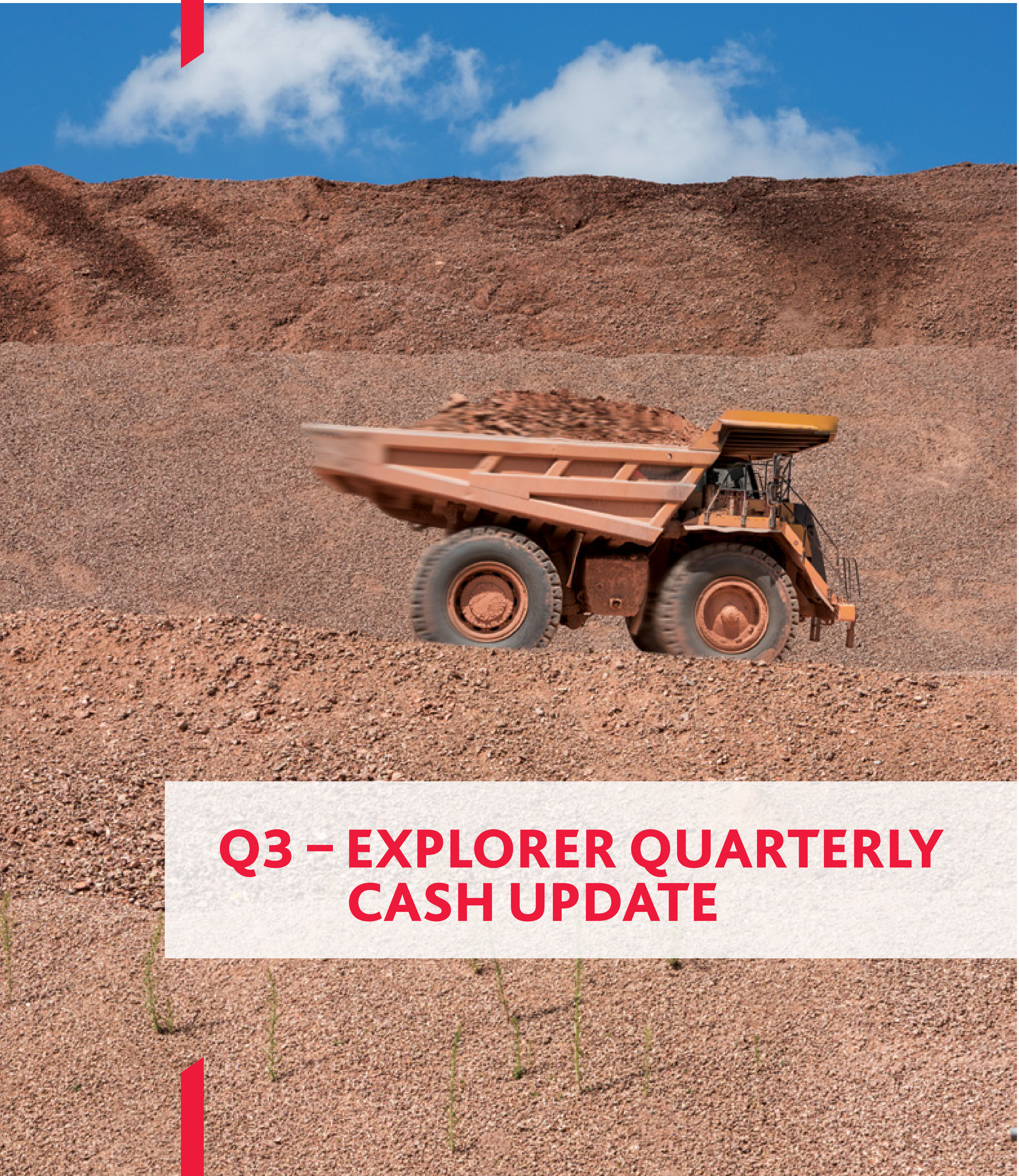

Q3 – EXPLORER QUARTERLY CASH UPDATE

RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

GOOD NEWS REMAINS SCARCE, AS JUNIOR EXPLORERS REPORT ANOTHER CHALLENGING QUARTER

With two years of data underpinning the BDO Explorer Quarterly Cash Update series, a continual decline in the cash position of many ASX-listed mining, oil and gas explorers characterises an industry sector that is struggling to gain the support it needs from investors.

Given the time lag between drilling, discovering and developing, the reduction of exploration by juniors today has the potential to adversely impact the ability of producers to meet tomorrow's supply demands.

BDO's report of the cash position of Australian-listed explorers for the March 2015 quarter (based on quarterly Appendix 5B reports lodged with the ASX), shows a decline in the number of companies reporting, a reduction in those that are actually exploring, and a drop in average exploration expenditure. While there are some positive stories, such as four companies having proceeded to production, and another 16 successfully raising more than $10m during the quarter, it's clearly evident that in a sector starved of funding, many companies don't have the capital required to continue operating for more than twelve months. In fact, more than 40 per cent of the ASX-listed junior explorers only have net operating cash reserves to last them for one or two quarters at their current cash burn rate.

Although the datasets available for analysis don't enable us to gain a more granular view of each company, anecdotal evidence would suggest that there is an increasing chasm within the sector between a small core of junior explorers that are still managing to attract substantive funding, and a greater subset that are being forced to suspend exploration or take other drastic cost-reduction measures, simply to remain viable. Some are even turning their attention to other sectors in order to survive the current market conditions (such as Perth-based International Goldfields, which has acquired an 85 per cent stake in the South American medicinal marijuana company, Winter Garden Biosciences).

While our report is solely based on ASX-listed companies, it would seem that the more viable explorers — and especially those still able to raise funding — are either involved in international explorations, or are working tenements that show promise of high quality yields, and have both the geological and geographic characteristics required for lower production costs, leading to faster cash flows.

In summary, the key findings of the March 2015 quarterly update reveal the following:

- In the March 2015 quarter, only 793 companies lodged reports, down from our previous low of 814 in the December 2014 quarter.
- Reasons for this reduction included: one new listing; four entities becoming producers; three being the subject of a backdoor listing; and fifteen being delisted, suspended or not providing a response for non-listing.
- 12 per cent of explorers did not conduct any exploration activity, the highest level since BDO began analysing the sector's quarterly cash expenditure. In addition, 20 per cent either spent nothing, or less than $10,000 on exploration expenditure.
- Only 38 per cent of explorers had positive financing cash flows — again the lowest percentage since the analysis began.
- The number of companies with sufficient cash to continue net operational expenditures at present levels for more than two quarters has risen slightly to 57 per cent, an increase on the December 2014 quarter (53 per cent).
- However only 34 per cent of explorers had a net investment in capital expenditure — the lowest level in our analysis of exploration and financing cash flows to date.

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"Good news from junior explorers is really hard to find at the moment. Almost one in five have ceased meaningful exploration for the time being, and it's clear that until commodity prices dramatically improve and demand increases, many companies will continue preserving cash in order to survive the next two or three years."

Dan Taylor,
Partner BDO

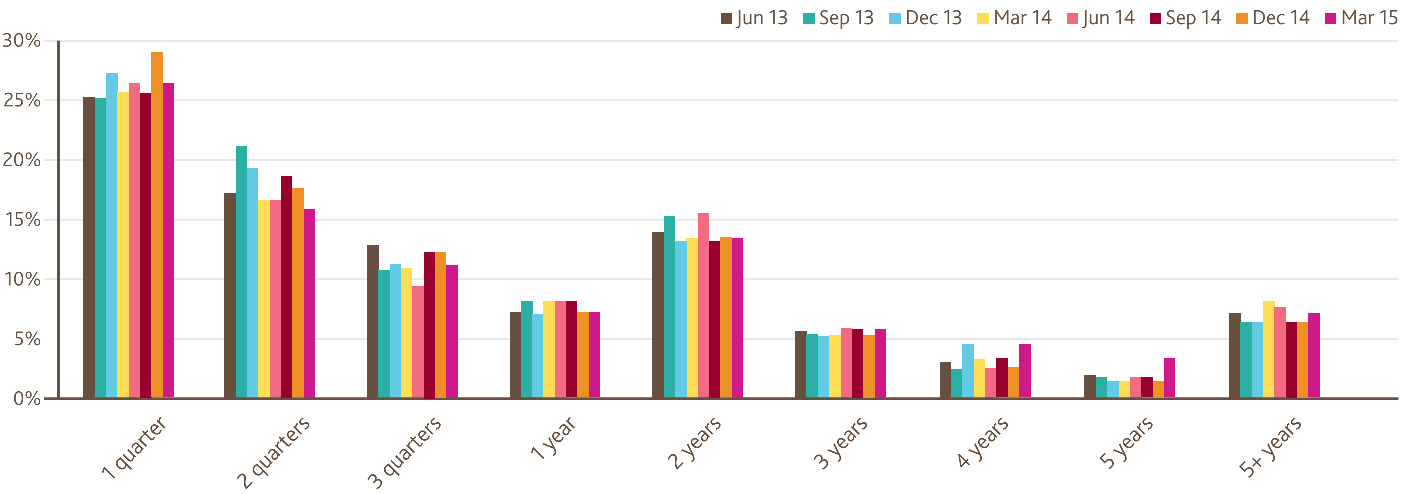
MARCH QUARTER CASH POSITION

	DECEMBER 2014 QUARTER		MARCH 2015 QUARTER		SEPTEMBER CASH SHORTFALL COMPANIES AS AT SEPTEMBER 2014	
	No. of companies	%	No. of companies	%	No. of companies	%
Total number of companies lodging Appendix 5B	814	100%	793	100%	236	100%
Net operating expenditure[1]						
– Companies with one quarter's cash reserves	236	29%	211	27%	236	55%
– Companies with one or two quarters' cash reserves	379	47%	339	43%	173	80%
Administrative expenditure						
– Companies with one quarter's cash reserves	135	17%	115	15%	91	39%
– Companies with one or two quarters' cash reserves	220	27%	193	24%	125	53%

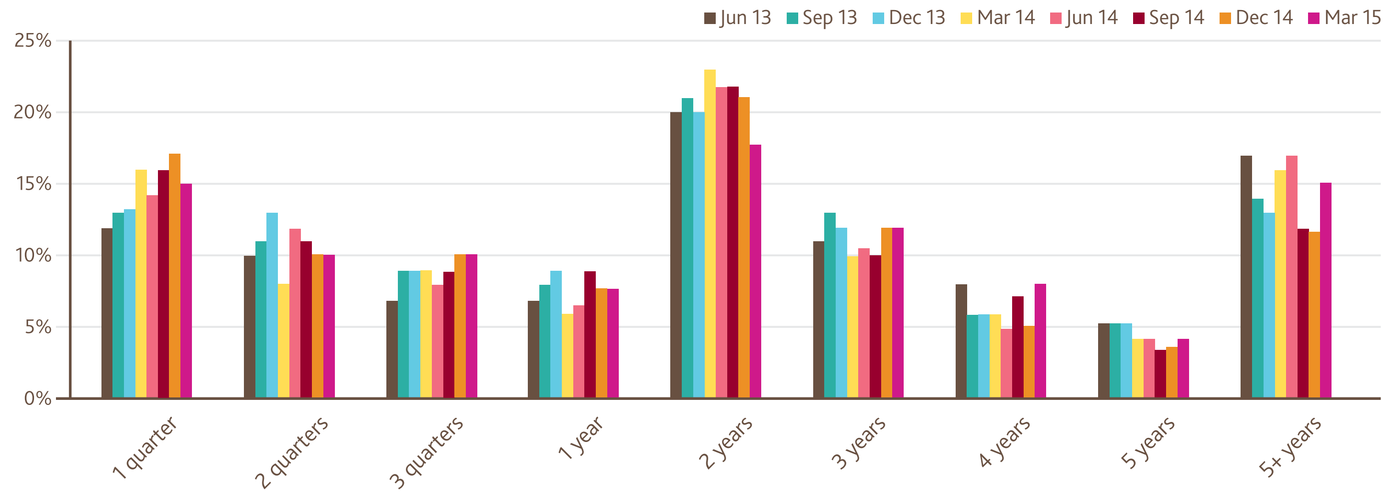
1 'December 14 cash shortfall' companies are defined as those have one quarter of operating expenditure as at the December 2014 quarter

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

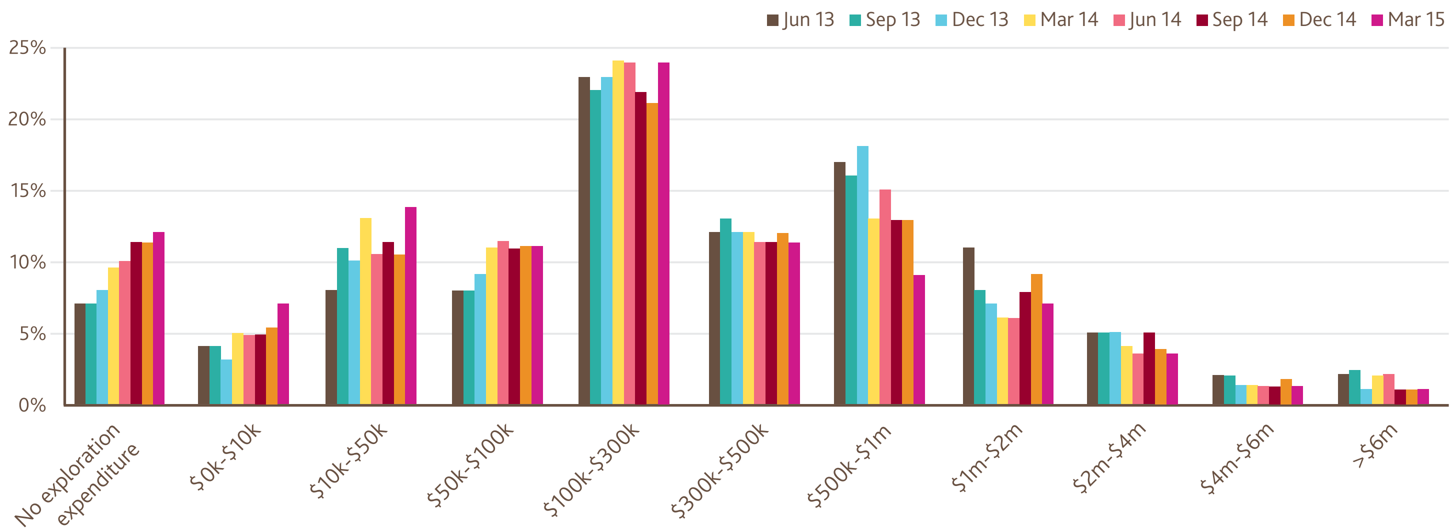
OPERATING CASH FLOWS – CASH BURN RATE



ADMINISTRATION EXPENSES – CASH BURN RATE



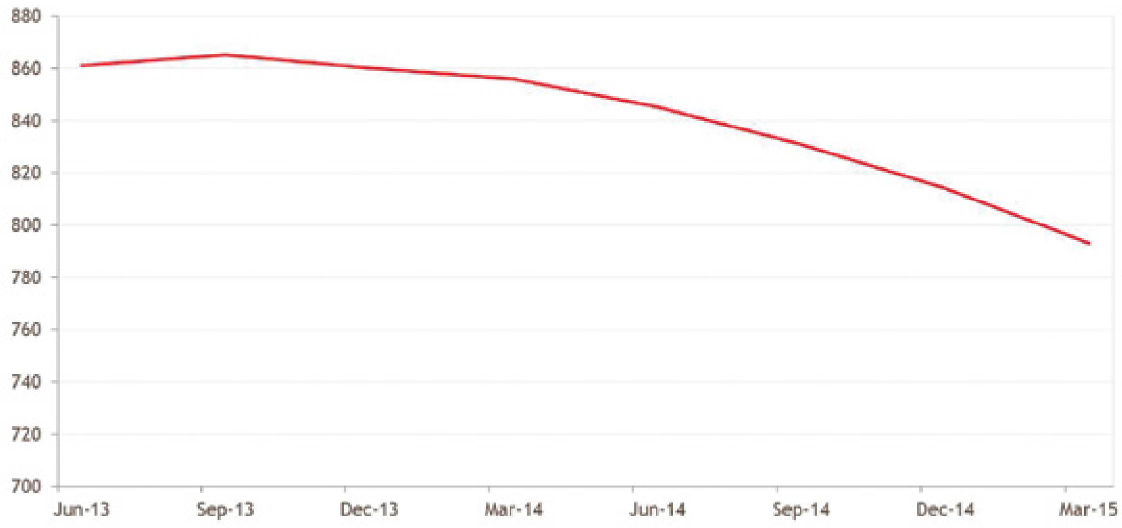
TOTAL EXPLORATION EXPENDITURE



Points to note in relation to the above graphs are:

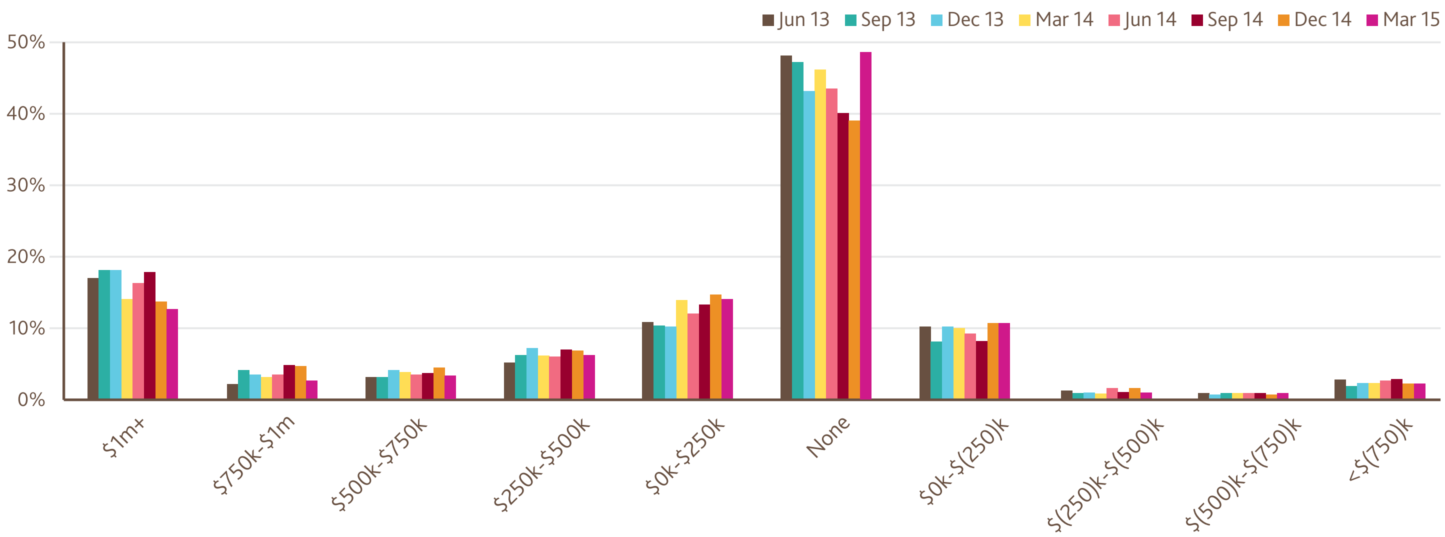
- Fewer companies spent more than $1m on exploration, with the average exploration expenditure falling for the fifth straight quarter to $539,000. This is significantly down from the June 2013 quarter average of $980,000 per company, and the first time this figure has fallen below $600,000.
- The percentage of companies with only one or two quarters of operating expenditure has declined to 43 per cent in the March quarter. This figure has remained fairly constant throughout the series, having been at 47 per cent and 44 per cent respectively in the previous two quarters (December and September 2014), and 42 per cent for our initial reporting period of the June 2013 quarter.
- In relation to administration expenditure, 24 per cent of companies have only one or two quarters of cash remaining on current administration spend. This is a fall from 27 per cent recorded in the previous two quarters, but represents a slight increase on the June 2013 quarter (22 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.
- Approximately one in five explorers, or almost 150, reported less than $10,000 (or nothing at all) in exploration expenditure, by far the highest proportion we have seen since we commenced our analysis.
- Only 11 per cent (86) of explorers spent more than $1 million on exploration in the quarter, a sharp decline on the previous low point of 122 recorded in December 2014, and half the number recorded for the June 2013 quarter, where 173 companies spent more than $1 million.

DECREASE IN COMPANIES LODGING APPENDIX 5B REPORTS: JUNE 2013 – MARCH 2015



- The decline in Appendix 5B lodgements has been quite dramatic over the past 12 months. The movement from the December quarter to the March quarter of 21 companies has resulted from:
  - One new listing
  - Four companies have moved from exploration to production
  - Three companies were the subject of backdoor listings
  - Eleven companies were delisted or suspended
  - Four companies gave no reasons for not lodging

NET FINANCING CASHFLOWS



During the March quarter the number of companies with positive financing cash flows dropped from approximately 46 per cent in December 2014 to 38 per cent. Of even greater concern, only 34 per cent had a net investment in capital expenditure, which is the lowest level we have seen since commencing our analysis.

Fund finders

In the March 2015 quarter, 16 companies raised more than $10 million, a slight decline from the 17 companies that raised more than $10 million in the previous quarter.

- Nido Petroleum — $138m share issue
- ARK Mines — $100m share issue
- Orocobre — $50m share issue
- MZI Resources — $31m borrowings
- CUDECO — $30m share issue
- Wolf Minerals — $29m share issue
- Peninsula Energy — $28m share issue
- Doray Minerals — $23m borrowings
- Empire Oil & Gas — $22m part share issue, part borrowings
- Sundance Energy Australia — $18m borrowings
- Guilford Coal — $15m part share issue, part borrowings
- Northern Iron — $15m borrowings
- ABM Resources — $15m share issue
- Pacific Niugini — $13m part share issue, part borrowings
- RTG Mining — $12m share issue
- Aurelia Metals — $10m share issue

Of interest, only three of the above companies (Nido, Empire and Sundance) are oil and gas explorers.

BDO Insight

As the March 2015 update reveals, there is little good news to report at the moment about the state of Australia's junior explorers. The fact that almost one in five explorers is not actively exploring, is symptomatic of the difficulty the sector is experiencing in obtaining financing. And that, in turn, is driven by low commodity prices and a reduction in demand.

As a result, the market simply isn't responding to second, third, fourth – and more – rounds of funding, which are typically required to take a project from exploration to production (or to being sold to a producer).

Right now, the challenge for many companies is to try and ride out the next few years, until prices are once again more attractive. This means that a company with maybe $1m in cash reserves is forced to make a decision about whether they spend this on exploration which at a minimum quarterly cost of around $600,000 won't last long or to simply reduce expenditure to the bare minimum.

Another strategy that some explorers are taking is to focus on their best project and divest themselves of any other projects. While during the resources boom there was an argument in favour of explorers spreading their capital across a number of different projects in the hope that one would work out, it's now more important to hone in on strengths, be focused, and keep investors well informed about what the strategy being taken is and the progress being achieved.

Finally, over the past two years, a large proportion of companies that have been the target of backdoor listings have been from the mining and gas and oil, sectors. At BDO we are dealing with companies from a range of industries that are looking to backdoor list into shelves that meet certain criteria and can help identify potential prospects. We are also able to assist investors who are interested in finding companies with a certain cash position and in a particular type of resource and location.

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