# EXPLORER QUARTERLY CASH UPDATE

QUARTER ENDED 30 JUNE 2018

# RESEARCH INTO THE FINANCIAL HEALTH OF AUSTRALIAN-LISTED EXPLORERS

BDO's report on the cash position of Australian-listed explorers for the June 2018 quarter (based on quarterly Appendix 5B reports lodged with the ASX) indicates that the natural resources sector in Australia is continuing to build momentum, with both investors and exploration companies exhibiting a bullish outlook. This was highlighted by a 58% increase in financing inflows for the quarter to reach $2.14 billion, and exploration companies increasing spending across the board.

Exploration expenditure increased by 15%, from $366 million for the March 2018 quarter to $420 million for the June 2018 quarter. This represents the second highest spend on exploration during a single quarter since March 2015. The Australian Bureau of Statistics also reported that metres drilled by exploration companies increased by more than 44% for the June 2018 quarter.

Net investing cash out flows increased by 44% from $411 million for the March 2018 quarter to $592 million for the June 2018 quarter. The increase in investing activity demonstrates a growing confidence amongst explorers in their ability to realise attractive return on investment in the sector.

Furthermore, the number of ASX listed exploration companies to lodge Appendix 5Bs continues to exhibit an upward trend, increasing for the second consecutive quarter, from 702 to 705.

The positive industry sentiment displayed during the June 2018 quarter was not isolated to exploration companies, with a number of large producing companies committing significant funds to development and expansion strategies.

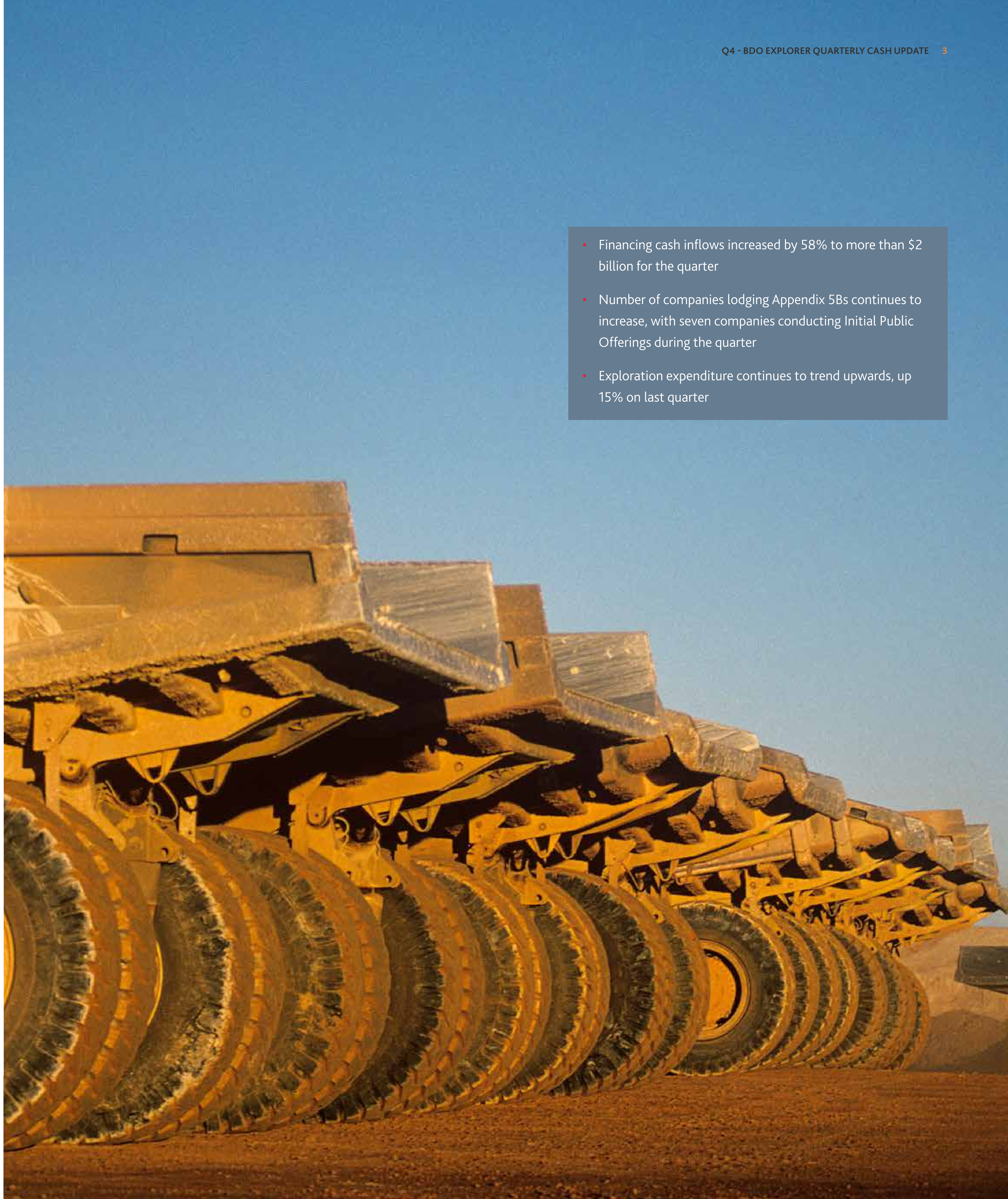
Of particular note, on 14 June 2018, BHP Billiton Limited ('BHP') announced that its board had approved $3.8 billion in capital expenditure for its 85% owned South Flank iron ore project. The South Flank project expands existing infrastructure in the Pilbara region of Western Australia and involves the construction of an 80 million tonnes per annum ('mtpa') crushing and screening plant, overland conveyor system, stockyard, train loading facilities and substantial mine development work. First ore from the South Flank project is targeted in 2021, with the expected mine life to be more than 25 years. The South Flank project represents BHP's largest single project spend since it committed US$6.6 billion to the Jimblebar iron ore project in 2011.

Less than a month earlier, Fortescue Metals Group Limited announced that it had committed US$1.27 billion in capital expenditure on a new mine and rail project at its Eliwana site in the Pilbara. Eliwana is expected to operate at 30 mtpa with capacity for up to 50 mtpa, over a mine life of at least 24 years.

Rio Tinto Group Limited also announced that it will commence construction in the Pilbara region, with a new US$2.2 billion mine to be built at Koodaoderi. Construction is scheduled to begin in mid-2019, with first production expected in 2021.

This means that Australia's three largest iron ore miners will be building mines in the same region at the same time – a strong indicator that the long term outlook for iron ore is positive. This expansion activity has begun to transcend to the demand for mining services, with labour shortages already visible across the industry. We consider this to be a reliable leading indicator for the future sentiment of the mining industry in general, which is likely to also be felt by exploration companies over the coming periods.





- Financing cash inflows increased by 58% to more than $2 billion for the quarter
- Number of companies lodging Appendix 5Bs continues to increase, with seven companies conducting Initial Public Offerings during the quarter
- Exploration expenditure continues to trend upwards, up 15% on last quarter

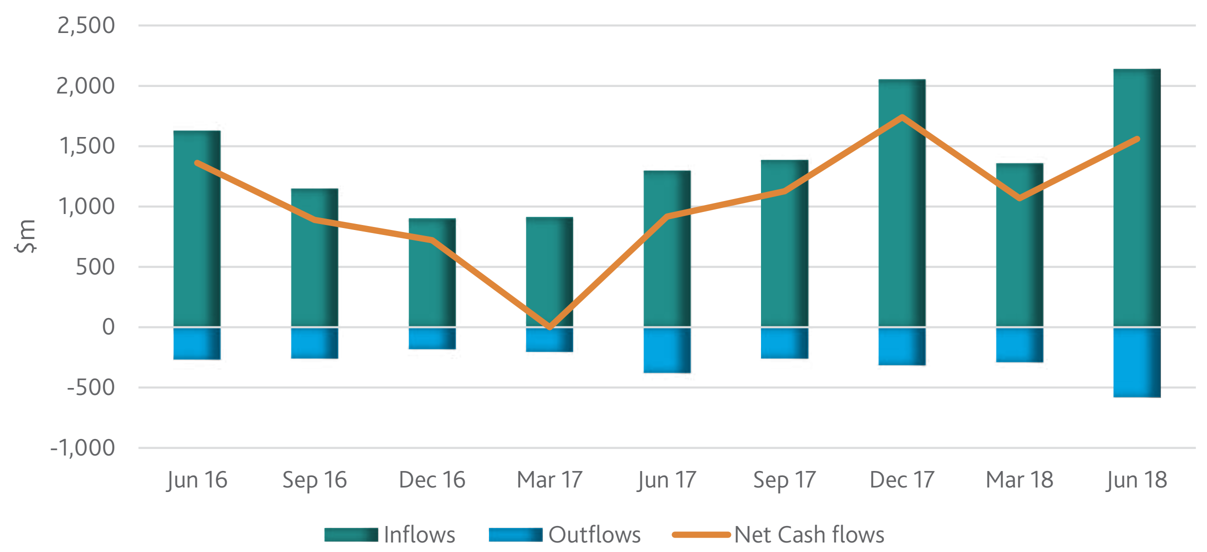
# FINANCING CASH FLOWS

Financing cash inflows for the June 2018 quarter totalled $2.14 billion, representing an increase of more than 58% from the previous quarter and the highest total amount raised for a quarter in more than two years.

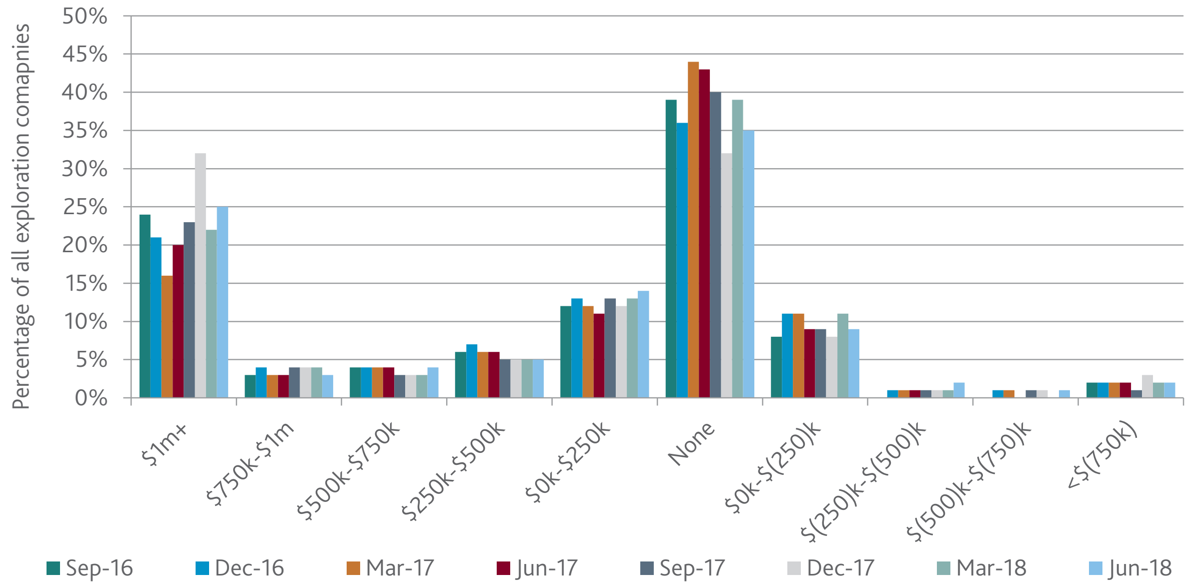
The proportion of exploration companies with net financing inflows increased from 46% for the March 2018 quarter to 52% for the June 2018 quarter. Furthermore, there was a decline in the number of companies with nil financing cash flows from 271 (39%) for the March 2018 quarter to 247 (35%) for the June 2018 quarter.



## FINANCING CASH FLOWS ($M)




## NET FINANCING CASH FLOWS ($M)



# FUND FINDERS

There were 30 exploration companies that raised in excess of $10 million during the June 2018 quarter. Of these, there were four gold companies, four lithium companies and four oil & gas companies.

Sundance Energy Australia Limited ('Sundance') had the largest financing inflow of approximately $617 million during the quarter, comprising $338.5 million in proceeds from borrowings and $278.5 million from the issue of shares. The funds were used to finance the acquisition of approximately 21,900 net acres and 1,800 barrels of oil equivalent per day, of production in the Eagle Ford Shale, Texas and also as part of a refinancing of its existing facility.

The second largest financing inflow during the quarter was by MZI Resources Ltd, which established a new $84 million debt facility. These funds will be used to implement a 5.25 mtpa operating plan for its Keysbrook mineral sands mine and facilitate its broader debt restricting program.

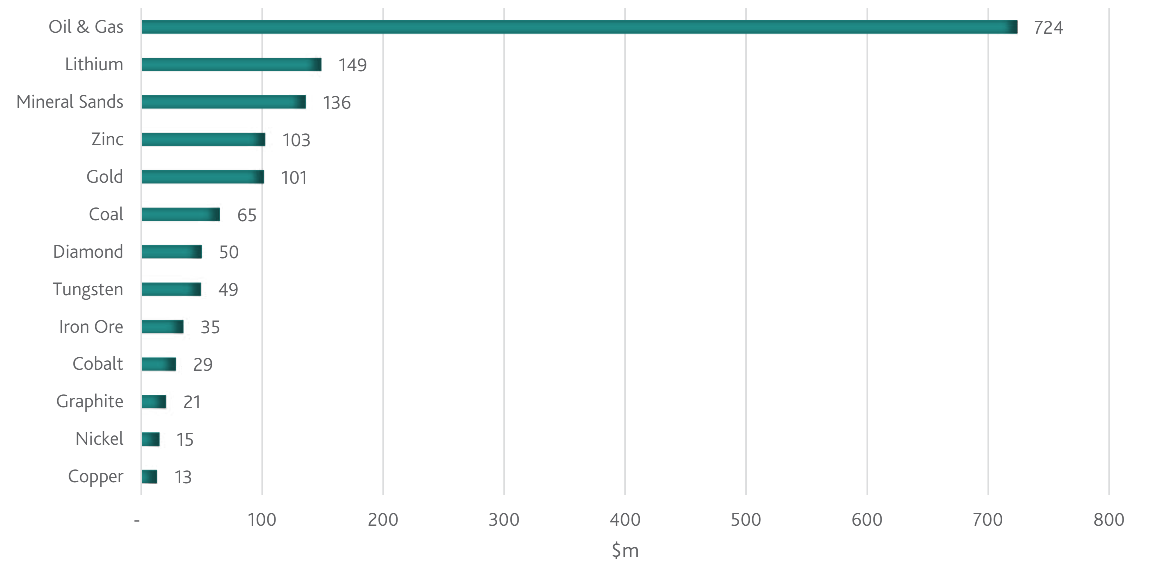


Companies that raised funds through debt and/or equity in excess of $10 million, are set out below:

| COMPANY | COMMODITY | AMOUNT RAISED (A$) |
|---|---|---|
| Sundance Energy Australia Limited | Oil & Gas | $338.51 million in proceeds from borrowings and $278.50 million in proceeds from issue of shares |
| MZI Resources Ltd | Mineral Sands | $83.82 million in proceeds from borrowings |
| Elk Petroleum Limited | Oil & Gas | $58.39 million in proceeds from borrowings and $12.30 million in proceeds from issue of shares |
| Pilbara Minerals Limited | Lithium | $55.42 million in proceeds from borrowings and $6.70 million in proceeds from exercise of options |
| Global Geoscience Limited | Lithium | $53.43 million in proceeds from issue of shares |
| Image Resources NL | Mineral Sands | $52.02 million in proceeds from borrowings |
| New Century Resources Limited | Zinc | $41.73 million in proceeds from issue of shares |
| RTG Mining Inc | Gold | $40.83 million in proceeds from issue of shares |
| West African Resources Limited | Gold | $35.00 million in proceeds from issue of shares and $0.98 million in proceeds from exercise of options |
| Myanmar Metals Limited | Zinc | $35.00 million in proceeds from issue of shares |
| Champion Iron Limited | Iron Ore | $33.85 million in proceeds from borrowings and $1.05 million in other proceeds |
| Bounty Mining Limited | Coal | $24.01 million in proceeds from issue of shares and $10.21 million in proceeds from borrowings |
| Newfield Resources Limited | Diamond | $33.04 million in proceeds from issue of shares |
| Paringa Resources Limited | Coal | $30.71 million in proceeds from issue of shares |
| Wolf Minerals Limited | Tungsten | $27.72 million in proceeds from borrowings |
| Heron Resources Limited | Zinc | $25.86 million in proceeds from borrowings |
| Tungsten Mining NL | Tungsten | $21.56 million in proceeds from issue of shares and $0.002 million in proceeds from exercise of options |
| Tawana Resources NL | Lithium | $20.00 million in proceeds from issue of shares and $1.13 million in proceeds from exercise of options |
| Battery Minerals Limited | Graphite | $20.62 million in proceeds from issue of shares |
| Carnarvon Petroleum Limited | Oil & Gas | $19.11 million in proceeds from issue of shares |
| 88 Energy Limited | Oil & Gas | $17.05 million in proceeds from issue of shares |
| Lucapa Diamond Company Limited | Diamond | $16.93 million in proceeds from issue of shares |
| Oklo Resources Limited | Gold | $15.00 million in proceeds from issue of shares and $1.23 million in proceeds from exercise of options |
| Highland Pacific Limited | Nickel | $15.03 million in proceeds from issue of shares |
| Galileo Mining Ltd | Cobalt | $15.00 million in proceeds from issue of shares |
| Metro Mining Limited | Bauxite | $14.07 million in proceeds from issue of shares |
| Celcius Resources Limited | Cobalt | $12.00 million in proceeds from issue of shares and $1.67 million in proceeds from exercise of options |
| Cudeco Limited | Copper | $13.23 million in proceeds from borrowings |
| Sayona Mining Limited | Lithium | $12.27 million in proceeds from issue of shares |
| Geopacific Resources Limited | Gold | $10.08 million in proceeds from issue of shares |

In total, the 30 companies to raise in excess of $10 million accounted for $1.50 billion, approximately 70% of the $2.14 billion in total financing inflows. Of the $1.50 billion raised by the 30 companies to raise in excess of $10 million, oil and gas explorers accounted for 49%, followed by lithium with 10% and mineral sands with 9.0%.

## FINANCING INFLOW BY COMMODITY






Oil & gas exploration companies attracted significant investor interest during the June 2018 quarter, recording financing inflows more than five times larger than the next highest commodity.

As illustrated below, oil prices increased by more than 20% during the June 2018 quarter to reach almost US$80 by the end of the quarter. The increase in crude oil prices during the quarter primarily related to geopolitical instability in the US, Iran and Venezuela, in addition to perceived supply manipulation by the Organisation of the Petroleum Exporting Countries ('OPEC') and Russia.

During the quarter, the United States of America announced that it would reimpose economic sanctions on Iran, which will restrict the sale of oil and petrochemical products from Iran. The announcement had an immediate impact, with markets seemingly pricing in the reduced supply from Iran.

The political and economic crises in Venezuela has crippled its oil industry, with crude oil production going into freefall. The supply shock has permeated global markets quicker than anticipated, with corruption issues and problems with payments only expected to exacerbate conditions and leading to an increase in the oil price.

Over the last 18 months, major oil producing countries, led by OPEC and Russia have restricted oil production in an attempt to bring global oil demand and supply back into balance. Together OPEC and Russia produce more than 40% of the world's oil, which has resulted in their joint restrictions on production having a significant impact on pricing. OPEC members will meet in Vienna in December to discuss whether the cuts will continue beyond 2018, when they are due to expire.

## BENT CRUDE (ICE) HISTORICAL PRICE (USD/BBL)

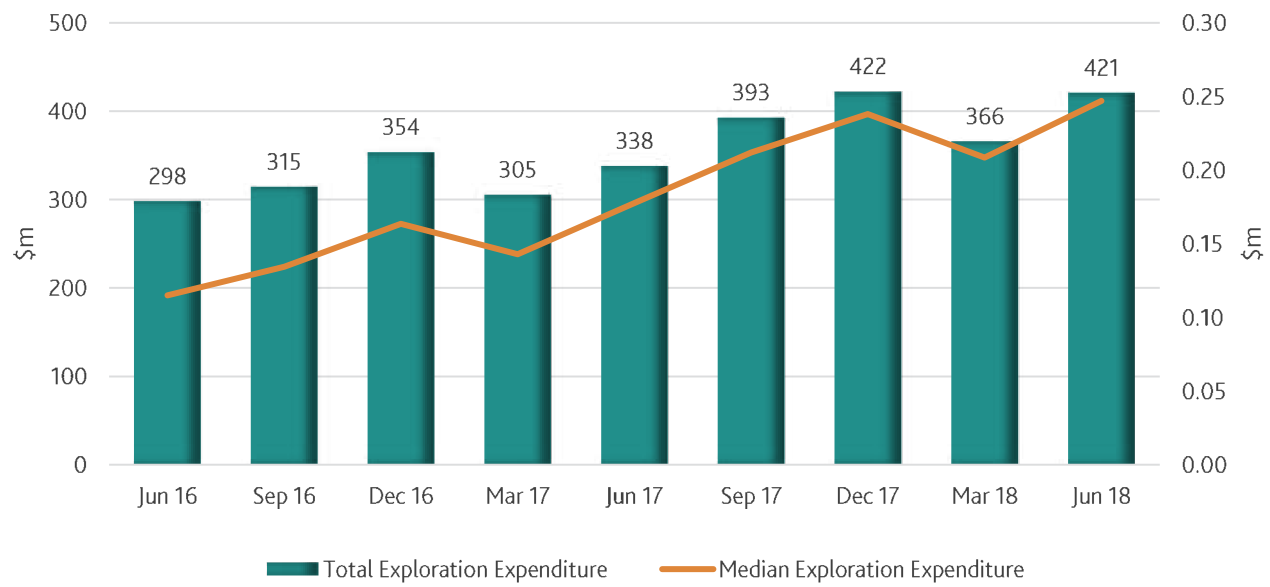

The increases in the oil price as a result of the above supply shocks, may have led to an improvement in investor appetite for oil and gas stocks as evidenced by large capital raisings conducted by Sundance (mentioned above). Similarly, debt financiers may be more willing to lend in this space, with Elk Petroleum Limited a possible beneficiary of the surging oil price, with it sourcing $58.3 million in debt during the June quarter.

# EXPLORATION EXPENDITURE

Total exploration expenditure increased by 15% for the quarter, from $366 million for the March 2018 quarter to $421 million for the June 2018 quarter. This marks the second highest spend on exploration during a single quarter since March 2015. Furthermore, median exploration expenditure increased to $0.25 million for the June 2018 quarter, the highest since we commenced our coverage back in the September quarter of 2013.

This indicates that the growth in exploration expenditure has been across the market and is not just being skewed by significant exploration expenditure at the larger end of the market.

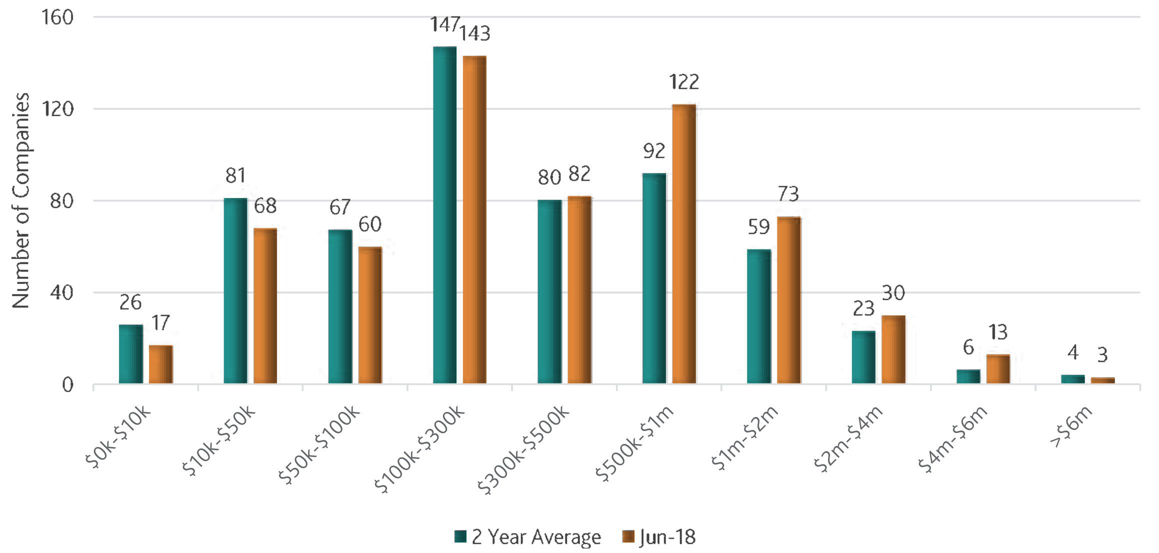
### EXPLORATION EXPENDITURE ($M)






As shown below, there has been a general upward trend in the levels of exploration expenditure for the June 2018 quarter, with the number of companies spending more than the two-year average increasing across all threshold levels above $300k, other than greater than $6.0 million.

### NUMBER OF COMPANIES BY EXPLORATION EXPENDITURE




According to the Australian Bureau of Statistics' mineral exploration statistics for the June 2018 quarter, metres drilled by exploration companies rose by 44% for the June 2018 quarter. Drilling in areas of existing deposits rose by 38%, whilst metres drilled in areas of new deposits increased by 57%. The significant increase in drilling and exploration activity is likely to result in longer mine lives of existing projects and lead to the development of new deposits.

We expect to see a continued increase in exploration expenditure over the coming quarters as junior explorers begin 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).

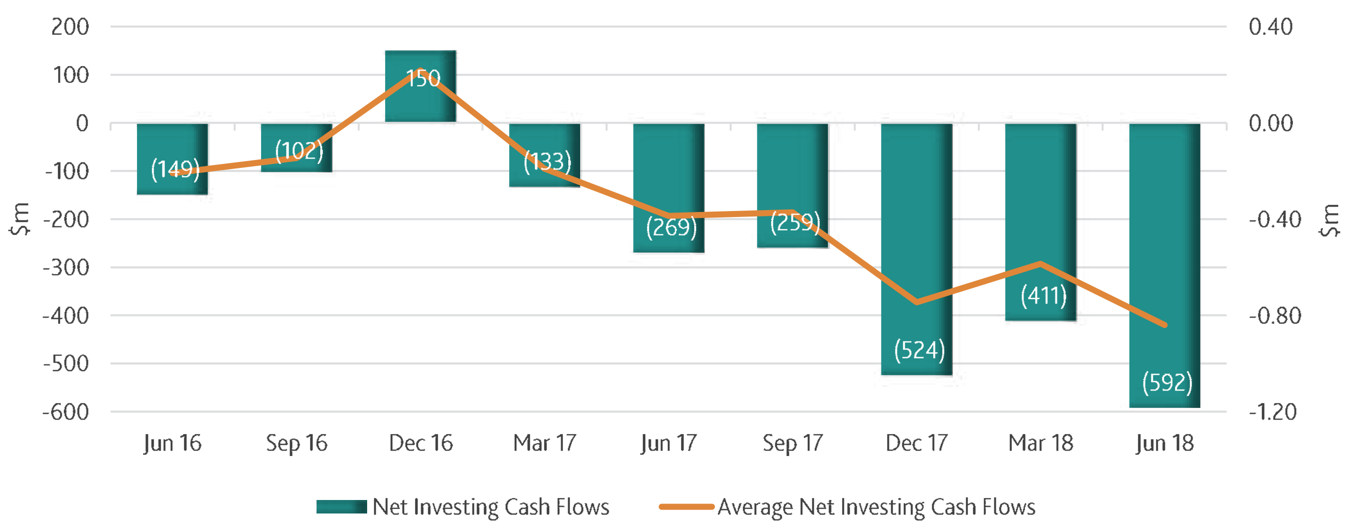
# NET INVESTING CASH FLOWS

Net investing cash flows increased by 44% from $411 million for the March 2018 quarter to $592 million for the June quarter.

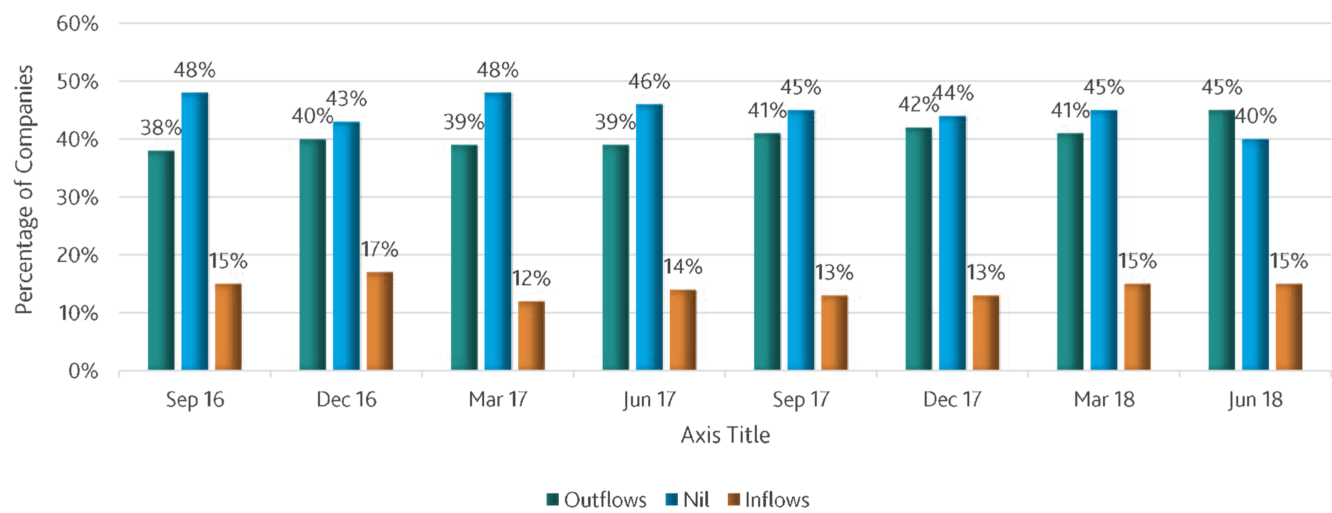
The proportion of exploration companies with investment expenditure during the quarter was 45%, which represents the highest percentage for a given quarter since we commenced our coverage back in September 2013.

The increasing trend in capital expenditure observed over recent quarters demonstrates that exploration companies are actively pursuing investment opportunities to strengthen or expand their scale of operations, and not focussing purely on exploration activities. This may provide the impetus for growth in exploration spend over the coming quarters.

## NET INVESTING CASH FLOWS ($M)

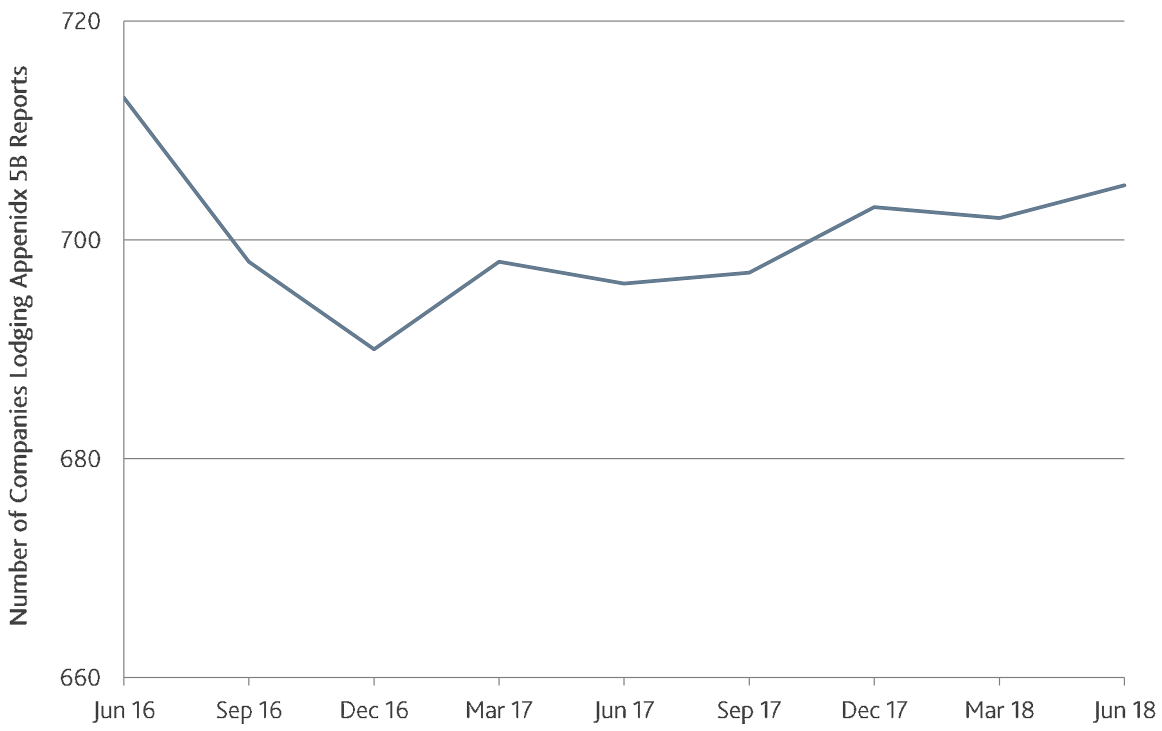



## INVESTING CASH FLOWS (%)



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

For the quarter ended 30 June 2018, 705 companies lodged an Appendix 5B report, the most companies to lodge since the June quarter two years ago. This was an increase of three from 702 during the previous quarter and nine from 696 the same quarter last year.




The net increase of three companies to lodge an Appendix 5B from the March 2018 quarter to the June 2018 quarter was primarily a result of the following:

- Seven companies which conducted initial public offerings ('IPOs') and became newly listed exploration companies during the June 2018 quarter
- Two companies that were late to lodge an Appendix 5B for the March 2018 quarter but have subsequently lodged an Appendix 5B for the June 2018 quarter, and
- One company that was suspended during the March quarter but has since been reinstated and lodged an Appendix 5B for this period.



This increase in the number of companies lodging an Appendix 5B over the quarter was partially offset by:

- Two companies that were delisted during the June 2018 quarter
- One company that was suspended during the June 2018 quarter
- One company that entered administration during the June 2018 quarter, and
- Three companies that at the date of this report have not lodged an Appendix 5B for the June 2018 quarter but lodged for the March 2018 quarter.

As set out below, the seven IPOs over the June 2018 quarter included Bounty Mining Limited and Galileo Resources Limited which raised $18 million and $15 million over the quarter, respectively.

| COMPANY | COMMODITY | AMOUNT RAISED (A$) |
|---|---|---|
| Bounty Mining Limited | Coal | $18,000,000 |
| Galileo Mining Limited | Cobalt & Nickel | $15,000,000 |
| Adriatic Metals PLC | Zinc, Lead & Barite | $10,000,000 |
| Constellation Resources Limited | Gold & Nickel | $7,000,000 |
| Mako Gold Limited | Gold | $6,000,000 |
| Rafaella Resources Limited | Cobalt & Copper | $5,000,000 |
| Koppar Resources Limited | Copper & Zinc | $4,500,000 |

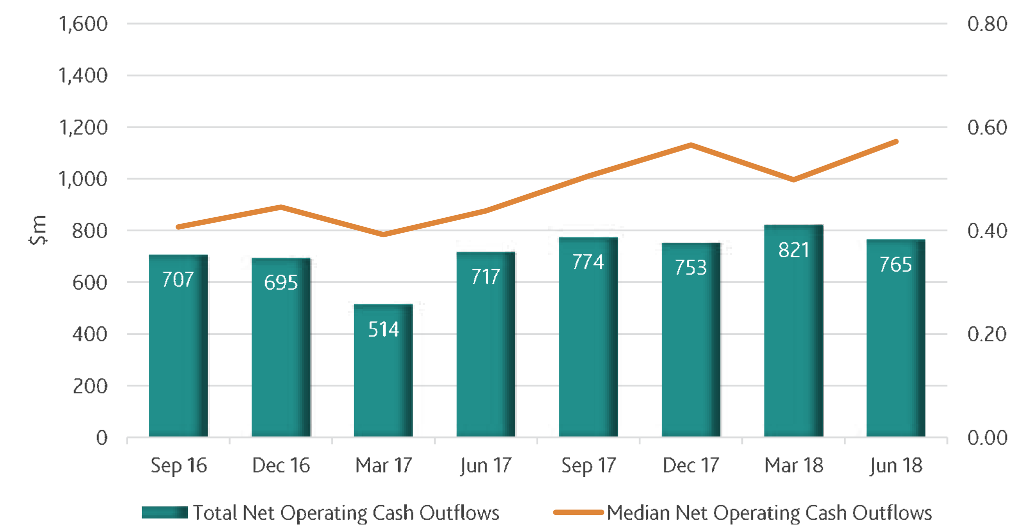
# NET OPERATING CASH OUTFLOWS

Despite total net operating cash outflows declining by approximately 7% for the June 2018 quarter, the median increased by 15% from $0.50 million to $0.57 million. This equals the median net operating cash outflow of the December 2017, which was the highest in more than four years.

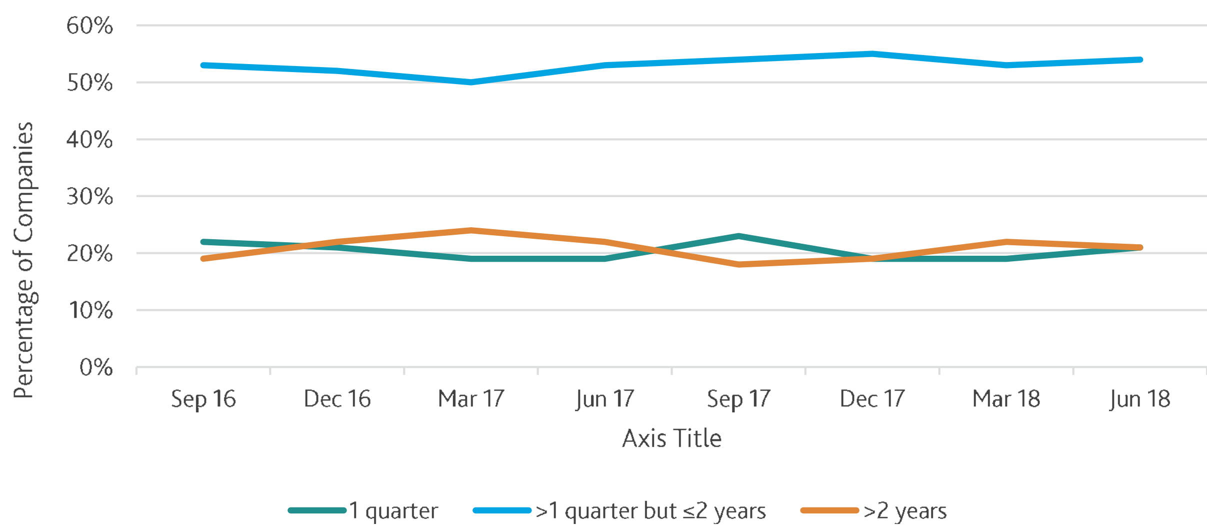
Based on current operating expenditure, the proportion of companies that will burn through their cash reserves in one year or less, increased from 19% in the March 2018 quarter to 21% in the June 2018 quarter. The number of companies that will burn through their cash reserves between one and two years, increased from 53% to 54%, whilst the number for more than two years declined from 22% to 21%, over the same period.

The general plateau in the proportion of companies that will burn through their cash reserves, based on current operating expenditure, supports the view that explorers are optimistic about their ability to raise future funds. Consequently, exploration companies appear to be less concerned about cash preservation and are more comfortable committing funds to both operational and administrative activity.

## NET OPERATING CASH OUTFLOWS ($M)



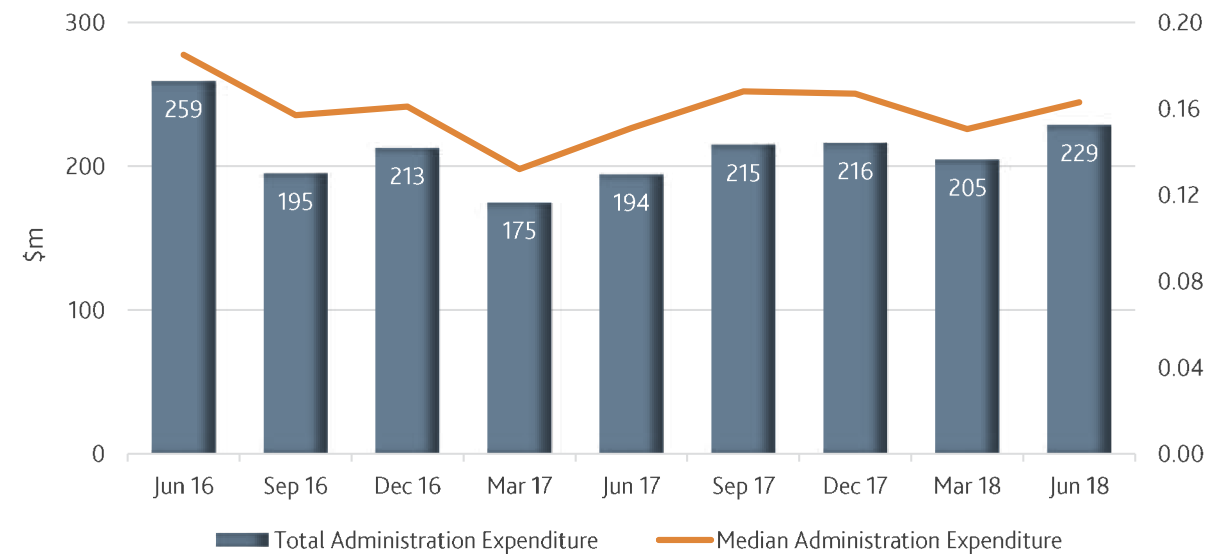

## OPERATING EXPENSES- CASH BURN RATE



# ADMINISTRATION EXPENDITURE

Total administration expenditure increased from $205 million for the March 2018 quarter to $229 million for the June 2018 quarter, representing a 12% increase. The median administration expenditure also increased from $0.15 million for the March 2018 quarter to $0.16 million for the June 2018 quarter.

### ADMINISTRATION EXPENDITURE ($M)

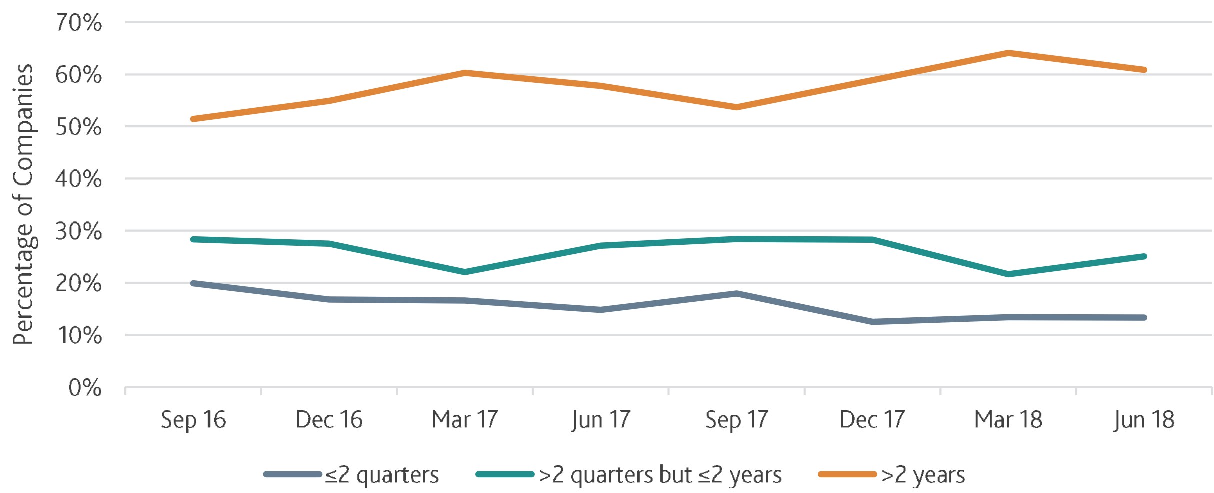





In recent years we have observed a declining trend in administration expenditure, as explorers strived to streamline operations and maximise administrative efficiency. The increasing trend in administration expenditure since the March 2017 quarter bucks this trend and supports the notion that the improvement in industry sentiment is expected to be sustained over the long-term.

Based on administration expenses for the June 2018 quarter, the proportion of companies with cash sufficient to sustain these expenses for greater than two years decreased from 64% for the March 2018 quarter to 61% for the June 2018 quarter. Contrastingly, the proportion of companies with more than two quarters and less than two years increased from 22% to 25% of the same period. The proportion of companies with less than or equal to two quarters of cash to sustain current administration expenses was consistent with the previous two quarters, remaining at 13%.

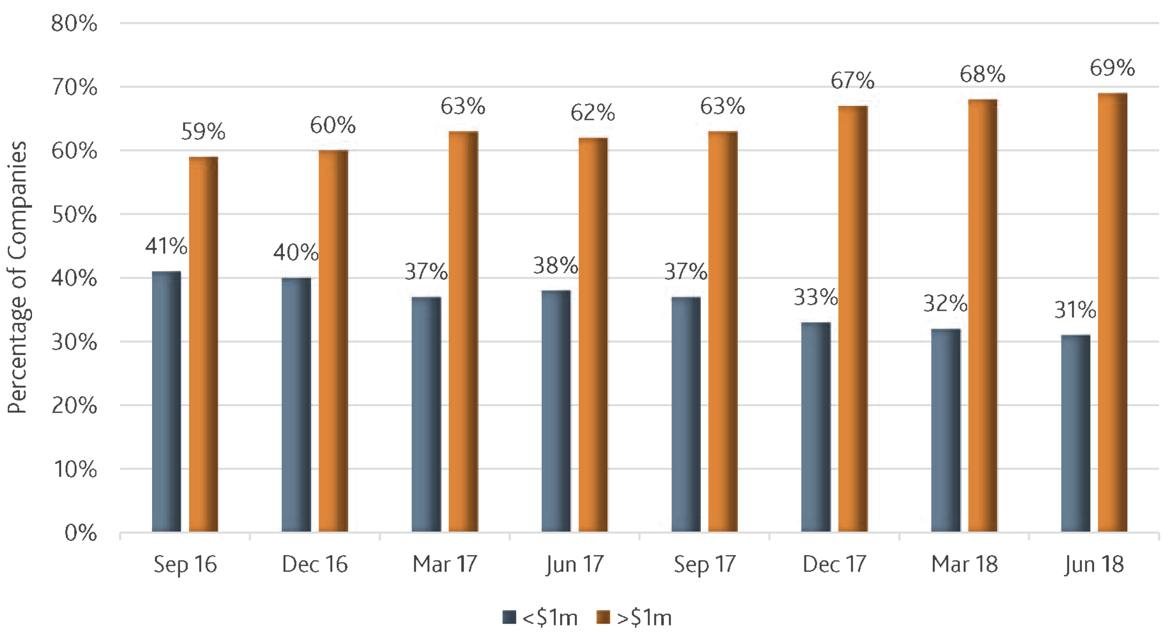
### ADMINISTRATION EXPENSES - CASH BURN RATE




# JUNE 2018 QUARTER CASH POSITION

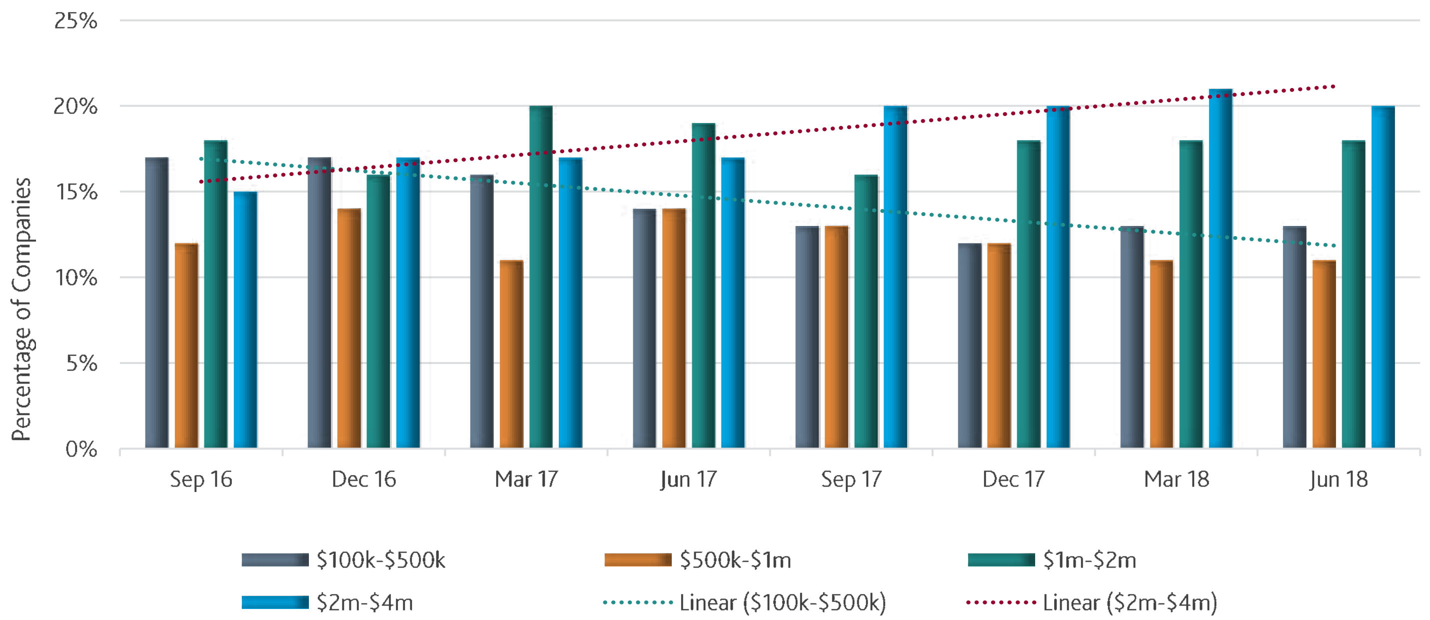
The average cash balance for exploration companies increased from $6.22 million for the March 2018 quarter to $6.38 million for the June 2018 quarter. The proportion of companies with cash balances greater than $1 million was broadly consistent between the March 2018 quarter and June 2018 quarter, however, as highlighted in previous editions of our report and the chart below, there is a distinct increasing trend. This shows that exploration companies are cashed up, which bodes well for future activity.

### CASH BALANCE (%)




Companies with a cash balance between $100k and $4 million account for 62% of companies lodging an Appendix 5B for the June 2018 quarter. The proportion of companies at each threshold within this range has remained consistent from the March 2018 quarter, with the exception of the proportion of companies with a cash balance between $2 million and $4 million, which declined by 1%.

### CASH BALANCE (%)



# BDO INSIGHT

The June 2018 quarter has seen a tangible increase in the ability of exploration companies to do what they do best: explore. Not only have we seen companies raise more funds, we have also seen them spend more on exploration and investment than we have for some time. This is a continuation of the trend we have observed in our last couple of reports.

Over the past few years, those exploration companies who have survived, have largely achieved this through being able to reduce administration costs. Perhaps the most telling sign that the tide is turning for exploration companies is that total exploration expenditure is at the highest level since the June 2016 quarter. Further anecdotal evidence from many clients is of an increasing wait time for drill rigs and increasing costs too.

The figures shown in this report support the sentiment experienced at recent conferences such as Digger and Dealers and Africa Down Under. The number of delegates were up on recent years and the discussions were about finding suitable projects to buy or fund, rather than companies desperately trying to raise funds as in previous years.

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*Statistics as of 30 September 2017

**1,500** OFFICES WORLDWIDE

**73,854** PEOPLE

**US$8.1b** TOTAL REVENUES

**162** TERRITORIES

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