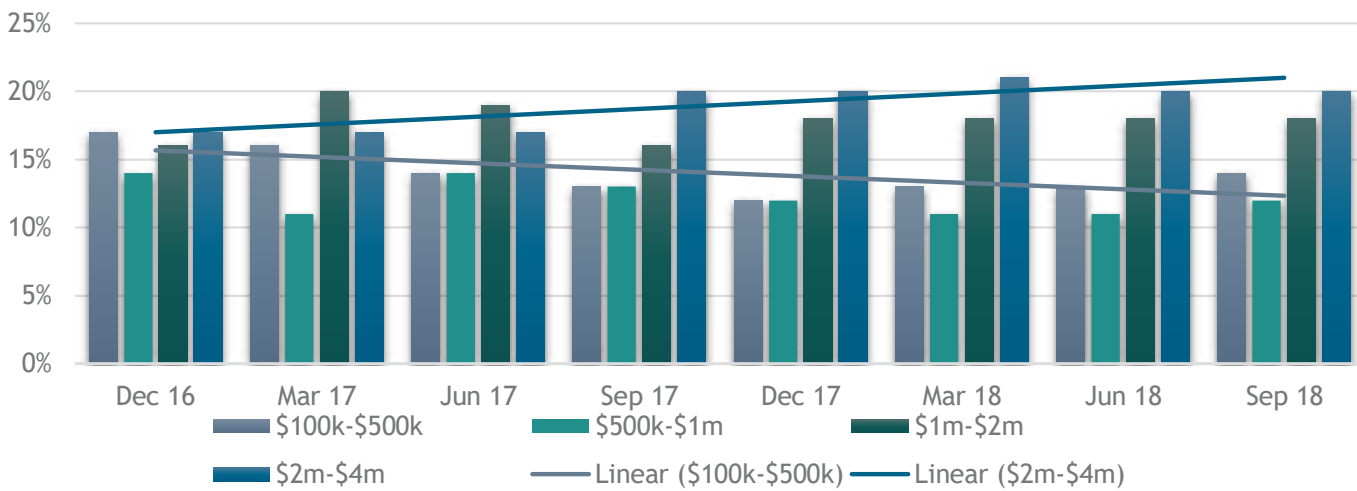
The average cash balance for exploration companies increased from \$6.38 million for the June quarter to \$6.53 million for the September quarter. The proportion of companies with cash balances greater than \$1 million was broadly consistent between the June and September quarters. As highlighted in previous editions of our report, exploration companies have been cashed up in recent years which explains record levels of exploration activity.

Companies with a cash balance between \$100k and \$4 million accounted for 64% of companies that lodged an Appendix 5B for the September 2018 quarter. The proportion of companies at each threshold within this range (\$100k - \$4m) remained similar between the June and September quarters, with the exception of the proportion of companies with a cash balance greater than \$1 million, which declined by 2% in the September quarter compared to June.

CASH BALANCE (% OF COMPANIES)



CASH BALANCE (% OF COMPANIES)



BDO INSIGHT

The September quarter in 2018 presented mixed performance for exploration companies. Exploration expenditure continued at record levels, with favourable commodity prices and positive market conditions in recent periods driving the momentum.

There was a noticeable change in the September quarter from previous quarters, despite the record levels of exploration expenditure. The decline in financing cash inflows indicates signs of a potential worsening of market conditions.

In 2018, the ASX200 lost ~7% of its total market value to record its weakest annual performance since 2011. The S&P/ASX Small Resources Index lost 15% of its total value in 2018, which reveals that the general market decline was felt hardest by explorers. This may have made exploration companies less willing to raise capital due to depressed share prices.

The silver lining to rising volatility is the increase in gold exploration. In the September quarter, gold explorers were responsible for raising the most capital out of all ASX explorers, and this is a trend we believe will continue as volatility remains elevated due to a continuation of global geopolitical and economic uncertainty.

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*Statistics as of 31 December 2018

1,500 
OFFICES WORLDWIDE

73,854
 PEOPLE

US\$8.1b
TOTAL REVENUES

162
TERRITORIES

CONTACT US

SHERIF ANDRAWES

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

ADAM MYERS

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

GARETH FEW

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

JAMES MOONEY

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

SCOTT BIRKETT

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

DAVID FECHNER

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

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