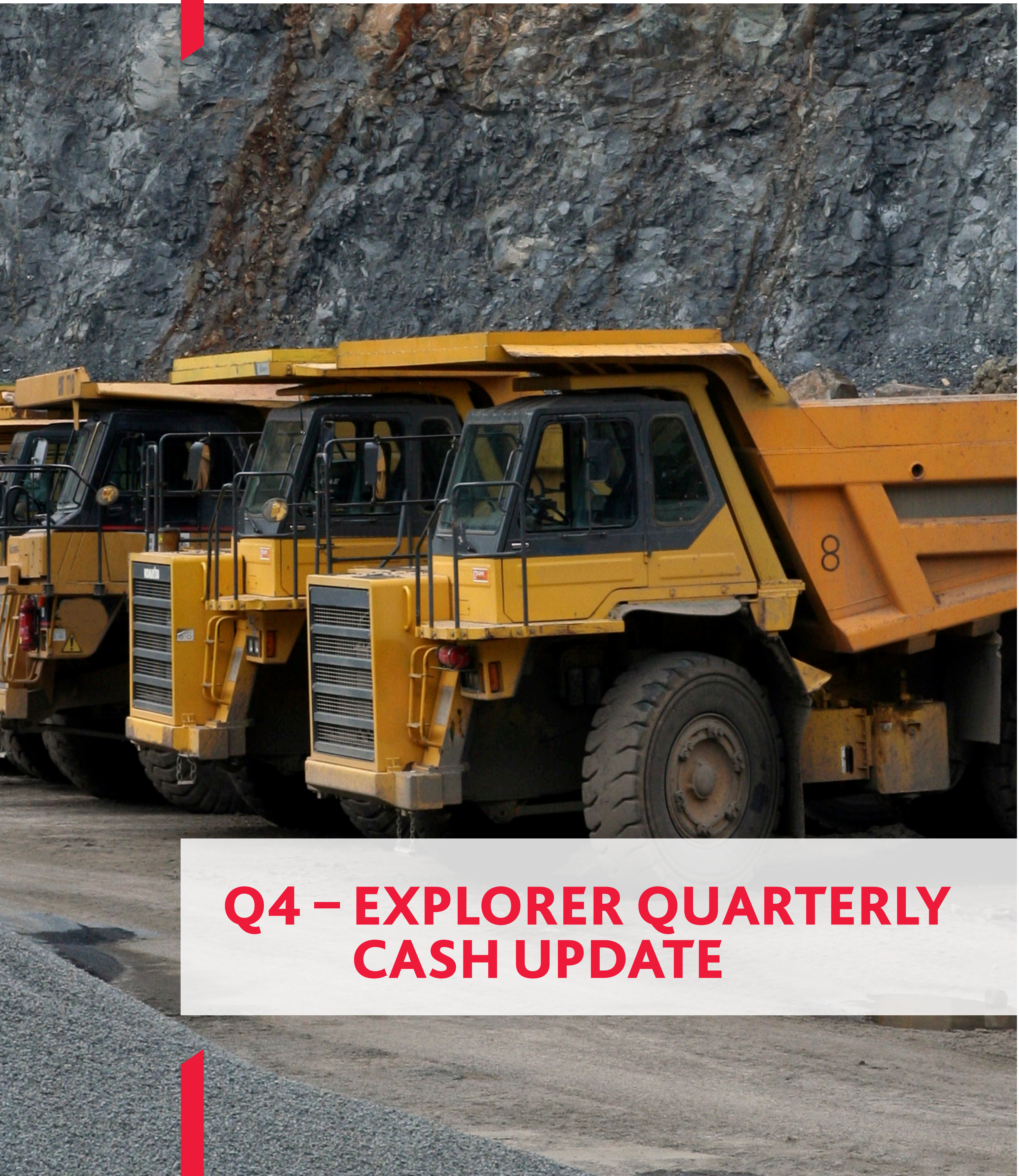

Q4 – EXPLORER QUARTERLY CASH UPDATE

BDO

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS: Q4 (QUARTER ENDED 30 JUNE 2015)

SIGNIFICANT INCREASE NOTED IN FUNDS RAISED BY JUNIOR EXPLORERS, THOUGH EXPLORATION RELATED EXPENDITURE REMAINED MUTED DURING THE JUNE QUARTER. NOW IS A KEY TIME FOR COMPANIES TO POSITION THEMSELVES TO TAKE ADVANTAGE OF POTENTIAL OPPORTUNITES.

BDO's report on the cash position of Australian-listed explorers for the June 2015 quarter (based on quarterly Appendix 5B reports lodged with the ASX), shows a marginal reduction in companies that are actually exploring, and a stable median level of exploration expenditure from the ones that are.

The significant improvement for the June 2015 quarter as compared to the March 2015 quarter is the increase in the number of companies with positive financing cash flows which clearly indicates that there is still investor appetite for good businesses at reasonable valuation levels.

Additionally, the decline in the number of companies lodging their Appendix 5B reports from 793 companies for the March 2015 quarter to 780 companies during the quarter ended June 2015 can be attributed to technology companies using exploration companies as a means to list on the ASX via the reverse takeover route and companies being delisted/suspended from the ASX as they explore other growth opportunities.

In summary, the key findings of the quarterly update reveal the following:

- In the June 2015 quarter, 780 companies lodged Appendix 5B reports, indicating a marginal decline of approximately 2% from the March 2015 quarter where 793 companies lodged their reports.
- Reasons for this reduction included: five being the subject of a backdoor listing; and eight being delisted, suspended or not providing a response for non-listing.
- There has been a significant increase in the number of explorers with positive financing cash flows, with 47% of the companies being able to raise funds either via the capital raising route or through borrowings. This is the highest percentage since the quarter ended 30 September 2014 and is indicative of some green shoots amidst the overall negative sentiments noted in the sector.
- The number of explorers who did not conduct any exploration activity has remained muted between the March 2015 and June 2015 quarter.
- The number of companies with sufficient cash to continue net operational expenditures at present levels for more than two quarters has remained flat at 57 per cent indicating a higher level of prudence among exploration companies and an ability to obtain greater cost efficiencies by maintaining lean operations.
- The number of explorers with a net investment in capital expenditure has remained flat at approximately 33% between March 2015 and June 2015.

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"Although these are not the easiest of times there are still opportunities and directors must consider the alternatives available to best position their Company. Investors need to consider the strategy of management and consider the ability of the Company to execute the strategy to provide an opportunity for upside in the future"

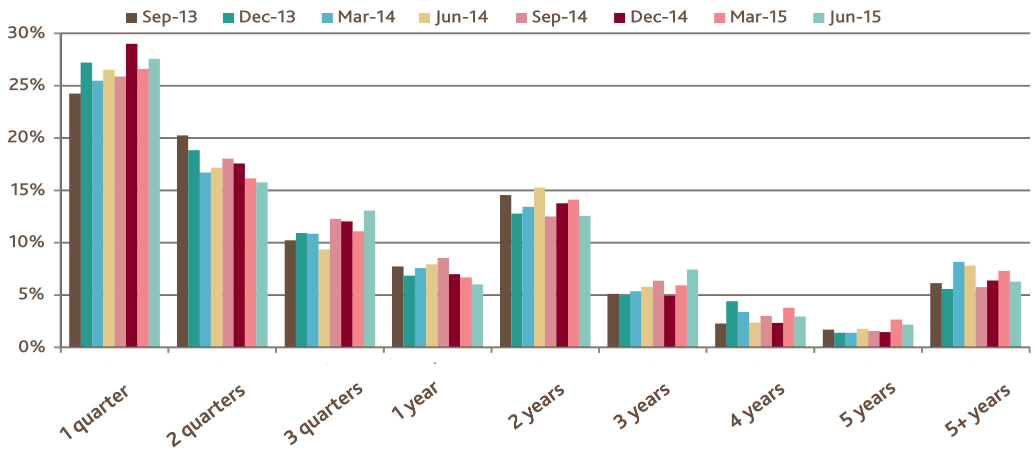
Dan Taylor,
Partner, Corporate Finance

JUNE QUARTER CASH POSITION

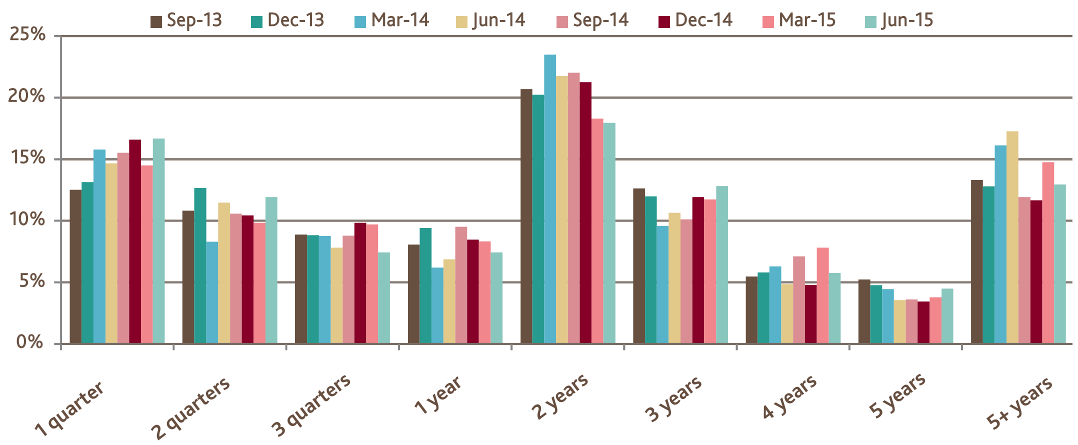
	March 15 quarter		June 15 quarter	
	No.	%	No.	%
Total number of companies lodging Appendix 5B's	793	100%	780	100%
Net operating expenditure				
- Companies with one quarter cash reserves	211	27%	215	28%
- Companies with two quarter cash reserves	339	43%	338	43%
Administrative expenditure				
- Companies with one quarter cash reserves	115	15%	130	17%
- Companies with two quarter cash reserves	193	24%	223	29%

The following graphs provide a snapshot of the operating, administration and exploration expenditure across the sector:

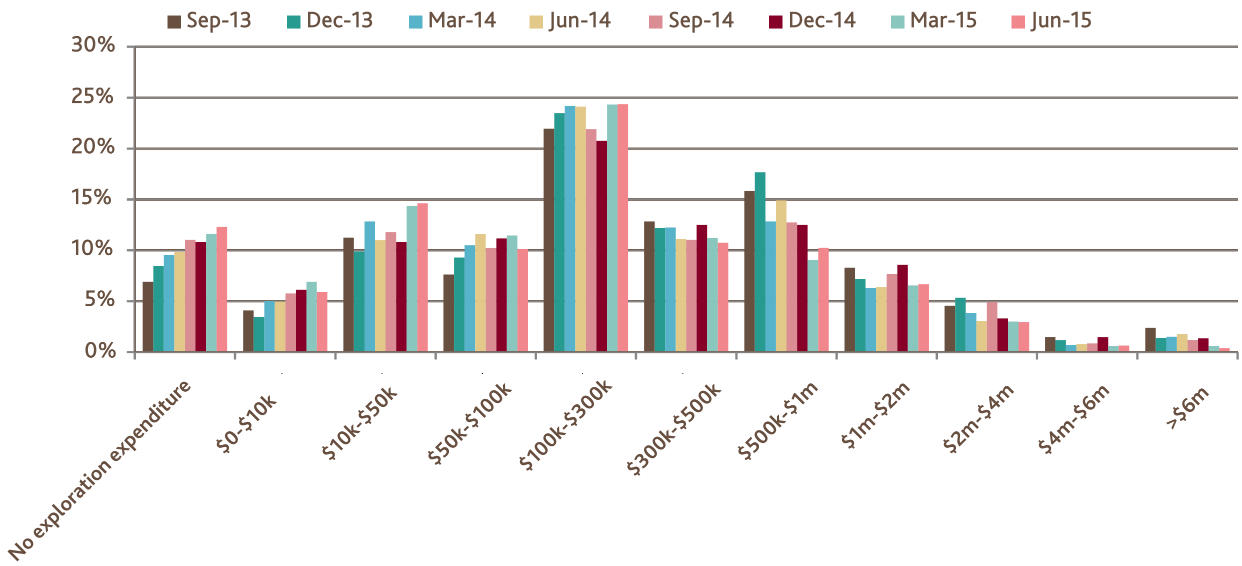
OPERATING EXPENSES - CASH BURN RATE



ADMINISTRATION EXPENSES - CASH BURN RATE



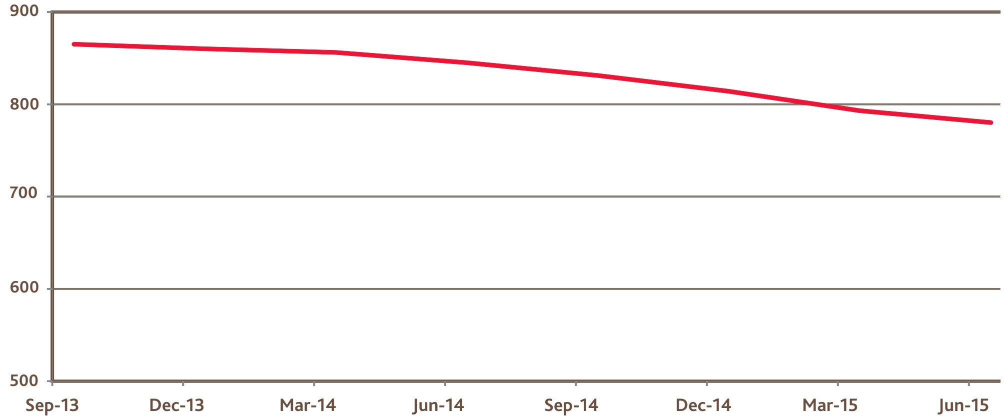
TOTAL EXPLORATION EXPENDITURE



Points to note in relation to the above graphs are:

- There has been a muted increase in the number of companies which have not undertaken exploration activities during the June 2015 quarter. In particular, the number of companies that have spent more than $1m on exploration activities has remained flat at approximately 11% between the March 2015 and June 2015 quarters. However, the average exploration expenditure has continued to fall for the fifth straight quarter to $481,000, though the median expenditure has remained stable during the June 2015 quarter.
- The percentage of companies with only one or two quarters of operating expenditure (including companies with a negative cash balance) has remained stable at 43 per cent in the June quarter indicating prudent operations and greater cost efficiencies. This figure has remained fairly constant throughout the series, having been at 43 per cent quarter and 47 per cent respectively in the previous two quarters (March 2015 and December 2014) and at 42 per cent for our initial reporting period of the June 2013 quarter.
- In relation to administration expenditure, there has been an increase in the number of companies have only one or two quarters of cash remaining (including companies with a negative cash balance) on current administration spend from 24 per cent recorded in the March 2015 quarter to 29 per cent. This result most likely reflects the number of companies who are no longer exploring and simply preserving their cash reserves to meet administrative costs.
- Only 11 per cent (83) of explorers spent more than $1 million on exploration related activities in the quarter, a marginal decline on the previous low point of 86 recorded in the March 2015 quarter.

NUMBER OF COMPANIES LODGING APPENDIX 5B REPORTS: SEPTEMBER 2013 – JUNE 2015

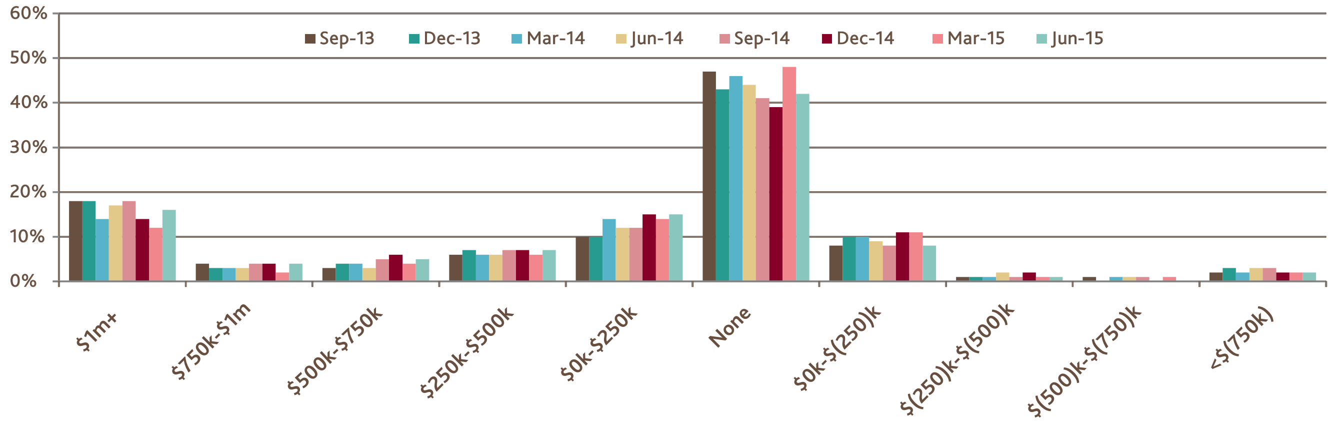


- The number of Appendix 5B lodgements has stabilised between December 2014 and June 2015 with the rate of decline in the number of lodgements slowing. The movement from the March 2015 quarter to the June 2015 quarter of 13 companies was due to the following reasons:

  - Five companies being the subject of backdoor listings; and

  - Eight companies being delisted or suspended.

NET FINANCING CASH FLOWS



During the June 2015 quarter the number of companies with positive financing cash flows increased from approximately 38 per cent in March 2015 to 47 per cent.

FUND FINDERS

In the June 2015 quarter, 18 companies raised more than $10 million, a slight increase from the 16 companies that raised more than $10 million in the previous quarter.

- Sundance Energy Australia — $204m borrowings
- Highfield Resources — $102m share issue
- Sino Gas & Energy — $84m share issue
- Avanco Resources — $64m share issue
- Sirius Resources NL — $57m borrowings
- Gold Road Resources — $39m share issue
- MZI Resources — $31m borrowings
- Wolf Minerals — $25.6m borrowings and $262k from share issue
- Finders Resources — $24m borrowings
- Base Resources — $22m borrowings
- Coal of Africa — $18m capital raising
- Northern Iron — $16m borrowings
- Kazakhstan Potash — $16m share issue
- Triton Minerals — $12m share issue
- Indo Mines — $11m from sale of fixed interest securities
- Byron Energy — $11m from share issue
- Range Resources — $10m share issue
- Empire Oil & Gas — $10m share issue

> "For exploration companies looking at a successful RTO, the key factors are a good product or emerging product that you can see will disrupt the space they are entering, the people behind the incoming business and just like any IPO, the right investors to take you through the growth phase of the business."

SCOTT MISON
Director, 1-Page Ltd

BDO INSIGHT

As discussed in our March 2015 update, the sector has certainly faced challenging conditions with low levels of historical exploration and difficulty in obtaining financing. There was the potential for significant numbers of companies to exit the industry but the quarter only saw a modest decline which was a continuation of the previous quarters' trend. There have been four courses of action that have been followed;

1. Reduce costs and conserve cash
2. Undertake a reverse takeover (RTO)
3. Raise capital; and
4. Sell or acquire projects.

The trends in the cash survey show us that when times are tough, explorers are very adept at preserving their cash and surviving until better times emerge, however without being able to undertake an alternate strategy in the longer term, administration can be the ultimate outcome. It is important for companies to balance the desire to avoid diluting current shareholders with ensuring sufficient capital is on hand to be in a position to transact without desperation.

We have seen a steady trend in RTO's and these are not confined to just exploration. An example of such a transaction was InterMet Resources Limited which undertook a transaction with 1-Page to become 1 Page Limited. Since relisting the share price has increased from the prospectus price of $0.20 to $5.03 as at 10 September 2015. In our view the reason for the successful transaction was due to appropriate due diligence being undertaken by InterMet as well as 1-Page being at an advanced stage where investors could understand how the technology could be monetised, an appropriate reason for requiring the funds (being for marketing and Business Development) and delivering results from the expenditure as evidenced by the sales contracts subsequently signed. We are often asked why an RTO is attractive and the primary reason is shareholder spread. Many target companies have cornerstone investors who want to be in a listed environment however spread would become an issue if an IPO was to be undertaken. The regulatory environment does not differ greatly as set out in ASIC's report 446 on Corporate finance released in August 2015. A number of RTO's occur once a deed of company arrangement has been reached, typically the return to the existing shareholders is less in this case as the parties that restructure the entity commit significant resources both in terms of time and financial support to create a shell that is suitable to transact and relist.

The June 2015 quarter saw slightly more companies raise more than $10 million in the quarter than in previous quarters and our conversations at Africa Down Under in early September reflected this. Whilst there is capital to be deployed, investors are certainly looking to undertake a thorough analysis of the project and above all ensuring that a quality management team is in place which is resulting in a slower deployment of capital than has been witnessed in the past.

A number of projects have changed hands such as A1 Consolidated Gold acquiring Octagonal's Maldon gold operations, Independence Group acquiring Sirius Resources NL just to name a few of varying size and scale. We are seeing:

- Significant interest in the mid-tier gold space as evidenced by Saracen acquiring King of the Hill and Kailis from St Barbara, whilst acquired by a producer there is potential that projects such as these could be acquired by an explorer to become a company making asset.
- We are still seeing divestment from the majors and there is also the potential that some assets may be divested by mid-tier producers that are not core to their portfolio which will create opportunities for the better placed explorers.

In summary, we are of the view that opportunities exist for a large number of exploration companies to create value in the longer term, either by exploiting their existing assets when conditions improve, turning to new industries via a RTO or acquiring company defining assets. The key will be to ensure that cash levels do not deplete to the point where a forced transaction is the only alternative. The key for investors is to identify good management teams who have a sound strategy including alternatives should the initial plan not succeed.

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