Ten-year Anniversary Special

EXPLORER QUARTERLY CASH UPDATE

June Quarter 2023

IDEAS | PEOPLE | TRUST

BDO

BONUS FEATURE: TEN-YEAR DATA AND TRENDS

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS: QUARTER ENDED 30 JUNE 2023

A shifting landscape: M&A and consolidation paves the path for explorers.

The number of companies lodging an Appendix 5B declined for the first time since September 2020 driven by a weak Initial Public Offering (IPO) market coupled with an increase in consolidation activity, with seven explorers acquired during the quarter.

Explorers secured $2.84 billion funding in the June quarter, reflecting an increase of 111% compared to the preceding March 2023 quarter.

For the second successive quarter, both gold and lithium secured the top spots on our Fund Finders, underscoring the notion that market sentiment is being both propelled by the demand for battery metals, yet tempered by economic volatility.

Exploration and investment expenditure experienced growth of 10% and 151% respectively, despite this, explorers generally maintained healthy cash balances, as 82% of explorers reported cash balances of $1 million or higher.

BDO's report on the financial health and cash position of Australian-listed explorers for the June quarter of 2023 (based on quarterly Appendix 5B reports lodged with the Australian Securities Exchange (ASX)) suggests that an alleviation of previously constrained financial markets, brought about by a turbulent global macroeconomic environment, has enabled the sector to position itself well for the future battery mineral revolution.

In the June 2023 quarter, we observed a marginal easing in recent persistent upward inflationary pressure, which had peaked by the close of 2022. Relative to the last two quarters of subdued activity across all segments of cash flows, the current quarter appeared to unveil a reset in investor sentiment, marked by the increase in financing, investment and exploration spending as cash balances generally remained healthy.

This quarter also saw an anticipated return in consolidation activity among explorers, particularly in the gold sector, while IPOs focussed on the critical minerals domain, where lithium and rare-earth minerals are taking centre stage.

For the first time since September 2020, the sector saw a reduction in the number of ASX-listed exploration companies lodging an Appendix 5B, with 779 reporting companies in the June 2023 quarter, down from 787 in March. The decrease of eight companies from the previous quarter was a result of seven companies being acquired by, or merged with, larger companies, three companies delisting from the ASX official list as a result of exceeding the maximum continuous trading suspension period of two years, whilst two companies went into voluntary administration. On the other hand, a total of four newly listed companies entered our data set, all of which stepped into the critical minerals space. This demonstrates, once again, although the IPO market may have cooled, there remains an appetite in capital markets for explorers in the critical minerals space.

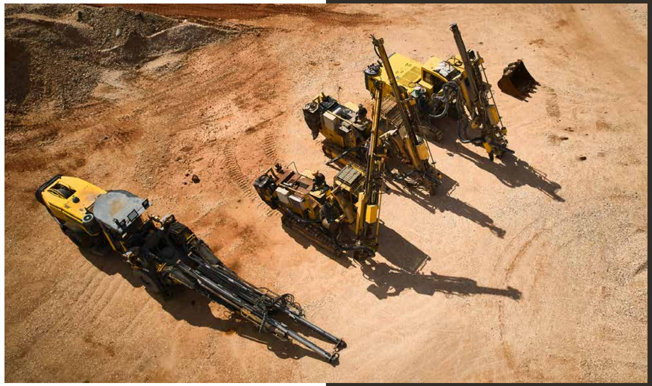
A healthy rebound in capital markets was indicated by an increase in financing cash inflows in the June 2023 quarter of 111%, reaching $2.84 billion. Alongside, the average financing inflows per company was up 8.5% to total $3.65 million when compared to the two-year average of $3.36 million. This increase was largely driven by notable M&A activity undertaken by Genesis Minerals Limited (Genesis) and several lithium explorer giants. Interestingly, the proportion of companies raising over $1 million grew by 8.3% whilst smaller-scale fund raises became less prominent. The trends observed suggest a gentle loosening of previously constricted financial markets in light of easing global macroeconomic conditions.

In the June 2023 quarter, 53 companies (which we have termed 'Fund Finders') raised capital exceeding $10 million, up from 34 in the previous quarter. The Fund Finders consisted of twelve gold, nine lithium, four copper and three graphite, rare earth elements, oil and gas and copper-gold companies. Gold maintained its place atop our Fund Finders, contributing to 38% of the $2.24 billion raised, led by Genesis, who completed a capital raising of $466.47 million, on the back of its acquisition of St Barbara Limited's (St Barbara) Leonora gold assets. This may mark the first of a series of gold consolidations in the Leonora District. Lithium Fund Finders secured $588 million, led by Sayona Mining Limited (Sayona) and Liontown Resources Limited (Liontown). Copper also resurged as a chief commodity in our Fund Finders on the back of a forecast global supply deficit.

Exploration expenditure in the June 2023 quarter increased by 10% to $914 million, marking the turn of a declining trend that has existed since the September 2022 quarter. The average exploration spend per company rebounded by 12% to $1.17 million from the previous quarter, illustrating a rebounding strength in exploration activity. Given our Fund Finder analysis by commodity, unsurprisingly the largest exploration spends were among gold and lithium explorers, whilst we have also seen a revival in copper exploration.

Investment spending showed a surge of 150% in net investing cash outflows for the quarter, increasing to total $1.27 billion. Once again this was heavily impacted by Genesis who acquired St Barbara's Leonara assets in a deal amounting to $381 million. Excluding this net investing outflow, the average investment spend per company increased by 78% to $1.14 million from the March 2023 quarter. All signs indicate that explorers are convinced of the degree of global demand and the sustainable supply of their resources, which has led them to put their cash towards new investment opportunities and prospective projects.

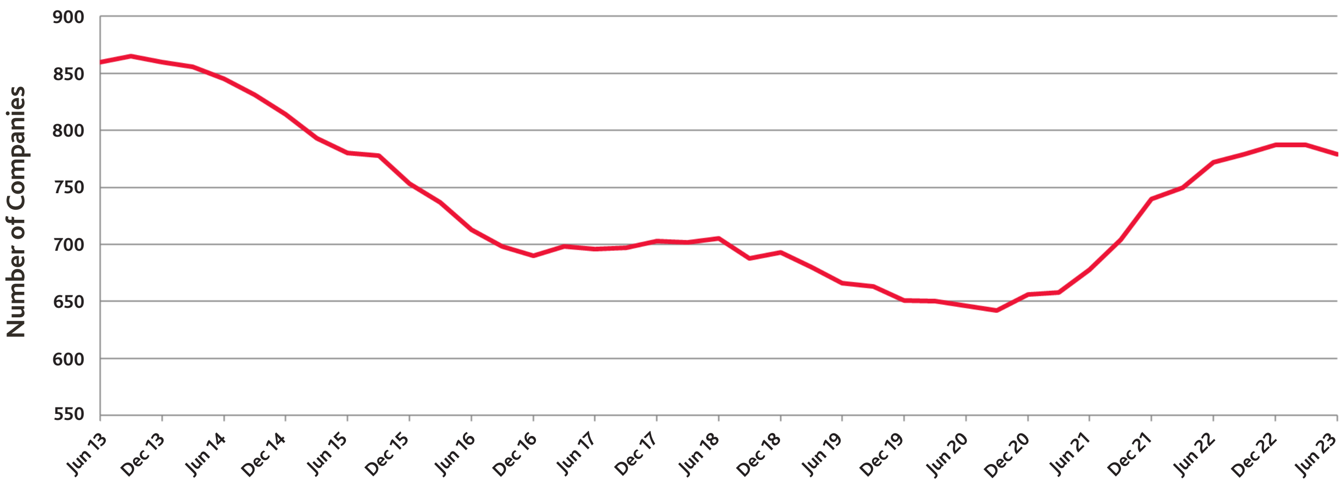
Explorers have demonstrated resilience by maintaining strong cash balances despite upward inflationary pressure, although, a slight easing was witnessed during the current quarter, with annual inflation decreasing to 6.0% (as per the consumer price index (CPI)). The average cash balance per explorer remained steady dropping slightly from $10.20 million in the March 2023 quarter to $10.11 million in the current quarter, indicating that funding continues to be available. As a general concept explorers prefer to spend funds on exploration activities if they know those funds can be replaced.



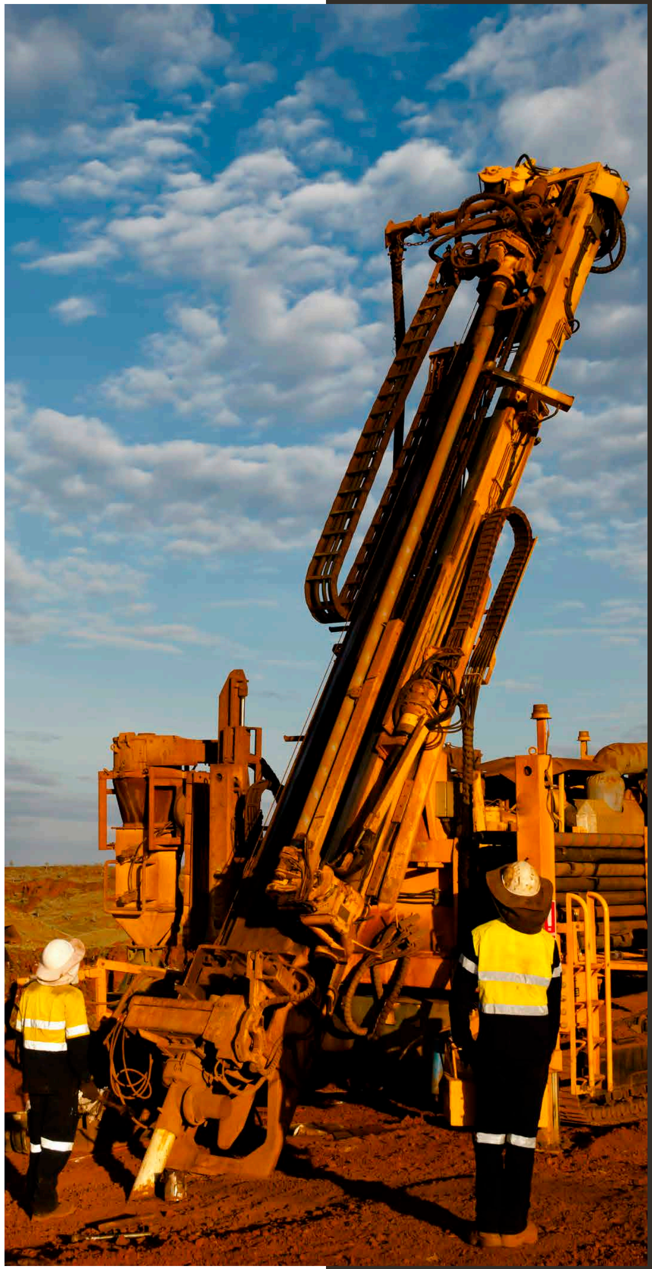
NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: JUNE 2013 – JUNE 2023

779 companies lodged an Appendix 5B for the June 2023 quarter, representing a reduction of eight companies from the March 2023 quarter and marking the first reduction in companies to lodge since the September 2020 quarter. However, it is worth highlighting that seven companies did not lodge an Appendix 5B due to being acquired in the June 2023 quarter. This reflects a trend of increased consolidation activity within the sector.

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



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 initial shock of the COVID-19 pandemic on the national 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, largely driven by the government's economic support, and strong commodity prices. This trend was most prominent throughout 2021, where the average number of IPOs per quarter reached 26 companies.

In recent quarters, the market's enthusiasm for IPOs has appeared to wane, influenced by elevated interest rates, which at their current levels typically offer more attractive alternative investment avenues. This is illustrated by the four companies that recently completed an IPO lodging an Appendix 5B for the first time in the June 2023 quarter, which has come down from the seven new companies in the March 2023 quarter and ten new companies in the December 2022 quarter.

However, BDO expects that more IPOs will soon be observed in the second half of 2023, with our pipeline of prospective IPOs for the remainder of the 2023 calendar year relatively strong. In addition, we would typically see more IPO activity in the second half of the year, as companies seek to use their 30 June accounts in prospectuses. We have also observed increased interest from Canadian companies looking to list in Australia, which may reflect the relative attractiveness of the ASX in comparison to the Canadian markets.

The five companies that reported an Appendix 5B for the first time in the June 2023 quarter, and were hence not captured in our March 2023 quarter data, largely corresponded to the four aforementioned companies that recently completed an IPO, namely:

- Australian Critical Minerals Limited
- Augustus Minerals Limited
- DY6 Metals Limited
- Patagonia Lithium Limited.

Of these newly listed companies, we note that all of them are in the 'clean energy' minerals space, specifically, lithium, critical metals and rare earths.

The fifth new company in our June 2023 quarter data is True North Copper Limited, which commenced trading on the ASX after its merger with Duke Exploration Limited.

This increase was offset by 13 companies that did not report Appendix 5Bs in the June 2023 quarter for the following reasons:

- Seven companies were delisted as a result of being acquired or merged:
  - Breaker Resources NL acquired by Ramelius Resources Limited
  - Duke Exploration Limited merger with True North Copper Pty Ltd
  - Kingwest Resources Limited acquired by Brightstar Resources Limited
  - Mincor Resources NL acquired by Wyloo Metals Pty Ltd
  - Norwest Energy NL acquired by Mineral Resources Limited
  - Octanex Limited acquired by Albers Group
  - Tulla Resources Plc's merger with Pantoro Limited.
- Three 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
- Two companies were suspended from trading following the appointment of voluntary administrators.

The seven companies that were acquired or merged in the June 2023 quarter showcases a notable increase from the three acquisitions recorded in the March 2023 quarter, and likely signifies the commencement of a healthy wave of consolidation activity across the sector. This appears to be driven by tightening capital markets and rising input costs, both of which pose significant challenges to project development for standalone exploration entities.

During periods of abundant cash reserves and favourable financing conditions, explorers are typically able to independently advance their respective projects, resulting in fewer instances of consolidation. This trend was evident during the COVID-19 pandemic when favourable financing conditions meant that explorers were able to raise funds more easily whilst at the same time IPO activity surged.

Today there is more uncertainty, and less cash is available. However, commodity prices continue to remain strong against historical levels which is a real positive for explorers. Commodity prices being strong while capital markets are weak provides an ideal combination of M&A activity. Consequently, many explorers are now inclined to advance their projects via consolidation, choosing this route over running the gauntlet with uncertain and volatile capital markets.

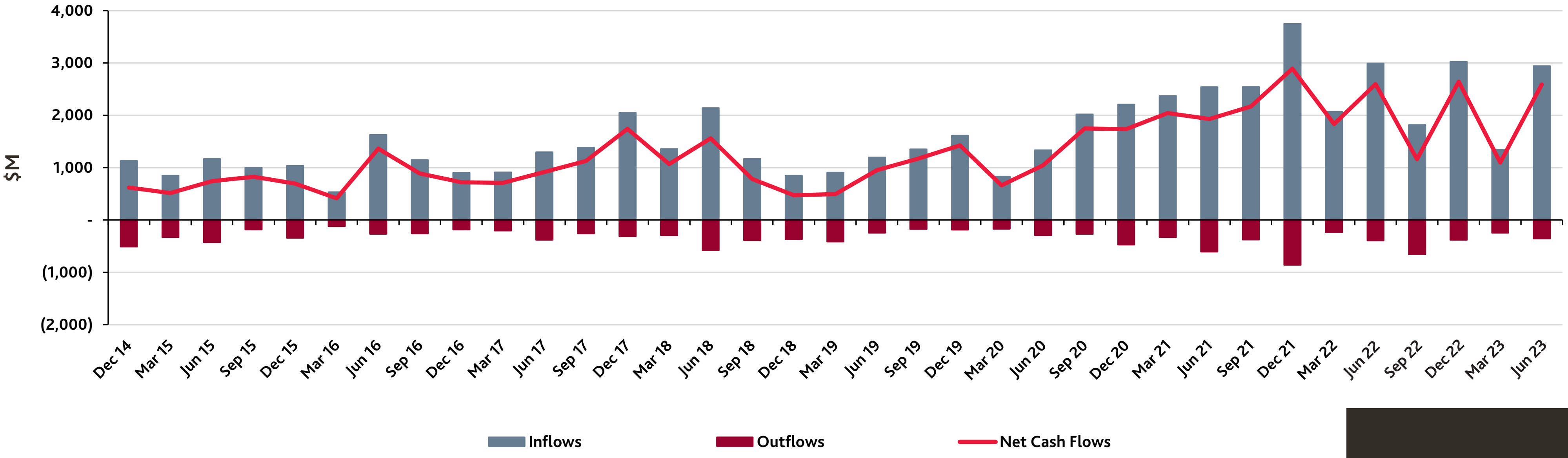
The uptick in acquisitions particularly within the gold sector comes as no surprise, particularly given the uncertain state of financial markets and the ongoing record-level of gold purchases by central banks to bolster their foreign exchange reserves. An evident pattern highlighted above is that existing gold producers have procured high quality gold exploration assets, perhaps as a strategic move to enhance their resource base to meet expected demand spikes, particularly if central bank gold purchases continue on their current trajectory.

FINANCING CASH FLOWS

After witnessing a 55% drop in the amount of funds raised in the previous quarter, financing cash inflows increased by 111% to $2.84 billion in the June 2023 quarter. In the current quarter, the average financing cash inflows per company was $3.65 million, 8.5% greater than the two-year average of $3.36 million since June 2021.

The recent volatility in financing cash flows, as depicted in the graph below, is a consequence of the adverse reaction from capital markets to interest rate rises implemented since May 2022, in conjunction with an inflationary environment, and global economic uncertainty. In this quarter, we have observed a loosening of previously tightened capital markets, evidenced by the increased number of large fund raisings.

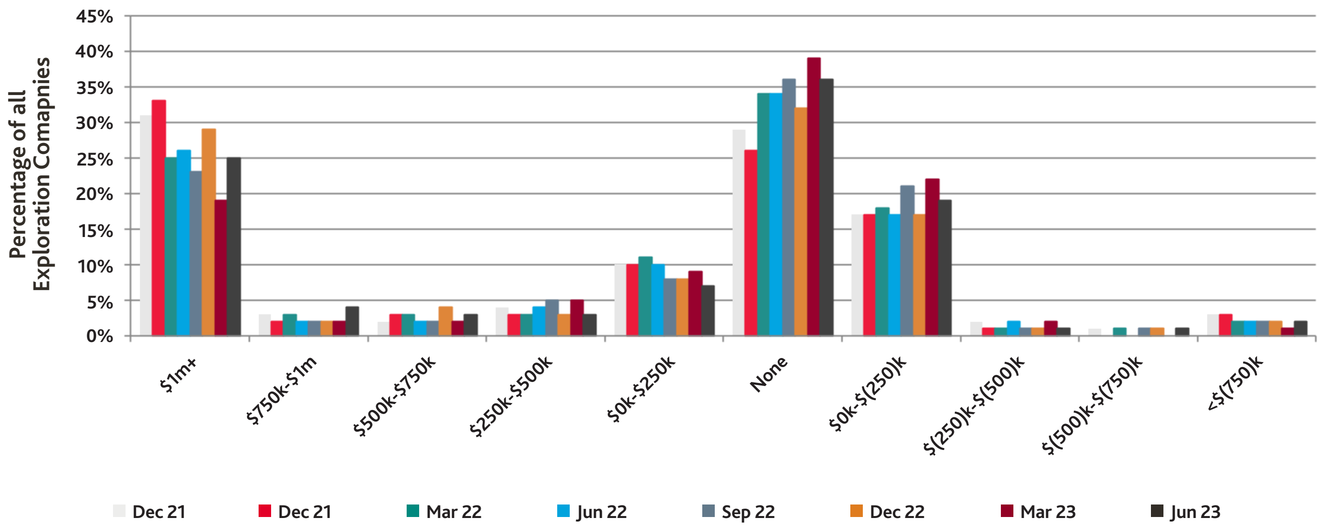
FINANCING CASH FLOWS ($M)



The steep increase in financing from the March 2023 quarter was largely driven by the 53 Fund Finder companies that recorded debt and equity raises of $10 million or more in the quarter, 19 more than the 34 Fund Finders observed in the previous quarter. On average, the Fund Finders in the June 2023 quarter raised $42.18 million each, largely impacted by significant equity raisings carried out by Genesis and Sayona, which contributed to 79% of the total funds raised by our Fund Finders for the June 2023 quarter. As in the March 2023 quarter, our leading Fund Finders for the quarter were gold and lithium explorers (see the Fund Finder section on page 7 for more details).

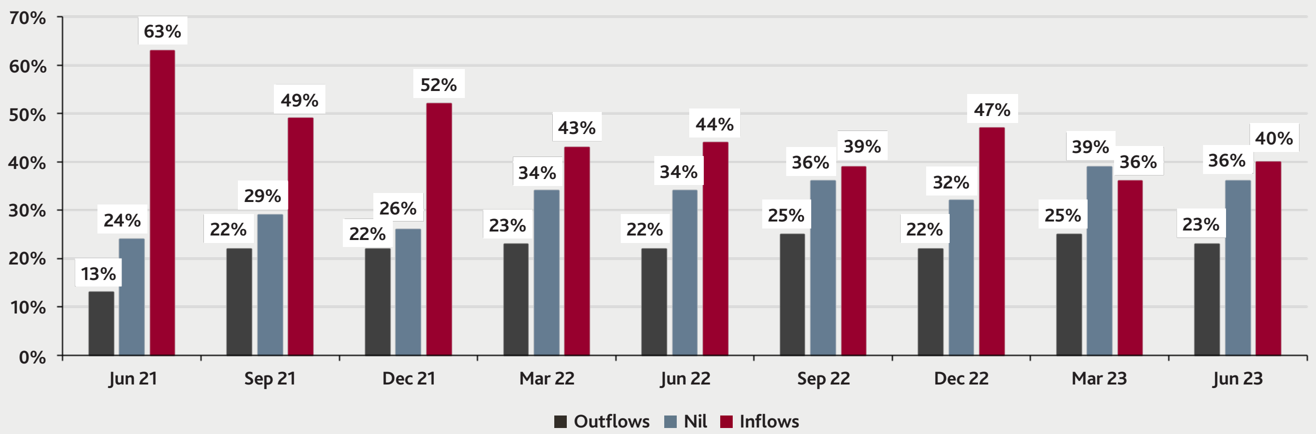
As the first graph shows, the proportion of companies with net financing inflows larger than $1 million increased from 19% to 25% in the June 2023 quarter. This shift indicates a degree of improvement in capital market conditions compared to the preceding March 2023 quarter, although conditions still appear to remain constrained relative to the periods immediately after the COVID-19 pandemic.

NET FINANCING CASH FLOWS (%)



The proportion of companies reporting a net financing inflow has experienced a broad declining trend since the June 2021 quarter of 63% to the current June 2023 quarter of 40%. Simultaneously, the proportion of companies reporting nil financing cash flows has increased from 24% to 36% for the respective periods. However, we note the June 2023 quarter showed a marginal reversal of these medium-term trends with the proportion of companies with net financing inflows greater than $1 million increasing from 19% to 25% during the June 2023 quarter.

FINANCING CASH FLOWS (%)



FUND FINDERS

In the June 2023 quarter, a total of 53 companies raised capital in excess of $10 million, representing growth of 36% from the 34 companies recorded in the preceding quarter. The 53 Fund Finders in the June 2023 quarter were dominated by gold and lithium companies, closely followed by copper companies, and with graphite, rare earth minerals, copper-gold and oil and gas companies equally trailing behind. 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 represented 28% and 2%, respectively. It's worth mentioning that access to debt funding increases when companies move into the development stage.

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

Company name	Commodity	Mechanism of raising
Genesis Minerals Limited	Gold	$466.47 million in proceeds from the issue of equity securities $0.03 million in proceeds from the exercise of options
Sayona Mining Limited	Lithium	$169.27 million proceeds from the issue of equity securities $3.64 million proceeds from the exercise of options $24.14 million proceeds from joint venture partners
Liontown Resources Limited	Lithium	$118.75 million proceeds from borrowings
Syrah Resources Limited	Graphite	$50.10 million proceeds from the issue of equity securities* $67.15 million proceeds from borrowings*
Vulcan Energy Resources Limited	Lithium	$108.41 million proceeds from the issue of equity securities*
Bellevue Gold Limited	Gold	$95.00 million proceeds from borrowings
Chalice Mining Limited	Nickel-Copper	$76.42 million proceeds from the issue of equity securities
Bowen Coking Coal Limited	Coal	$45.67 million proceeds from the issue of equity securities $10.58 million proceeds from borrowings
Pantoro Limited	Gold	$56.05 million proceeds from borrowings
Delta Lithium Limited	Lithium	$46.44 million proceeds from the issue of equity securities $2.54 million proceeds from the exercise of options

Note: *Foreign-currency denominated inflows converted using the prevailing exchange rate as at 30 June 2023*

We discuss some of the more prominent capital raising from our top Fund Finders in the paragraphs below.

Genesis recorded the largest financing inflow for the June 2023 quarter, totalling $467 million. The financing inflow comprised an equity raising in conjunction with the strategic acquisition of St Barbara's neighbouring assets located in Leonara, which included the Gwalia underground gold mine, the 1.4 million tonnes per annum (Mtpa) Leonora mill, the Tower Hill project, the Zoroastrian project and the Aphrodite and Harbour Lights refractory projects. The raising comprised a two-tranche placement of 409 million shares in Genesis to professional and sophisticated investors at $1.15 per share. The funds were assigned largely to a $370 million cash payment made to St Barbara in connection with the acquisition, and the remaining funds allocated to mine development, Genesis' in-house mining fleet, as well as exploration and business development activities.

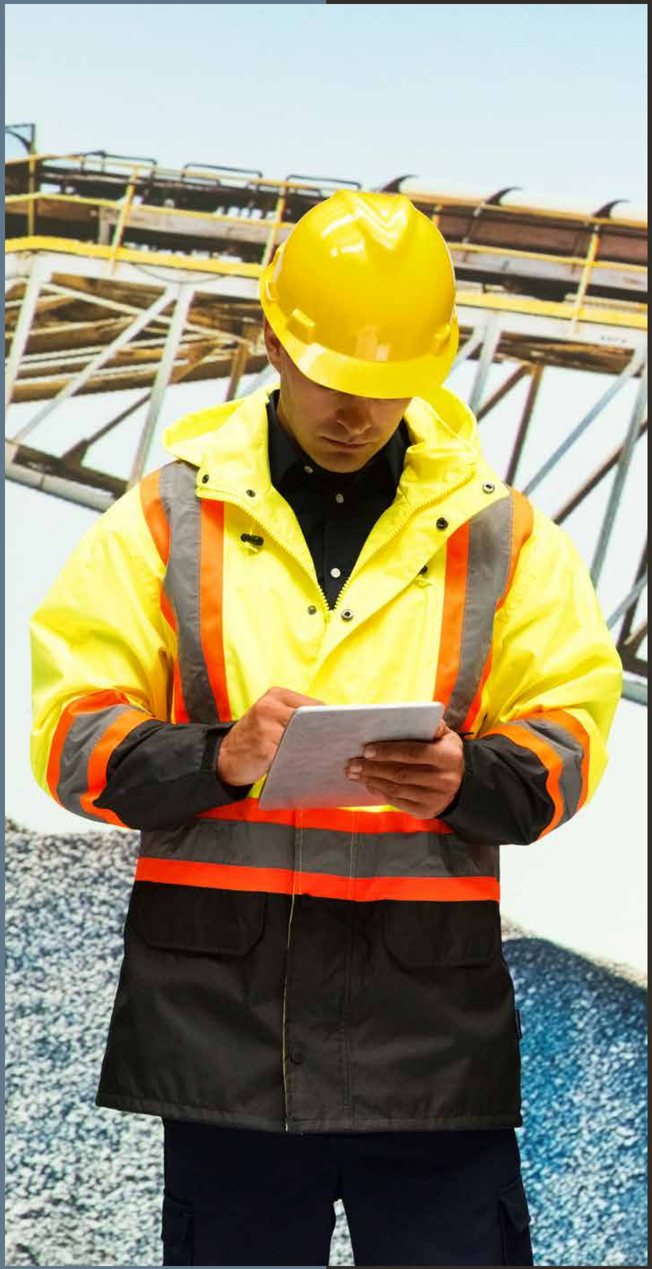
Sayona recorded the second largest financing inflow during the June 2023 quarter, raising a total of $197 million, largely from an equity raise. The company's raise encompassed a fully underwritten equity placement at $0.18 per share to professional and sophisticated investors, completed in two tranches and totalling $169 million. The capital injection was allocated to production ramp-up, working capital and the advancement of project infrastructure at Sayona's lithium hub, the Abitibi Hub, located in Quebec, Canada. This is centred on its North American Lithium operation that is to further be assessed for a downstream lithium chemical production opportunity. In addition, funds were committed to the progression of mine development studies at a potential northern lithium hub.

Liontown Resources Limited (Liontown), the second lithium explorer in our Fund Finder list, claimed third place, with its financing inflow sourced from debt. Liontown entered into a senior-secured debt facility with a subsidiary of Ford Motor Company (Ford), to support the funding requirements of its Kathleen Valley lithium project. The debt facility totalled $300 million with Liontown executing a drawdown of $119 million in the June 2023 quarter. This is a further example of car manufacturers, such as Ford, offering financial support to secure the steady supply of lithium, a key component for their electric vehicle batteries.

Syrah Resources Limited (Syrah), a natural graphite explorer, recorded a $117 million financing inflow comprising an issue of convertible debt securities with Australian Super Pty Ltd of US$33 million (approximately $50 million) and a US$44 million (approximately $67 million) advance on a loan facility entered with the US Department of Energy in December 2022. The capital injection is allocated to the construction of a 11.25 kilo tonnes per annum (ktpa) active anode material (AAM) expansion to the current 45ktpa AAM Vidalia facility (Vidalia Initial Expansion Project) located in Louisiana, the United States (US).

Vulcan Energy Resources Limited (Vulcan), another lithium explorer, secured a financing inflow of €66 million (approximately $108 million) in the June 2023 quarter, through an equity raise. This equity raise was from institutional investors in Australia, Europe, the United States and Hong Kong, and intended to enable Vulcan to transition from the development to the execution stage of phase one of its Zero Carbon Lithium Project.

Interestingly, Bowen Coking Coal was able to raise a total of $56 million in equity and debt funds relating to a $36 million placement and a fully underwritten $10 million share purchase plan at $0.17 per share, in addition to a drawdown of $10 million from a debt facility entered with Taurus Mining Finance Fund No 2 LP. The capital raised was allocated to the development of its Ellensfield South pit, targeted to produce its first coal in the next quarter. The ability of Bowen Coking Coal to attract these funds goes against the conventional wisdom that it is difficult to raise funds for coal exploration in the current environment.



FINANCING INFLOW BY COMMODITY FUND FINDERS – JUNE QUARTER 2023

Gold maintained its position as the leading Fund Finder commodity for the fourth consecutive quarter, representing a substantial portion of the total $2.24 billion raised by Fund Finders in the June 2023 quarter. Although inflation is slowing, investors remain drawn to the safe-haven asset of gold as geopolitical and macroeconomic uncertainties linger.

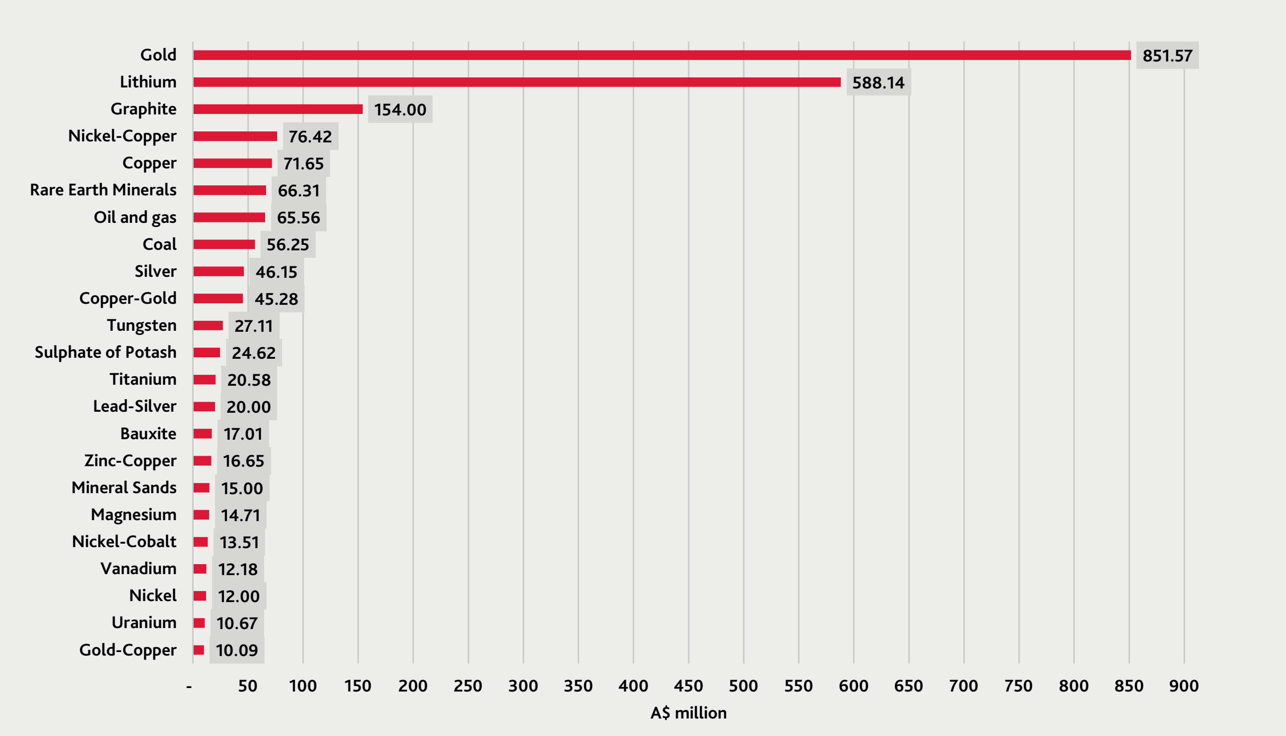
Lithium Fund Finders continue to steal the limelight for the second consecutive quarter of 2023, by securing a total of $588 million primarily through equity financing. More than three and a half times the $165 million raised in the March 2023 quarter, this inflow enhances lithium's prominence as the 'metal of the future', as the development of electric vehicles and energy storage accelerates. With demand currently outstripping supply, exposure to lithium mining stocks has become more appealing as investors seek to reap the benefits of the forecast lithium supply shortage. The funds were raised by nine explorers in the lithium sector with pioneers, Sayona, Liontown and Vulcan, contributing to 72% of the total lithium fund raisings.

It is worth noting that Sayona, Liontown and Vulcan own assets spread across North America, Australia and Europe, demonstrating the worldwide endeavour to address the escalating demand for lithium and to ensure diversity of supply away from China.

Graphite Fund Finders raised debt and equity of $154 million, representing a 59% growth to the $97 million raised in the prior quarter. The major graphite Fund Finders were Syrah ($117 million), Magnis Energy Technologies Limited ($27 million) and Black Rock Mining Limited ($10 million). Given graphite's adaptability, spanning applications from lithium-ion batteries to uses in the electrical and steel industry, graphite has once again emerged as a forefront commodity in the June 2023 quarter Fund Finder.

Despite a gentle easing in upward inflationary pressure, the prevailing trends in recent quarters persist. Gold continues to be favoured amidst the volatile economic landscape, while there remains a significant emphasis on fundraising in battery metals, given their pivotal role in energy transition.

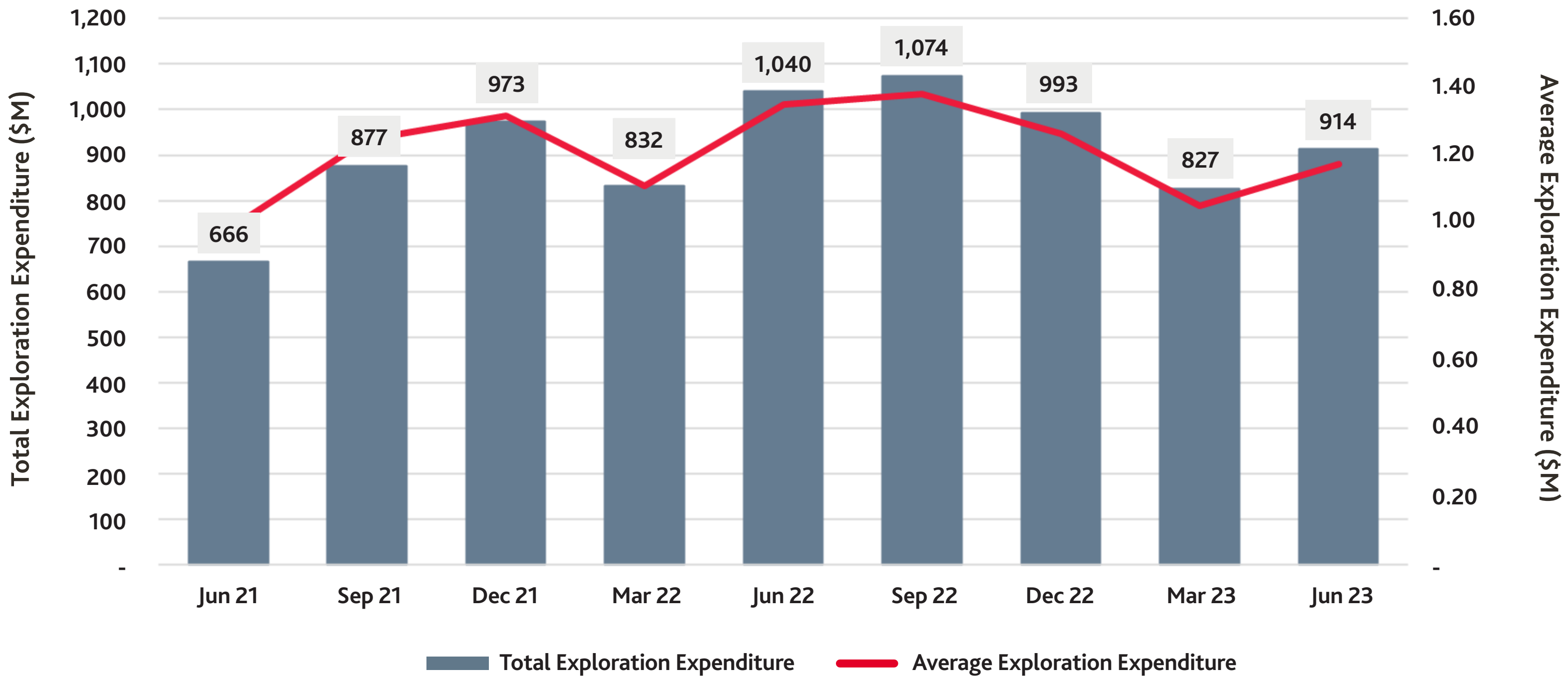
FINANCING INFLOW BY COMMODITY – TOP 53 EXPLORERS JUNE QUARTER 2023



EXPLORATION EXPENDITURE

In the June 2023 quarter, total exploration spending increased for the first quarter since the record-billion dollar spend in the September 2022 quarter of $1.07 billion. A total exploration spend of $914 million in the June 2023 quarter represented a 10% increase from the previous quarter. Additionally, the average exploration spend per company rose to $1.17 million from the two-year low of $1.05 million witnessed in the March 2023 quarter.

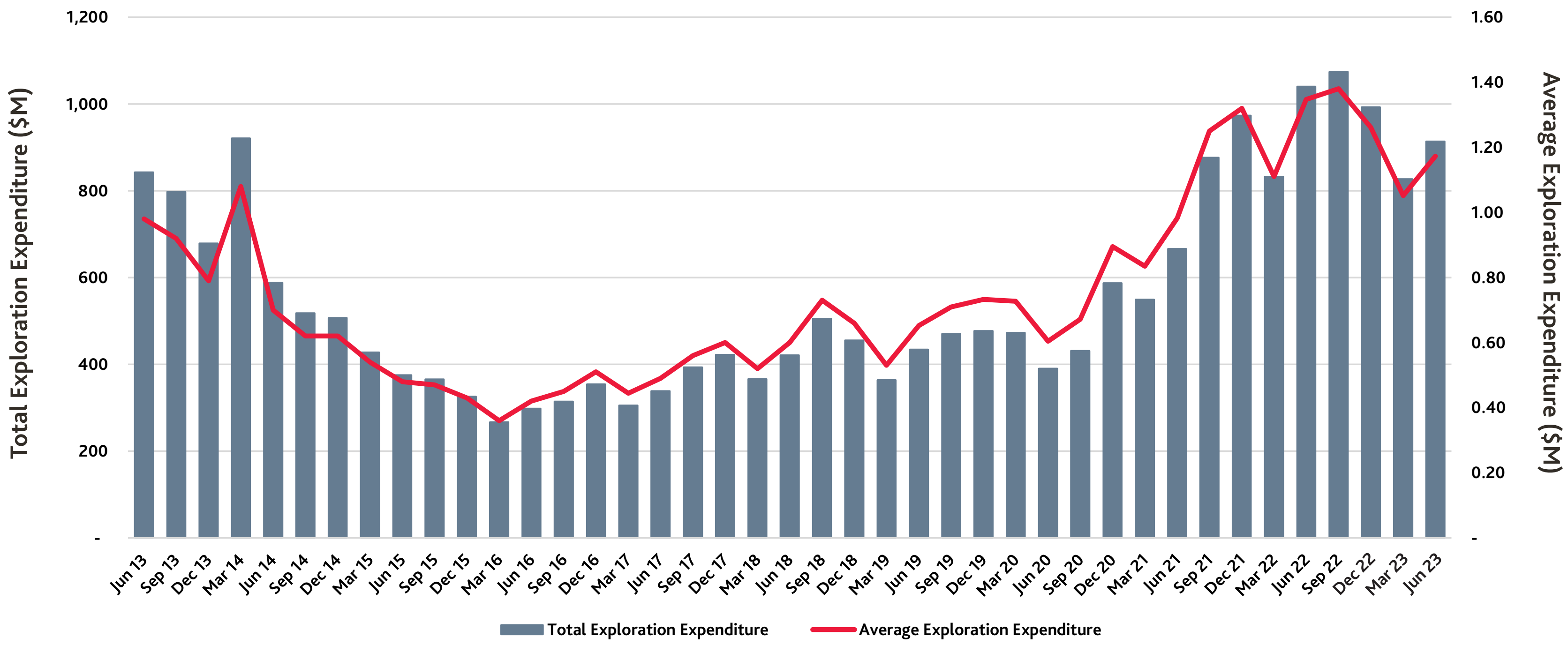
TOTAL EXPLORATION EXPENDITURE – LAST TWO YEARS ($M)



The long-term chart below shows that since the March 2016 quarter there has been a consistent upward trend in exploration spending, reaching its peak at $1.07 billion in September 2022. This trend was underpinned by favourable capital raising conditions and strong commodity prices from late 2020 to the end of 2022, which was a likely motivation for companies to intensify their exploration activities.

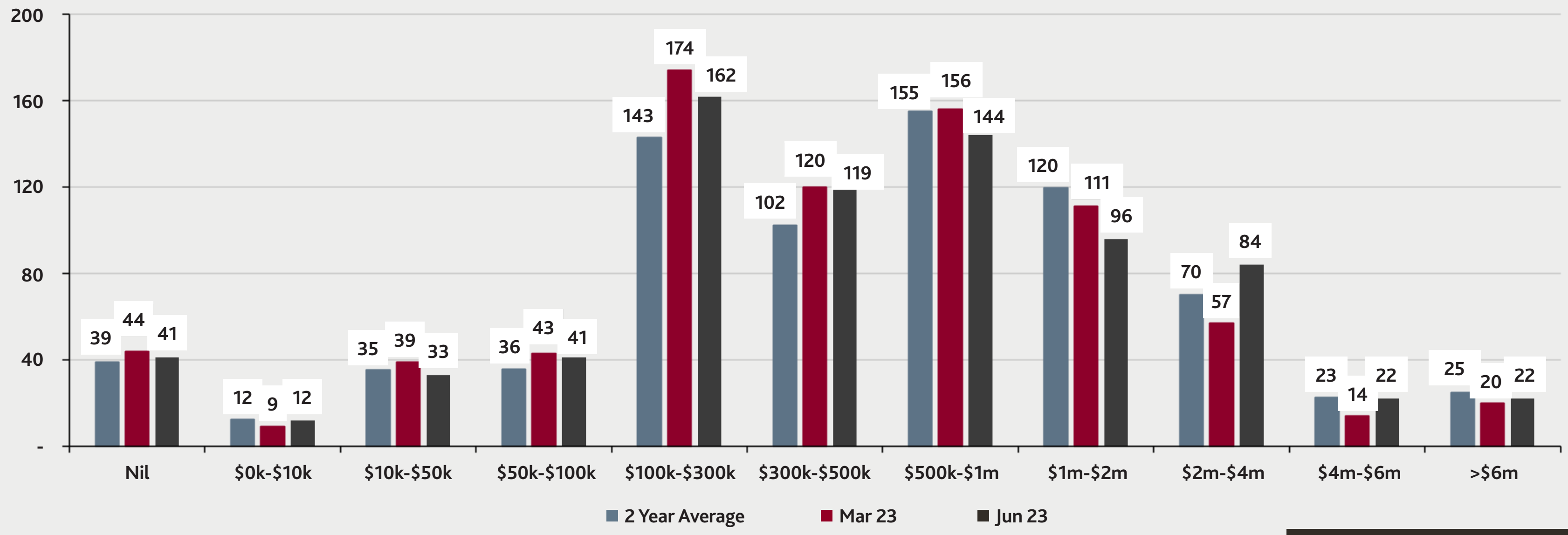
The increase in exploration expenditure may be caused by cost inflation or may simply be a result of more exploration activity. Regardless of the cause, it is a clear indicator that exploration companies have confidence the funds spent during the quarter can be replaced. We note that when BDO first commenced this analysis in June 2013, the sector comprised over 860 companies that lodged an Appendix 5B, as compared to the 779 reporting companies in the June 2023 quarter.

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 sizeable exploration spends over $2 million. Interestingly, the number of exploration spends within the tranche of $2 million to $4 million grew by 27 companies from last quarter. Growth can also be detected in the number of companies spending $4 million to $6 million and over $6 million.

NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE



For the second consecutive quarter, natural gas explorer, Tamboran Resources Limited (Tamboran) reported the largest exploration spend amounting to $20 million for the June 2023 quarter, closely followed by Sayona ($19 million) and De Grey Mining Limited (De Grey) ($18 million). Tamboran's expenditure primarily related to drilling activities at the Tanumbirini and Maverick wells, located in the Beetaloo sub-basin of Australia's Northern Territory.

Gold and oil and gas typically account for the largest portion of the top ten exploration spends, however, since the March 2023 quarter, we have observed growth in exploration spending for battery minerals, propelled by the growing need for renewable energy sources to fulfil upcoming demands. As predicted, given the current economic landscape, gold remains resilient and consistently demonstrates its role as a symbol of stability amidst market turbulence and uncertainty.

De Grey, which led the exploration spend for a total of four consecutive quarters from December 2021, has since managed to remain among the top ten spenders. In the current quarter, the company allocated $18 million towards exploration by maintaining its focus on advancing its 100% owned Mallina Gold Project, with expenditure directed towards progressing the company's definitive feasibility study, anticipated to be released in the upcoming quarter.

Lithium players continued to explore with Sayona, Delta Lithium Limited and Lake Resources NL collectively spending $37 million on exploration during the June 2023 quarter. In the broader battery minerals space, Queensland Pacific Metals Limited, a nickel sulphate and cobalt sulphate developer, allocated $17 million to its vertically integrated Townsville Energy Chemicals Hub (TECH) project, whilst Chalice Mining Limited, a nickel-copper explorer, committed $14 million largely to its Gonneville Project in pre-development.

This fund allocation underscores the industry's dedication to fulfilling the growing demand for battery minerals. As these companies intensify their exploration endeavours, it is evident that the lithium sector is well positioned for substantial growth as it continues to cater to the escalating requirements of the energy transition.

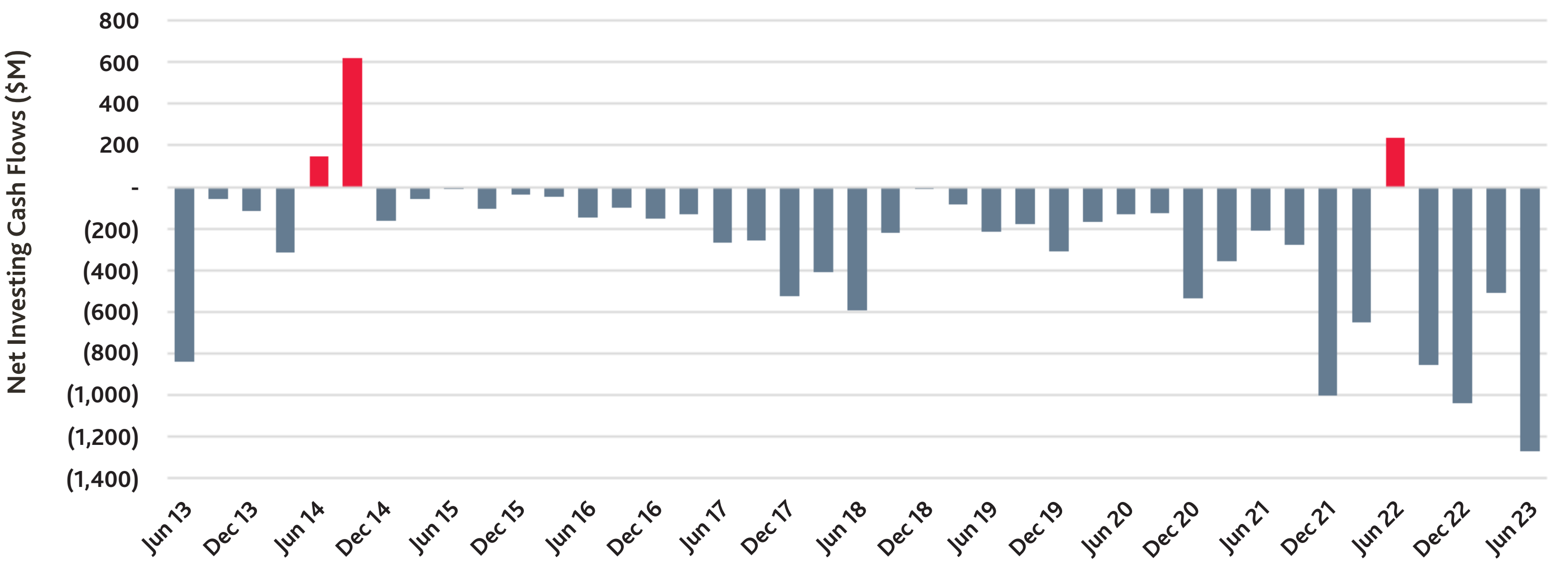
NET INVESTING CASH FLOWS

Following the restricted investing activity observed in the recent March 2023 quarter, the June 2023 quarter saw the highest level of investing cash outflows since the beginning of our analysis in June 2013. Net outflows of $1.27 billion were recorded in the June 2023 quarter, representing a 151% increase from the $506 million recorded during the previous quarter.

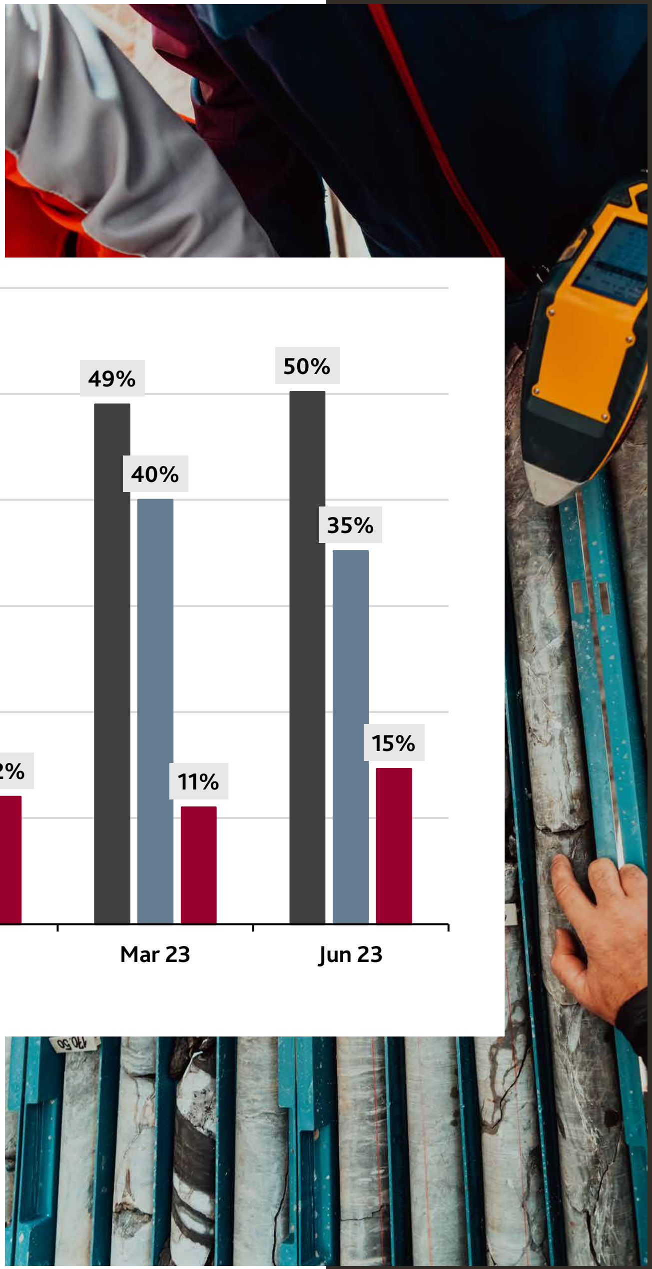
The principal Fund Finders, Genesis and Liontown, led the total net investing cash flows, recording outflows amounting to $381 million for the acquisition of St Barbara's assets and $111 million assigned to the development of the Kathleen Valley lithium project, respectively. A close third, gold explorer Bellevue Gold Limited (Bellevue) recorded a net investing cash outflow of $96 million, intended to be allocated to the construction of a 1Mtpa processing plant and the development of the underground Bellevue Gold Project, set to achieve its first pour in the December 2023 quarter.

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

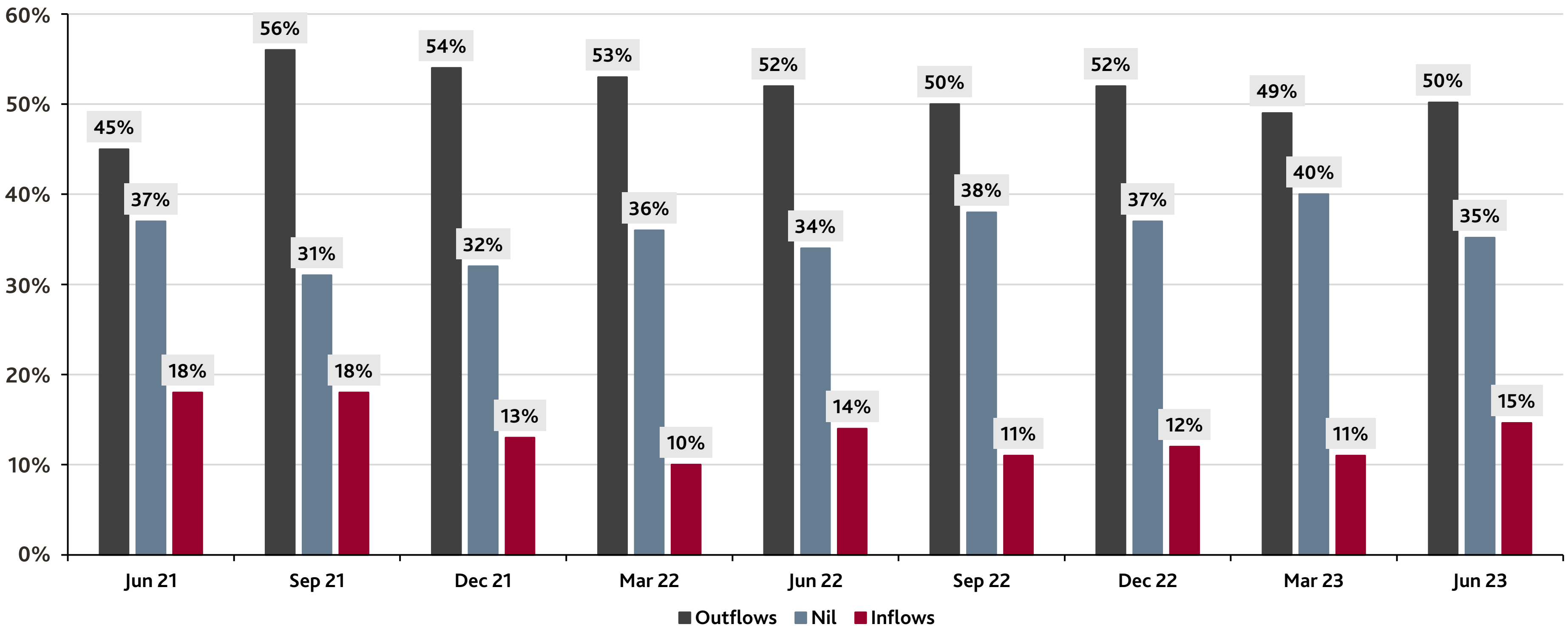
NET INVESTING CASH FLOWS – SINCE START OF BDO ANALYSIS ($M)



The proportion of companies reporting nil investing cash flows decreased from 40% to 35% between the March and June quarter of 2023, while the proportion of companies recording investing inflows increased from 11% to 15%. The increased level of investment activity throughout the sector, reaffirms the easing of constrained financial conditions and a healthier progression of explorers moving to developers than we have seen. The high level of investing outflows may also reflect the increased costs of construction and development that companies are currently experiencing.



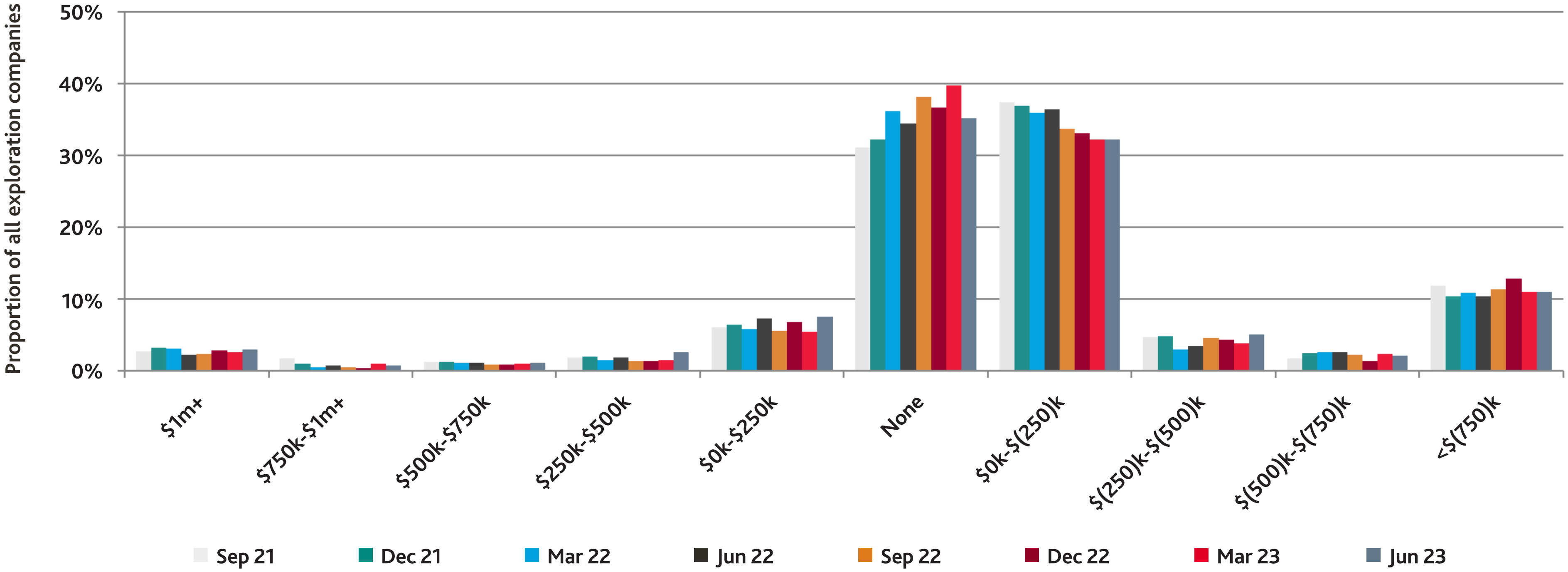
INVESTING CASH FLOWS (%)



As observed in the chart below, the increase in net investing cash outflows for the June 2023 quarter was also observed from the increased proportion of smaller scale investing inflows of up to $500k. A rise in this level of investment spending suggests an improvement in overall market sentiment.

In terms of net investing inflows, we observed an increase in the proportion of companies with large investing inflows up to $250k and in excess of $1 million. Upon investigation, the latter was mainly motivated by companies such as Melbana Energy Limited, who reported an $11 million receipt from the contribution of its joint-venture partner, the national oil company of Angola known as Sonangol (Sociedade Nacional de Combustíveis de Angola, E.P.), committed towards the development of its onshore oil and gas project in Cuba.

NET INVESTING CASH FLOWS

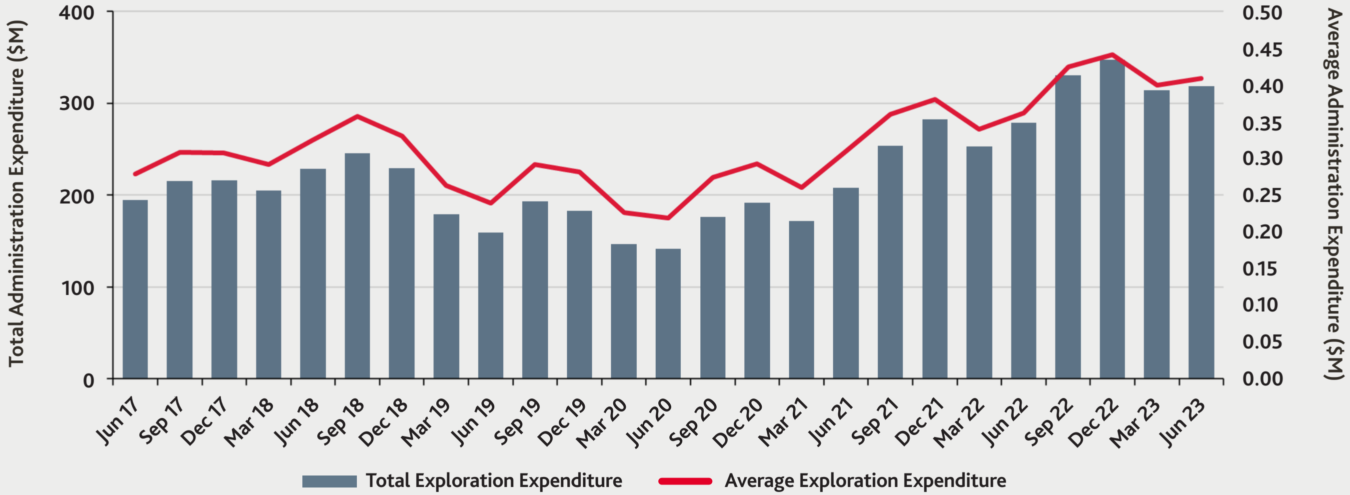


ADMINISTRATION EXPENDITURE

Total administration expenditure (comprising mainly of listing fees, professional fees, director fees and other corporate costs) in the June 2023 quarter remained relatively stable amounting to $319 million up from $314 million in the previous quarter. However, we note this is still 11% greater than the two-year average of $287 million since June 2021, which is largely explained by inflation filtering through to increased corporate and administration costs.

We typically observe a seasonal trend in administration spending for which administration expenditure tends to be lower in the March and June quarters and higher in the September and December quarters. Therefore, we expect that administration expenditure may increase further in the coming September and December quarters.

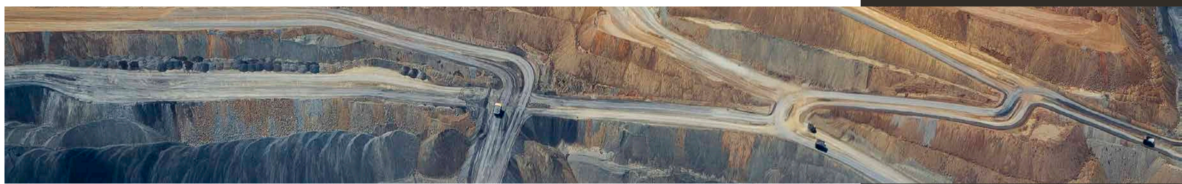
ADMINISTRATION EXPENDITURE ($M)



The general increasing trend in administration expenditure, particularly since June 2020, is linked to the increased level of exploration activity, capital raises, and M&A activity, which 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% in the December 2022 quarter, represented the highest year-end inflation figure since 1990 and was spurred by the increased cost of services and rental inflation.

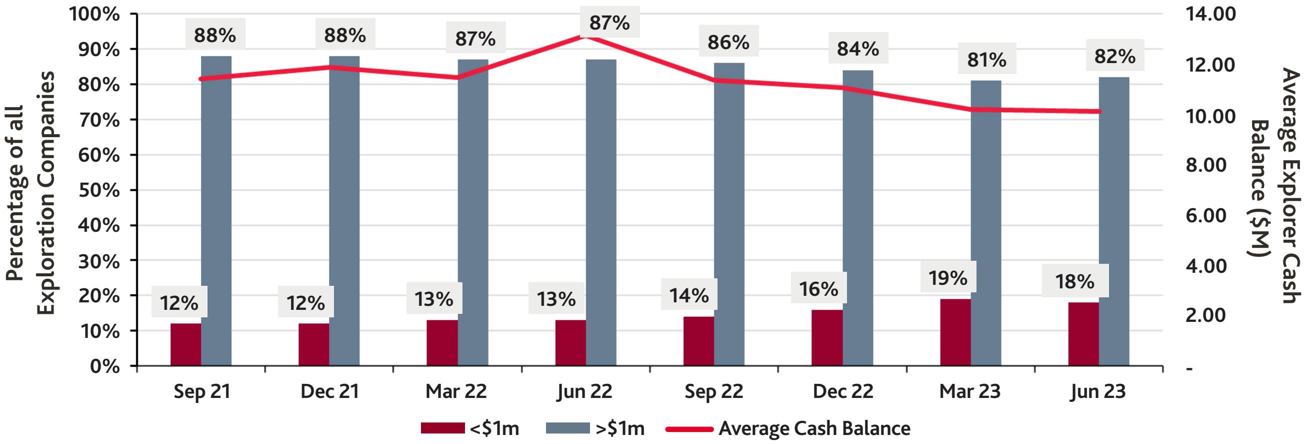
Inflation forecasts are easing in line with diminishing global cost pressures and restrictive monetary policy and hence, we would expect the rate of increase in average administration costs to decline in the medium term. However, we are still likely to see the impact of inflationary pressures on administration expenditure in the short term.



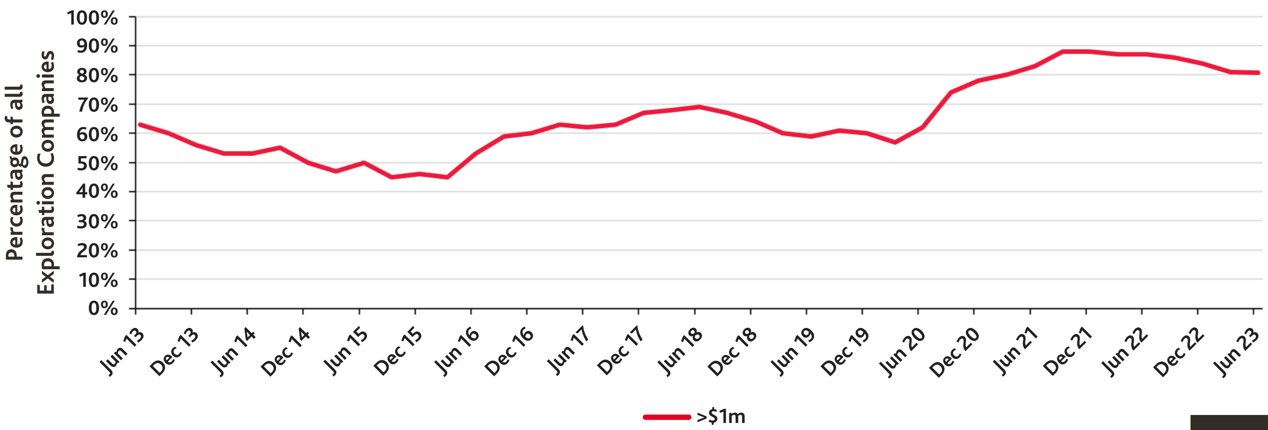
JUNE 2023 QUARTER CASH POSITION

Explorers' cash balances increased modestly in the June 2023 quarter, with 82% of exploration companies reporting a cash balance of over $1 million, up from 81% in the March 2023 quarter. Notably, this marks a slight reversal of a trend of explorers with cash balances over $1 million reducing since the June 2022 quarter. This development is encouraging, especially considering the industry-wide rise in investment and exploration expenditure throughout the quarter, in tandem with the prevailing inflationary environment.

ASX EXPLORERS' CASH BALANCE



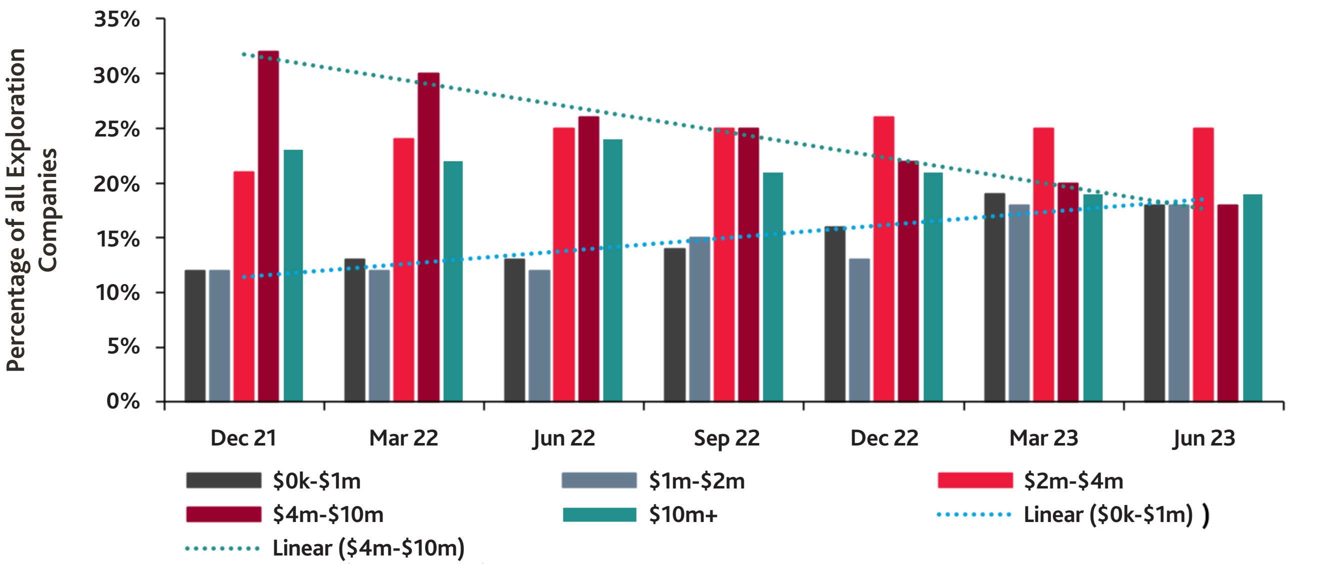
ASX EXPLORERS' CASH BALANCE (%)

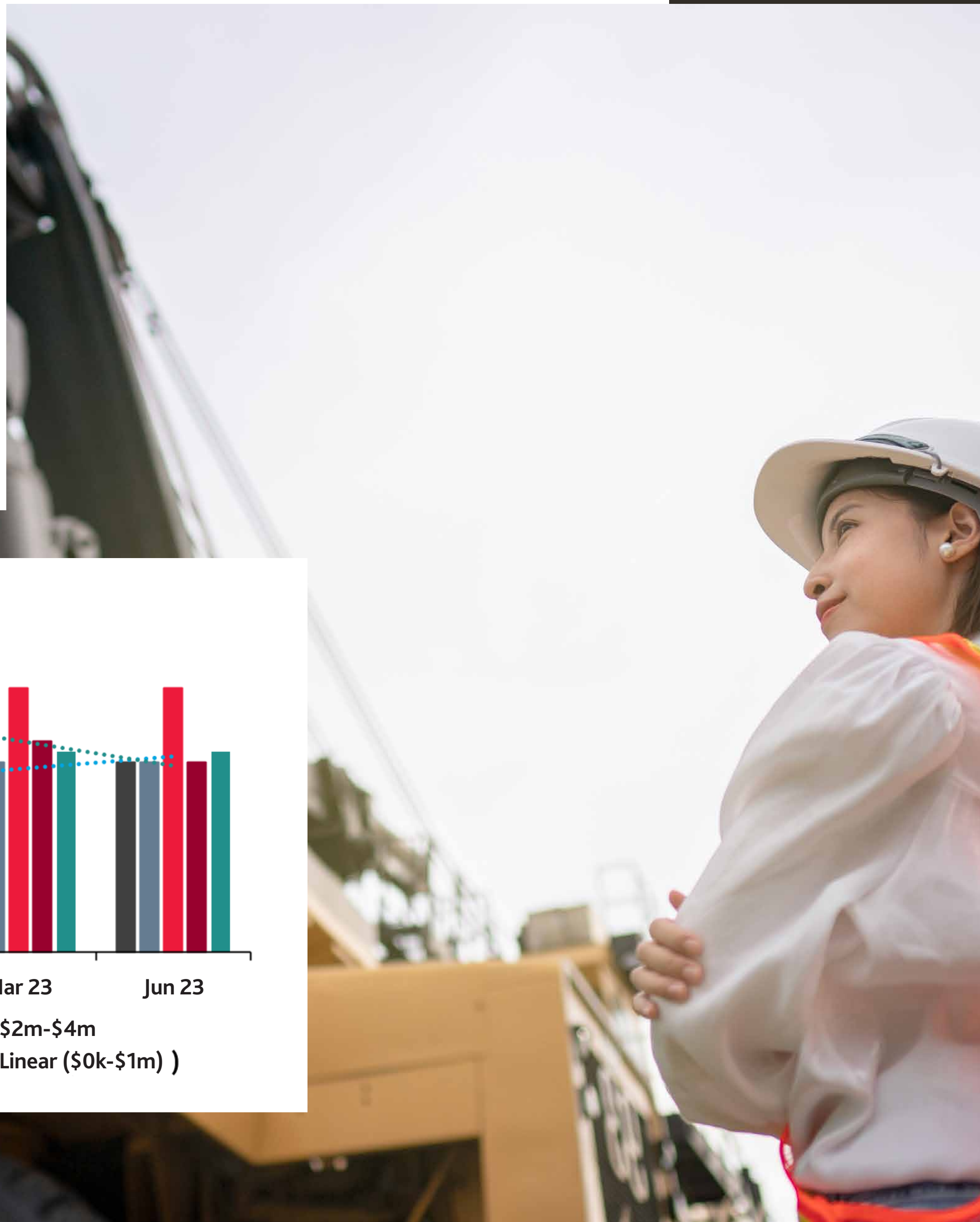


As indicated by the two trendlines in the graph below, we have observed a consistent decline in the proportion of explorers with cash balances between $4 million and $10 million and a general increase in those with a balance between nil and $1 million. These trends collectively point to a gradual erosion of cash reserves within the lower and middle segments of the market. In addition, the proportion of explorers with cash balances between $2 million and $4 million has remained relatively steady since March 2022, indicating across the board, the sector's cash balance has generally remained healthy.

We also observe the proportion of explorers with a cash balance of greater than $10 million has increased marginally from the March 2022 quarter, indicating that participants in the larger end of the market are still able to secure funding and grow their cash reserves despite capital markets exhibiting a general slowdown over recent periods. We attribute this to the fact these explorers likely have more developed mineral assets closer to production and thus are perceived as lower risk by investors, and, as a result, find it comparatively less challenging to secure funds in the current economic climate than their junior counterparts.

ASX EXPLORERS' CASH BALANCE (%)





BDO INSIGHT

SECTOR SHIFTS AS M&A AND CONSOLIDATION UNVEILED

We observed an industry-wide downturn during the March 2023 quarter, marked by two consecutive quarters of declining exploration expenditure. This coincided with a contraction of fundraising activities and investing cashflows, impacted by a broader deterioration of global macroeconomic conditions. Given these developments, we began to wonder if the sector's game of cat and mouse with a slowing economy had come to an end. Data from the June 2023 quarter demonstrated this was not the case. Instead, the data would suggest the sector healthily rebounded from the preceding two quarters, and the sector once again demonstrated its potential as the feed source to support the ever-pressing demands of the energy transition.

Contradictory macroeconomic signals defined the macroeconomic landscape in the June 2023 quarter. For example, on the one hand, gold topped our Fund Finders for the fourth consecutive quarter, which could potentially serve as an indicator of ongoing economic turbulence, given the recognised safe haven attributes of gold. However, on the other hand, despite the prevailing economic uncertainty, there was a resurgence of capital market support during the same period, largely driven by the demand for battery metals.

Our analysis in the March 2023 quarterly report foresaw active efforts by gold explorers to secure funds and engage in strategic consolidations. These predictions materialised in the June 2023 quarter. Amongst others, leading gold explorers, Genesis and Bellevue, took steps towards production, with Genesis raising $465 million in equity financing to acquire St Barbara's Leonara assets, and Bellevue securing approximately $100 million in debt financing to develop its flagship Bellevue Gold Project, scheduled to begin production by year's end. Looking ahead, we anticipate increased M&A activity among gold explorers, particularly strategic regional consolidation of exploration assets. Additionally, we expect a rise in M&A deals centred around scrip consideration, as the sector looks to preserve cash.

The recent softening of lithium prices from their historic highs has rendered valuations for lithium explorers more palatable to potential buyers. In addition, the Chilean lithium industry's nationalisation earlier this year has redirected major foreign players like Albermarle, Tianqi and Livent to seek alternative upstream supply sources, which we anticipate will favour Australian lithium explorers. On a similar note, the drive for sovereign processing and battery manufacturing has underscored the importance of domestic vertical integration. This dynamic will likely lead to a tug-of-war between multinational lithium companies and local producers for control over lithium explorers in the upcoming quarters. Already in the June 2023 quarter, this scenario unfolded when Develop Global Limited, a domestic base metals explorer backed by Mineral Resources Limited, proposed to acquire lithium explorer Essential Metals Limited, following a terminated acquisition proposed by Chinese-backed Tianqi Lithium Energy Australia.

Whilst we expect explorers across the board to continue to shore up their resources and reserves, the sector is facing significant challenges in the form of skilled labour shortages and the corrosive effects of inflation on cash balances. BDO anticipates that this will lead explorers down the path of taking a more measured approach to drilling, focusing on value accretive prospects rather than high-risk, high-impact drilling campaigns. Nevertheless, data for the June 2023 quarter suggests the sector is still thriving, and favourable government incentives such as the Critical Minerals Strategy are poised to assist explorers in unlocking the potential beneath the surface, even amidst broader market volatility. Even more importantly, these incentives should help Australia continue its path to becoming a well-diversified leader in energy transition minerals.

BONUS FEATURE

Ten-year data and trends

The June quarter of 2023 also marks the 10th year anniversary for which BDO has undertaken an analysis of the Appendix 5B data reported by the exploration companies on the ASX.

Over the course of this period, we have had the privilege of witnessing how the sector has grown and evolved against the wider backdrop of the business cycle, capital market movements, geopolitical events and trends in commodity markets.

As a bonus add-on feature to our June 2023 quarter analysis, we have also presented in subsequent pages an analysis of the long-term trends and data observed over the last 10 years.

Completing this analysis for the last decade represents a significant milestone for BDO as a leading expert in the Australian junior exploration space. It has helped us to understand at greater depth how cash moves throughout the sector amidst changing market conditions and this in turn has allowed us to share new insights with the wider industry.

We celebrate this achievement and will continue to release more interesting extracts from our 10-year data over the coming months; so do keep a look out!

SHERIF ANDRAWES
Partner and BDO's Global and National Head of Natural Resources
Corporate Finance
sherif.andrawes@bdo.com.au
+61 8 6382 4763

NUMBER OF COMPANIES

In June 2013 when we first commenced our analysis, the exploration sector comprised 860 companies lodging an Appendix 5B, which reached a ten-year peak of 865 in the September 2013 quarter. Subsequently, this began to decline, reducing to 814 companies in the December 2014 quarter. At the time, this was driven by a growing number of companies ceasing exploration in light of challenging market conditions, including low demand and low commodity prices.

Across 2015 and 2016, the number of companies continued to drop, but at a more drastic rate. The number of explorers fell to 753 companies in December 2015 (2015 decline: 61 companies) and declined to 690 companies by December 2016 (2016 decline: 63 companies). The shrinking size of the sector during this period was primarily driven by a large amount of backdoor listings, particularly by technology and biotechnology firms using exploration companies as a means to list on the ASX via a reverse takeover route. Also contributing to the decline, were companies being either delisted or suspended from the ASX due to lack of operating activities and a diminished level of funding to pursue new opportunities.

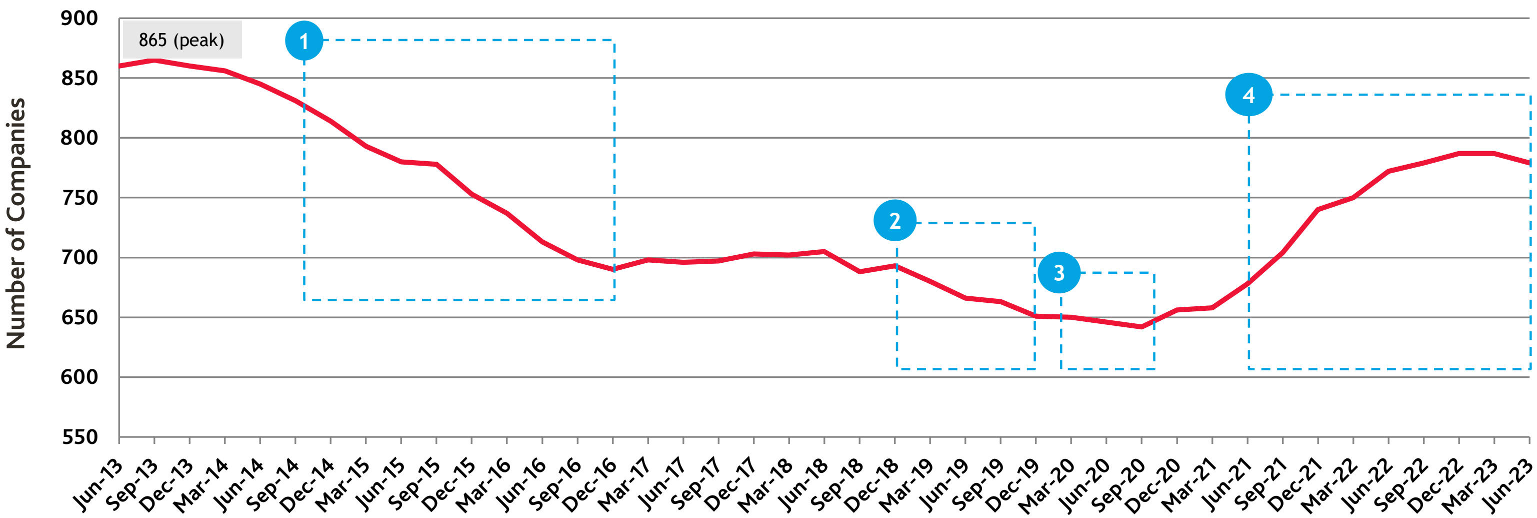
The first reversal of this trend came in March 2017, albeit only by an increase of eight companies. This increase was driven by a slight resurgence in the number of IPOs within the sector and the introduction of new ASX listing rules, which reduced the amount of backdoor listings. The size of the sector then remained consistently around the 700 company mark with this overall plateau attributed to an increased level of IPOs offsetting the number of delisting's and suspensions.

The next wave of declines occurred in September 2018 through to the end of 2019, but notably at a lesser extent compared to the 2015/16 years. This trend was mainly the result of consolidation activity within the sector, particularly for gold companies, where producers were actively pursuing late-stage exploration companies to shore up their resource base amidst favourable prices.

Then, to exacerbate the decline in number of companies due to consolidations, COVID-19 hit, with the impacts witnessed in March 2020 when financing activity ceased, heavily impacting IPOs in the June and September 2020 quarters. However, the effects of the pandemic quickly changed its tune, when cash injections into the economy caused capital markets to thrive and investor appetite for gold and battery metal stocks increased. BDO witnessed an unprecedented number of IPOs entering the market, which is clearly observable from the data below with 153 new companies joining from September 2020 to March 2023.

The June 2023 quarter, however, represents the first time since September 2020 for which the sector experienced a reduction in the number of companies, with a rise in consolidation activity, particularly in the gold industry.

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



1 Tech and Biotech companies undertaking backdoor listings on exploration companies.

2 Consolidation activity within the sector, particularly from gold companies.

3 Further decline in number of companies due to COVID-19.

4 Post COVID-19 IPO surge due to favourable capital markets.

CASH BALANCES

Cash is the lifeblood of exploration companies. The long-term graph below outlines the proportion of exploration companies with cash balances of more (or less) than $1 million, as well as the average cash balance per company. The broad trend shows just how unprecedented the cash position of the exploration sector has been in recent quarters, following the surge of funds into the sector post June 2020, resulting in explorers truly being "cashed up".

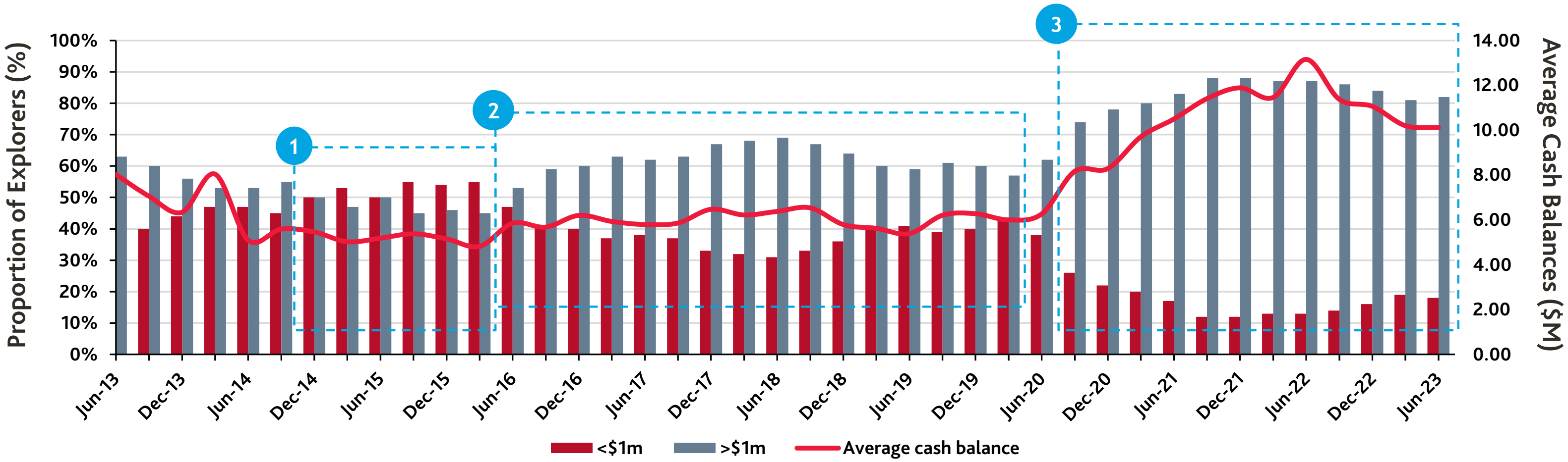
Back in June 2013, 63% of exploration companies reported a cash balance of more than $1 million, which represented a decent majority. However, in light of challenging market conditions for ASX listed exploration companies, funds seemed to flow towards other sectors, which resulted in a cash burn that left more explorers with less than $1 million in the bank by March 2015. During this period, average cash balances also reduced and averaged $5.21 million from June 2014 to March 2016.

June 2016 reflected an increase in financing with the majority of companies having more than $1 million in the bank again. However, growth in average cash balances remained subdued, largely due to stronger exploration activity having an offsetting effect on newly raised funds.

Then, in September 2020, post-COVID 19 financing spiked and so did cash balances. Both average cash balances and the proportion of companies with $1 million and above continued to increase as companies took advantage of the favourable capital markets to raise funds, whilst withholding from undertaking large spends due to residual economic uncertainty. However, this trend has started to taper off in the last four quarters to June 2023 as capital markets have since cooled whilst strong levels of exploration spending persist.

Although some explorers have started to enter into cash preservation mode amidst current economic uncertainty and high interest rates, a look back on the last 10 years of data shows that explorers are still cashed up like never before.

ASX EXPLORERS' CASH POSITIONS



1 Cash flow into exploration sector tightens and more companies had less than $1 million.

2 Proportion of cash balances over $1 million grows but average cash balances remain subdued due to higher level of exploration expenditure.

3 Capital markets boom after initial COVID-19 dip and explorers raise large amounts of cash.

FINANCING CASH FLOWS

Although our analysis commenced in June 2013, specific financing inflow and outflow data was only tracked starting from March 2015 quarter. At the time, the sector comprised 793 companies that raised a total of $847 million. Financing inflows then averaged $1.0 billion over the four quarters to December 2015 before contracting by 48% in March 2016 driven by low commodity prices and low demand for commodities.

Inflows then bounced back and exhibited an increasing trend across mid-2016 to 2017, primarily driven by funding into gold, oil and gas and lithium companies. In particular, a growth in investment into gold as a safe-haven asset followed the announcement of Britain's proposed exit from the European Union (Brexit) as well as the US Presidential election of 2016, which contributed to significant uncertainty in global markets.

Financing remained strong to mid-2018, before decreasing by 45% in September 2018. This was caused by volatile capital markets underpinned by concerns around global trade tensions and rising interest rates. These conditions continued to weigh on the sector, albeit at a diminishing rate as financing inflows gradually climbed each quarter to December 2019.

Then, financing inflows plummeted 48% to a four-year low of $834 million in the March 2020 quarter. This was of course driven by the plunge in global financial markets due to the emergence of the COVID-19 pandemic. At the time, the outlook for the sector was extremely uncertain and we saw a temporary pause in all financing, investing and operational activities.

However, low interest rates coupled with government stimulus into the Australian economy saw investors turn their attention to equities, and we started to see both retail and institutional investors pouring funds into the exploration sector (especially for IPOs) in pursuit of better returns. Markets bounced back and financing inflows reached historical levels as the world recovered from the effects of the pandemic. In the December 2021 quarter, financing inflows peaked to $3.75 billion, which is the highest we have seen since.

Financing cash flows were more volatile over 2022 and now to June 2023. Rising interest rates, inflation and geopolitical events like Russia's invasion of Ukraine led to much more turbulent market conditions, and although funds are still flowing into the sector in waves, we observe that this is primarily for more advanced development projects, particularly for battery metals and energy transition commodities.

1 Contraction due to low prices and low demand for commodities.

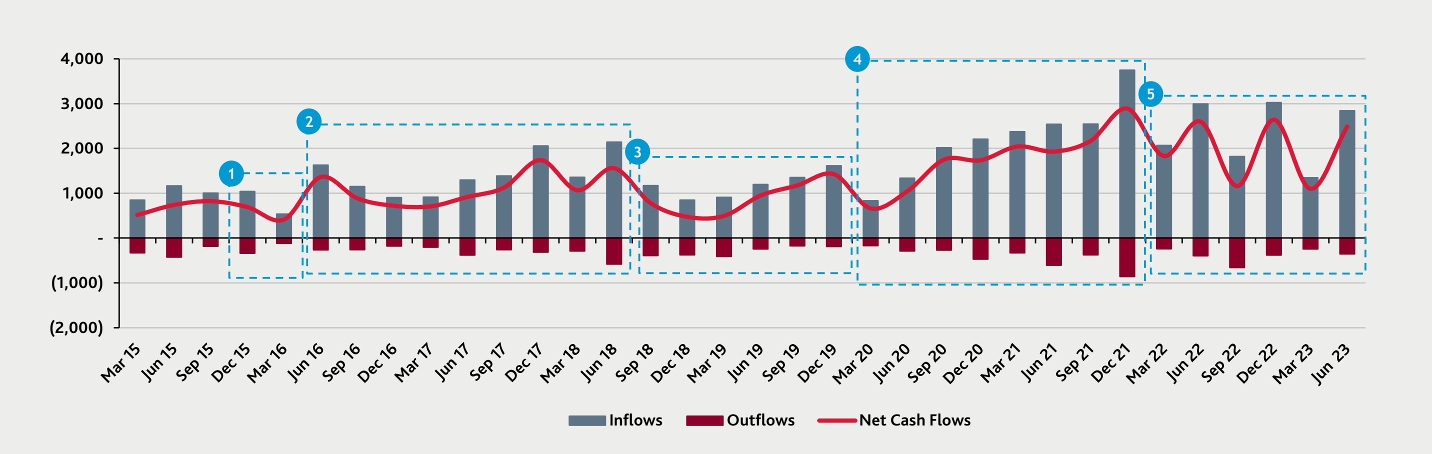
2 Brexit and the US presidential election promote gold financing.

3 Global trade tensions and rising interest rates weigh on sector but financing gradually improves.

4 COVID-19 pandemic crash and rapid recovery. Low interest rate environment and high demand for commodities.

5 Slowing of previous trends, increased demand for certain minerals, interest rate rises, geopolitical uncertainty and high inflation contributing to volatility in financial markets.

FINANCING CASH FLOWS ($M)



EXPLORATION EXPENDITURE

After peaking at $920 million in March 2014, total exploration expenditure declined quarter-on-quarter until reaching $267 million in March 2016, representing a 71% decline in two years. The fall in exploration expenditure can largely be attributed to the overall decrease in the number of companies in the sector, as well as the gradual decline in average exploration spends with capital markets and cash balances being relatively subdued.

Exploration spending then recovered from June 2016, albeit at a slow pace, and the total exploration spend per quarter averaged $349 million from June 2016 to March 2018. Average exploration spending also grew, driven by an uptick in exploration activity for gold and oil and gas companies, following on from the announcement of Brexit and the US presidential election.

A significant event for the sector, and hence exploration activity, was the introduction of the Junior Minerals Exploration Incentive (JMEI) scheme after the legislation was passed by Federal Parliament in March 2018. 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. Many ASX-listed exploration companies applied and qualified for the JMEI, which led to a steady increase in exploration activity in late 2018. Exploration expenditure strengthened and averaged $450 million in the two years to March 2020.

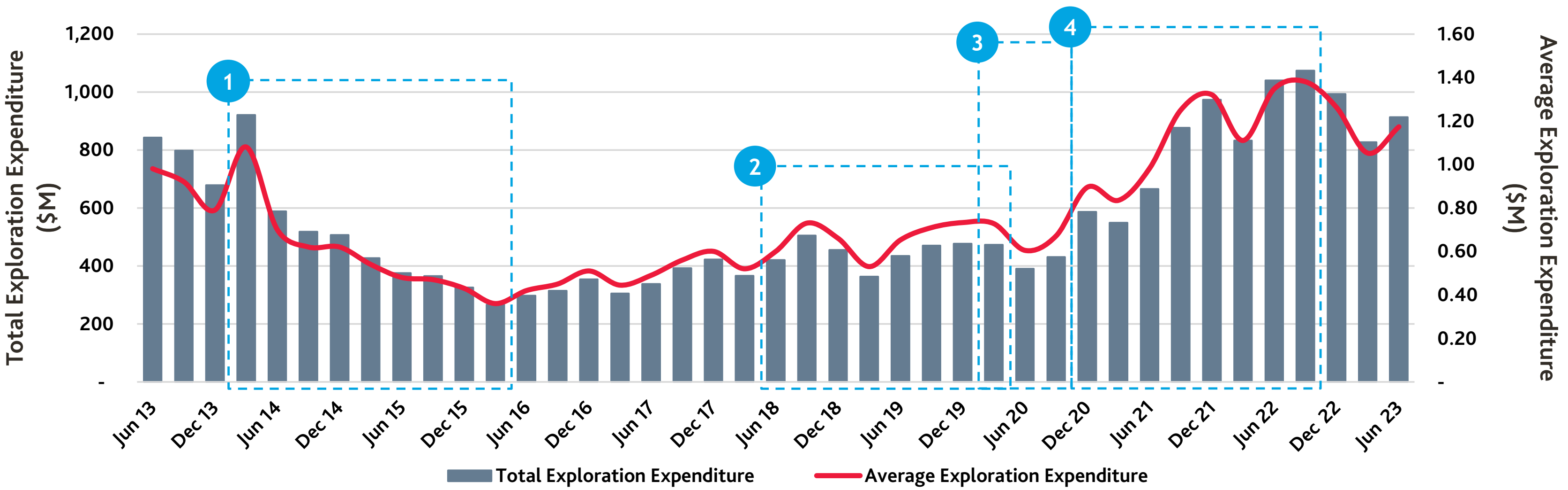
At the onset of the COVID-19 pandemic in the March 2020 quarter, exploration spending first appeared seemingly unaffected, only decreasing by 1% from the prior quarter. However, this turned out to be a time lag factor with the "hit" to capital markets in March only translating to reduced exploration spending in the June 2020 quarter.

As seen from previous graphs, capital markets quickly bounced back in mid-2020 with funds entering the sector at unprecedented levels, but the persistent economic uncertainty, restricted access to sites as well as a limited supply of equipment caused by pandemic restrictions, continued to hinder exploration spending in the June and September quarters of 2020.

However, it was only a matter of time before money raised became money spent, and exploration spending skyrocketed 125% from September 2020 to December 2021 of $973 million, and subsequently exceeding $1 billion in the June and September quarters of 2022. This was particularly noteworthy as the sector only comprised approximately 750 companies during this period, whilst the earlier periods of 2013 and 2014 recorded over 850 companies. This was reflected in the average exploration spends per company, which can be seen to have reached historical levels.

Exploration spending tapered off slightly in December 2022 and March 2023 as capital markets eased and cash reserves slowly dried up. However, recent June quarter shows that exploration activity remains strong, with a total $914 million spent on exploration.

TOTAL EXPLORATION EXPENDITURE ($M)



1 Decrease in exploration activity due to reduced number of companies and average exploration spends due to lower cash balances and capital raisings.

2 JMEI is introduced and helps strengthen exploration activity.

3 Economic uncertainty, restricted site access and equipment shortages kept exploration spending subdued despite the uptick in sector funding.

4 Exploration skyrockets as funds raised post COVID-19 start translating to investment into the ground.

ADMINISTRATION EXPENDITURE

Administration expenditure primarily relates to listing fees, professional fees, director fees and other corporate costs, which have been analysed within our dataset since the March quarter of 2015.

Total administration expenditure across the eight-year period averaged $234 million per quarter, with the bar graph broadly reflecting a U-shaped trend over the period. This is understandable when considering how total administration spending has mirrored the number of companies within the sector from 2015 to 2023.

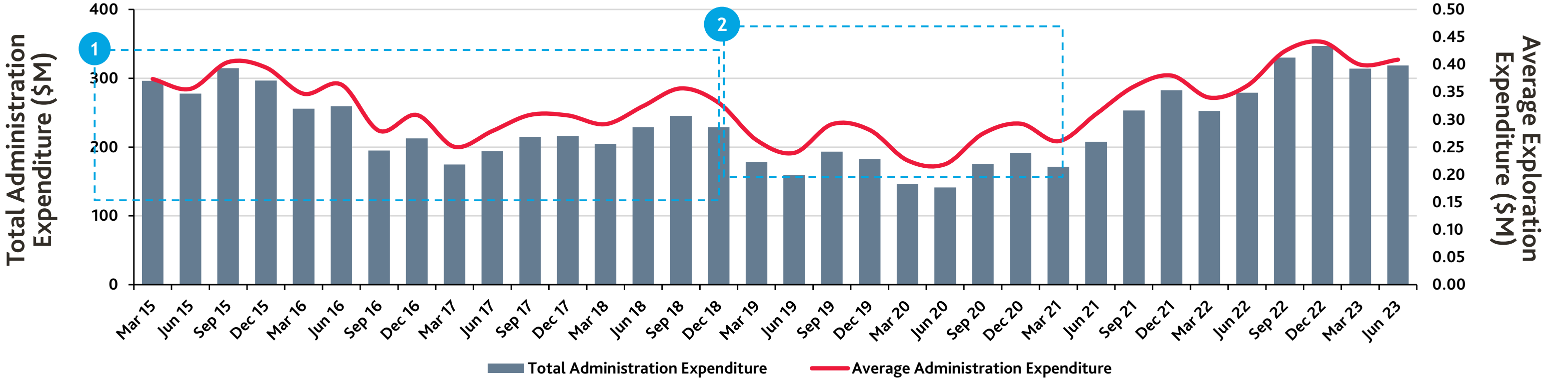
In terms of average administration expenditure per company, we observed that this has exhibited a broad downwards trend from March 2015 to June 2020. This was due to companies facing greater pressures amidst relatively subdued market conditions at the time, to preserve their overheads in order to funnel more funds raised towards progressing the exploration and development of their projects.

However, this trend has reversed since June 2020, with average administration spending increasing back to historical levels.

This is linked to the increased level of exploration activity, capital raises, and merger and acquisition activity, which has resulted in higher corporate expenses per company. In addition, the prevalence of corporate skilled labour shortages since COVID-19 has placed upward pressure on the remuneration of corporate staff and the quantum of fees paid to external advisers. Administration costs of late have also 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.

Another interesting trend that we observed over the years, is the cyclical nature of administration expenditure, for which spending appears to be lower in the March and June quarters of the year and higher in the September and December quarters. This is possibly due to transaction and advisor fees being incurred in the second half of the year, in line with the uptick in transaction activity typically seen prior to companies holding their annual general meetings.

ADMINISTRATION EXPENDITURE ($M)



1 Broad downward trend in average administration expenditure as companies face pressures to cut overheads.

2 Average administration spends grow due to increased corporate activities, labour shortages and inflation.

CONTACT US

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

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

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

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

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

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

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

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

FOR MORE INFORMATION

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

LinkedIn Groups:
BDO Global Mining
BDO Global Energy