Grant Thornton

Survey of junior mining and exploration companies

July 2009

Contents

"In these turbulent market times, it is essential to hear from the companies themselves as to the real issues that are affecting their businesses."

Scott Griffin
National Head of Corporate Finance

Foreword

Welcome to Grant Thornton Australia's survey of junior mining and exploration (JUMEX) companies. This research was conducted as part of our ongoing commitment to industry insight and specialisation.

Australia's listed JUMEX companies have had a challenging year and continue to experience tough market conditions. Grant Thornton's survey of JUMEX companies gauges industry sentiment and examines issues facing these companies in the light of the current economic climate.

Falling commodity prices and a volatile stock market have led to difficult circumstances for the entire resources sector. Whilst majors have been forced to close mines and defer capital expenditure, juniors have also been severely affected as these companies are generally dependent on regular equity injections and fund raising opportunities have been limited.

The ASX All Ordinaries and S&P-ASX 200 indices were in steady decline since the global financial crisis deepened in September 2008, falling every month for the six months to February 2009. Since March 2009, both indices have steadily improved and further recent optimism about an easing global recession had pushed the stock market to a seven-month high by mid June 2009. This was led by the mining companies, presumably based on hopes that an upturn in growth would boost demand for metals.

At the end of June 2009, the S&P-ASX 200 index was up 26% from a five-year closing low set in early March 2009.

This survey provides an independent perspective of the impact of current economic climate conditions on the junior resources sector. This report outlines some of the key trends from the survey and some of the more interesting findings. Issues investigated include:

- Market capitalisation
- Cash balances
- Sources of finance
- The impact of the Global Financial Crisis (GFC)
- Outlook & constraints

Grant Thornton would like to express our appreciation to those who participated in the survey.

The current global economic downturn has created an extremely competitive environment for investment dollars, either debt or equity, and junior mining companies face an extremely tough challenge to raise the funds they need for survival.

Overview of survey findings

The majority of junior mining and exploration companies surveyed have a low current cash balance, with a requirement to raise funds within a year. Most envisaged the availability of equity funding to be a major restraint in their business in the year ahead. The challenge in the industry is to find ways to raise these funds in times when equity markets are strained and fundraising for explorers has all but dried up.

Other key findings included:

- A huge 94% of respondents believe their current share price significantly undervalues the company and its assets.
- The majority (84%) of JUMEX companies surveyed have had to make changes in their business, due to current economic conditions. 47.5% expect to make further changes in the 2009 calendar year.
- Respondents are generally optimistic about commodity prices with 80% expecting an increase in the price of their key resource commodity over the next 12 months.
- In response to market conditions, 78% of companies are considering undertaking a major corporate transaction in the coming 12 months.

From these results it is evident that we are heading for a major change to the landscape of the ASX's junior mining companies in the next 12 months if the opportunity for raising funds does not improve for these companies.

Industry context

General

Junior exploration companies account for around 80% of all resource companies listed on the ASX. These companies are predominantly involved in mineral exploration, as opposed to production, and are responsible for most new discoveries.

In the current financial market, high risk and early stage companies such as junior explorers, have been severely affected. New IPOs of junior explorers have declined more than 75% since September 2008 and fund raising opportunities have been extremely limited. Consequently, many juniors have been forced to cut costs and exploration activity for many companies has been frozen, with resultant job losses across the sector.

Commodity prices

Prices of a number of the major commodities, such as copper, nickel, zinc and uranium, have fallen dramatically since June 2007.

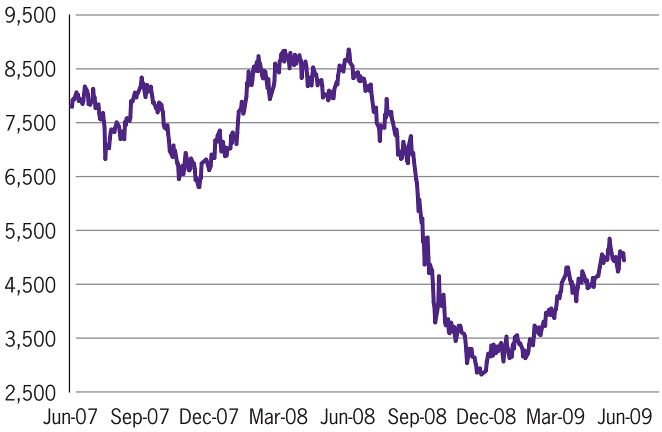
Copper

The price of copper fell from US$8,206 a tonne in July 2007 to a low of US$2,810 a tonne in December 2008. It recovered to US$4,949 a tonne by the end of June 2009.

Nickel

The price of nickel fell from a high of US$36,490 per tonne in July 2007 to a low of US$8,934 per tonne in December 2008 and rose to US$15,291 per tonne by the end of June 2009.

Copper – spot price (US$/tonne)



Nickel – spot price (US$/tonne)

Zinc

The price of zinc fell from a high of US$3,772 a tonne in July 2007 to a low of US$1,047 a tonne in December 2008 and rose slightly to US$1,523 by the end of June 2009.

Uranium

The price of uranium fell from a high of US$135 per pound in July 2007 to a low of US$41 per pound in April 2009 and rose slightly to US$55 by the end of June 2009.

Gold

Gold has bucked the falling commodity price trend and increased steadily in 2007, was more volatile in 2008 but continued to increase during the first six months of 2009. The gold price increased from a low of US$649.5 per ounce in July 2007 to US$930.3 per ounce by the end of June 2009.

Market capitalisation

The total market capitalisation of all the junior mining and exploration companies listed on ASX dropped 36%, from $34.3 billion at 30 June 2008 to $21.9 billion at 30 June 2009. We observed a market capitalisation of $9.8 billion in November 2008, and juniors have since benefited from the upturn in the market in the first half of 2009.

The average market capitalisation of all the junior mining and exploration companies listed on ASX was $66 million at 30 June 2008, $19.4 million at 25 November 2008 and $41.3 million at 30 June 2009.

The largest company included in our survey group had a market capitalisation of $390 million at 30 June 2009.

Fund raisings

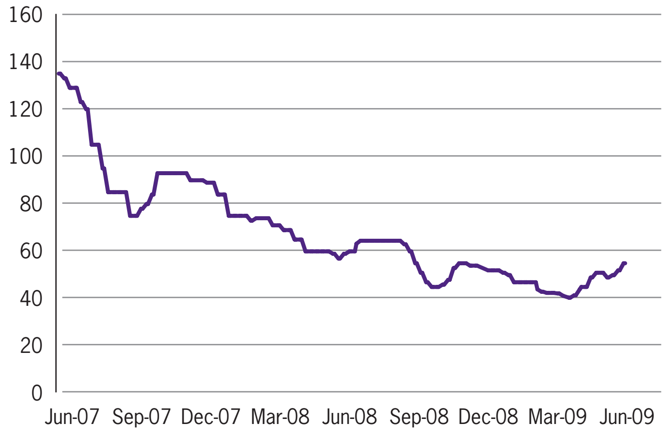
Exploration companies are generally dependent on regular equity raisings. A significant number of ASX listed junior mining and exploration companies have, by necessity, undertaken fund raising exercises in the past 12 months. However, market conditions have resulted in a large proportion of these being unsuccessful in raising the full amount of funds required, or being completed at a price much lower than that originally contemplated by the company.

Cost cutting

Almost all ASX listed junior mining and exploration companies have announced the implementation of cost cutting measures, including ceasing expenditure on exploration projects and reductions in staff numbers.

Zinc – spot price (US$/tonne)

Uranium – spot price (US$/pound)



Gold – spot price (US$/ounce)

In depth survey findings

Junior mining and exploration companies are facing difficult times, with a need to raise funding in the short term, at a time when most commodity prices are at historically low levels and raising equity funding is particularly challenging.

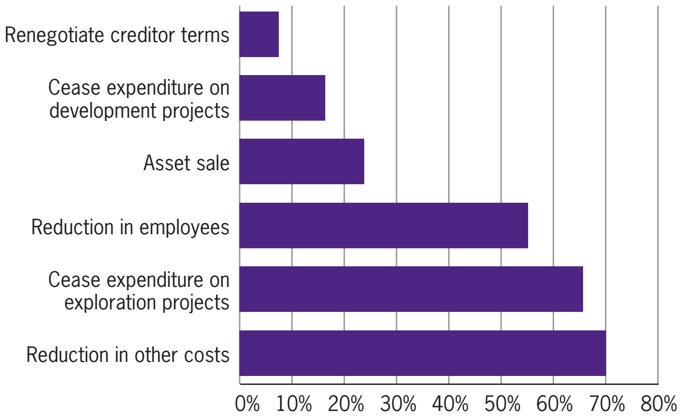
Impact of global economic conditions

83.8% of respondents have had to make changes in their business due to the current economic conditions. The most common changes made were a reduction in costs (70.2%), cessation of expenditure on exploration projects (65.7%), reduction in employee numbers (55.2%) and asset sales (23.8%).

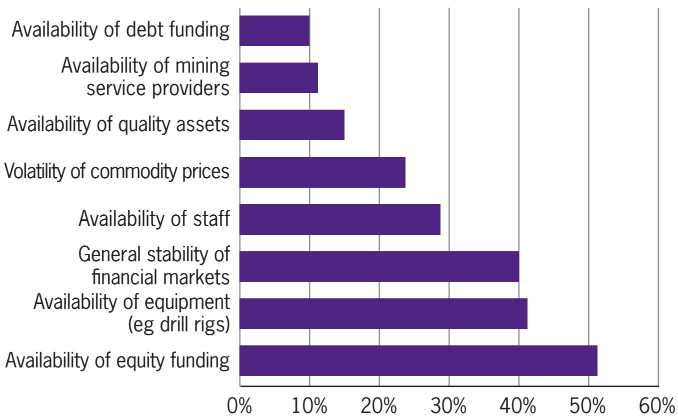
47.5% of companies have or anticipate a need to make further changes in the 2009 calendar year, including a further reduction in costs (42.1%), forced cessation of expenditure on exploration projects (39.5%), reduction in employee numbers (29.0%) and to have to affect an asset sale (23.7%).

Responses also revealed how economic conditions have caused significant change throughout the industry. During 2008 respondents noted that the key constraint to their business was availability of equity funding. Other significant constraints included the lack of availability of equipment such as drill rigs (41.3%), stability of financial markets (40.0%), staff (28.8%), commodity prices (23.8%), quality assets (15.0%) and mining service providers (11.3%). However, of these constraints, only one was expected by a few respondents to continue in 2009, being a lack of quality assets (9.0%).

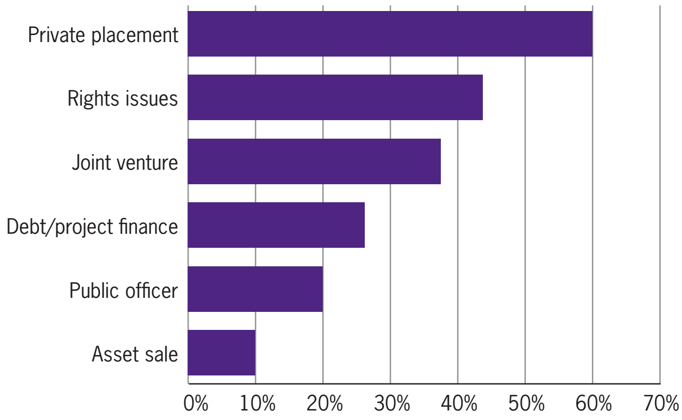
Changes made – % of respondents



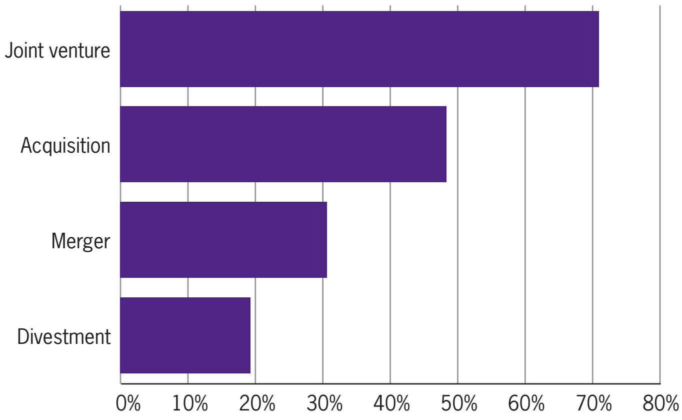
Constraints to businesses in 2008 – % of respondents



Source of finance – % of respondents



Types of corporate transactions – % of respondents



Lack of cash and need for finance

70.0% of companies surveyed had a cash balance at the time of the survey of less than $5 million and a further 26.0% of companies had a cash balance between $5 million and $20 million. 55.0% anticipated a need to raise finance in the coming year.

More than half the companies surveyed had experienced a lack of available equity funding as a constraint to their business during 2008 and 85.9% expected this to be a constraint to their business during the 2009 calendar year. Availability of debt funding was a key constraint to 10.0% of businesses in 2008, however, as many as 34.6% consider this to be a key constraint in 2009.

Of the 83.8% of companies which expect to need to raise funds in the coming 24 months, most are considering doing so by means of a private placement (60.0%), some by way of a rights issue (43.8%) and others by way of a joint venture partner (37.5%). The most commonly stated reason for the need for fundraising was to carry out exploration work, followed by working capital requirements and then project development.

The current global economic downturn has created an extremely competitive environment for investment dollars, either debt or equity, and junior mining companies face an extremely tough challenge to raise the funds they need for survival.

From these results it is evident that we are heading for a major change to the landscape of the ASX's junior mining companies in the next 12 months if the opportunity for raising funds for these companies does not improve. There are a number of companies currently suspended from trading on the ASX due to financial uncertainty and this will inevitably lead to receiverships and liquidations if funds are not raised in the near term.

Future outlook

In terms of commodity prices, junior mining companies are generally optimistic, with 80.0% of those surveyed expecting that there will be an increase in the price of their key resource commodity over the next 12 months. The majority expect global economic conditions to stay the same or improve moderately over the next 12 months.

Recently, as commodity prices have started to slowly improve and market performance has stabilised, we have seen an improvement in conditions for the junior mining stocks on the ASX.

A number of juniors are now taking advantage of this market rally to undertake fund raisings. Recently Adamus Resources has raised $3.5 million via a private placement to Straits Mineral Investments; Exco Resources raised more than $7 million from a share placement; PepinNini Minerals has raised $3.5 million following a placement; and Talisman Mining raised $5.2 million via a private placement to sophisticated investors.

As a response to market conditions, 77.5% of companies are considering undertaking a major corporate transaction in the coming 12 months. The most common transactions anticipated are joint ventures (71.0%), acquisitions (48.4%) and mergers (30.7%).

There are many opportunities for M&A activity in the sector. There are numerous cashed up resource companies, both public and private which are looking to increase their portfolios through the acquisition of assets which are now priced very attractively and whose current owners may be very willing sellers in this market where cash is key to survival. Also major mining companies are now interested in disposing of non-core operations and it is an excellent opportunity for cashed up juniors to acquire company-making assets. Furthermore, takeover opportunities exist. Recent examples include Sylvania Resources, which recently launched an off-market takeover offer for SA Metals and Great Australian Resources; and Legend International Holdings which has announced an on-market takeover bid for all the shares in North Australian Diamonds.

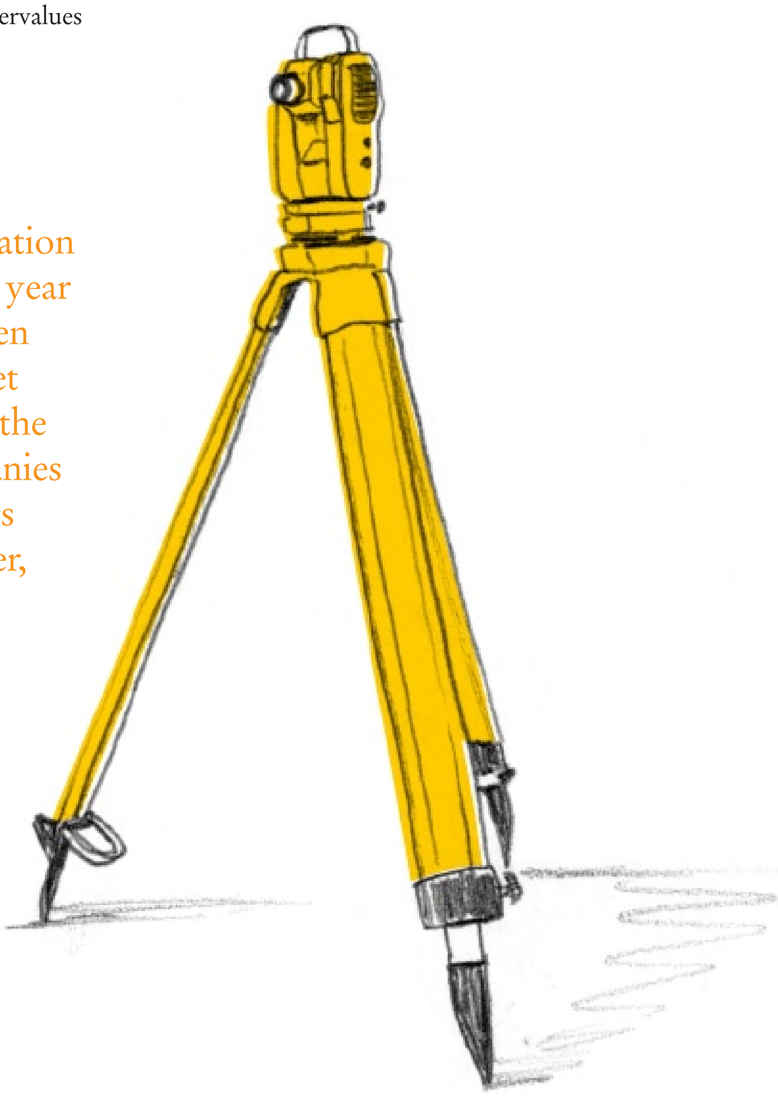
ASX listing

85.0% of respondents find the continuing obligations of adhering to the ASX Listing Rules moderately or very onerous and the costs moderately or very significant. However, only 1.3% of companies would consider delisting from the ASX.

A huge 93.8% of JUMEX companies believe that their current share price undervalues their company, with 67.5% believing that the current share price significantly undervalues their company.

Conclusion

The ASX's junior mining and exploration companies have experienced a tough year and, although there have recently been some positive signs, conditions are set to remain uncertain and difficult for the foreseeable future. Fortunate companies will succeed in necessary fundraisings and will weather the storm. However, ultimately the landscape of the ASX's junior mining sector will be markedly different by the time the global economic crisis recedes.



Survey design and respondents

Survey design and methods

An online survey was conducted during March 2009. It was open to JUMEX companies listed on the ASX with a market capitalisation of under $500 million. The survey was circulated by way of an email invitation.

Junior resource companies were asked to submit information regarding their financial status, issues impacting their business, the current outlook and expected plans for the future.

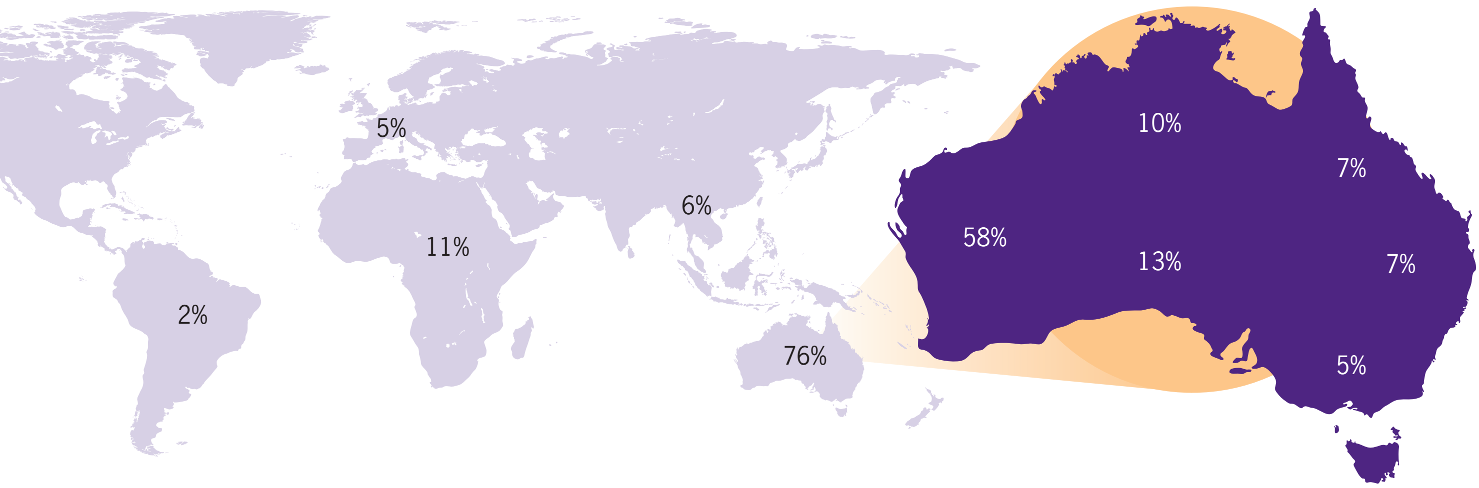
Analysis of respondents

Responses were received from 80 companies representing 15% of all the junior resource companies listed on the ASX.

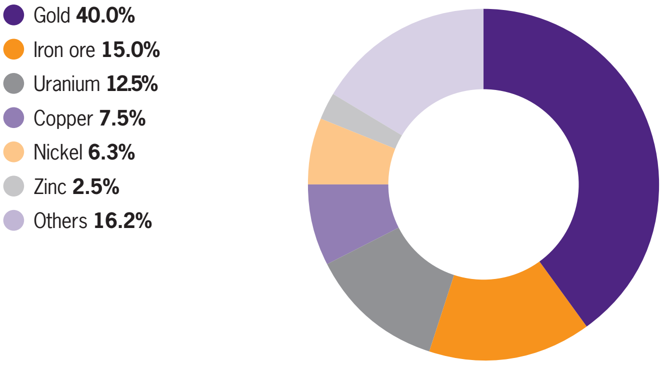
76% of respondents comprised the Managing Director, CEO or an Executive Director of the company and 12.5% of respondents the Company Secretary.

Set out below is an analysis of the respondents.

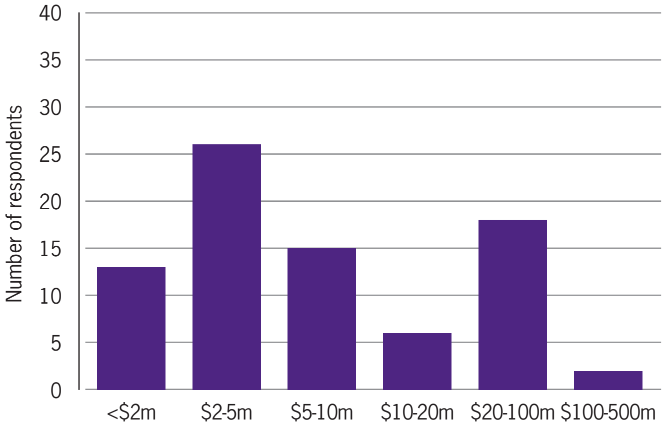
Breakdown of companies surveyed, by key resource of flagship asset



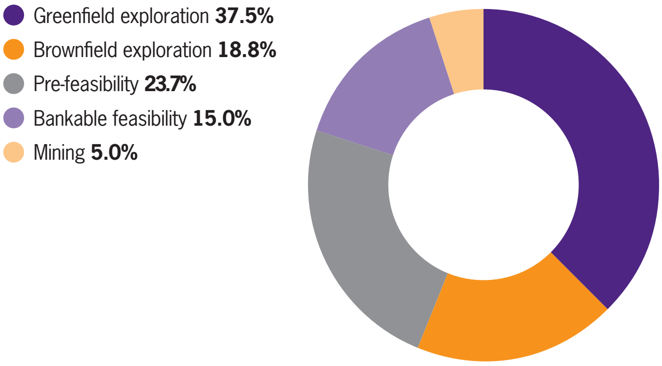
Breakdown of companies surveyed, by key commodity of flagship asset



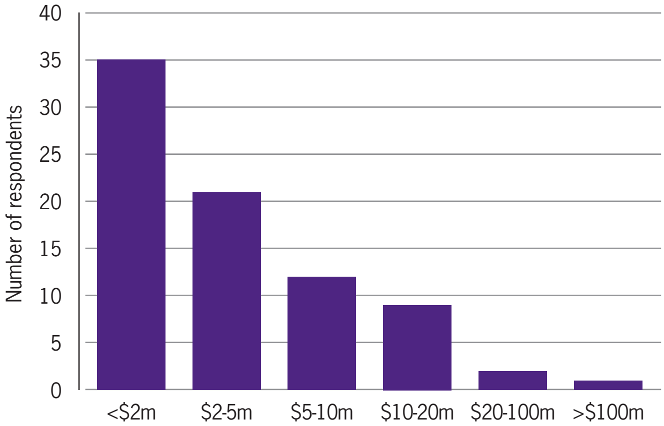
Breakdown of companies surveyed, by market capitalisation



Breakdown of companies surveyed, by stage of flagship asset



Breakdown of companies surveyed, by current cash balance



About Grant Thornton Australia

Grant Thornton Australia is a member of Grant Thornton International, the fifth largest accounting network in the world. We provide audit, tax and advisory services to privately held businesses and corporate and listed entities.

Our infrastructure, expertise and methodology are world class, traits which benefit our local clients. However despite global clout, Grant Thornton has not lost sight of its roots and key differentiators – director accessibility and a friendly, personal approach. We work with our clients over the long term to help them to achieve their ambitions and grow their business.

Our services to corporate and listed companies are set out below.

Audit & Assurance

- statutory audits & financial report reviews
- audits of other financial information
- internal audits
- systems and controls reviews
- agreed upon procedure reports
- corporate governance.

Tax

- corporate tax services
- international tax and transfer pricing
- fringe benefits & employment taxes
- indirect taxes
- R&D tax services.

Advisory

Corporate finance, including:

- M&A
- debt and equity raising
- pre & post deal services
- strategy and planning
- valuations
- due diligence
- capital markets.

Recovery and reorganisation, including:

- restructuring and turnaround
- exit strategy services
- lender support services
- insolvency services
- pre-lending services.

Other:

- business risk services
- business transformation consulting
- outsourcing
- litigation and forensic.

If you want to know more, please contact us...

Adelaide
Level 1
67 Greenhill Road
Wayville SA 5034
T 08 8372 6666
F 08 8372 6677
E info@gtsa.com.au

Brisbane
Ground Floor
Grant Thornton House
King George Square
102 Adelaide Street
Brisbane QLD 4000
T 07 3222 0200
F 07 3222 0444
E newsletters.qld@grantthornton.com.au

Melbourne
Level 2
215 Spring Street
Melbourne VIC 3000
T 03 8663 6000
F 03 8663 6333
E info@grantthorntonvic.com.au

Perth
Level 1
10 Kings Park Road
West Perth WA 6005
T 08 9480 2000
F 08 9322 7787
E info@gtwa.com.au

Sydney
Level 17
383 Kent Street
Sydney NSW 2000
T 02 8297 2400
F 02 9299 4445
E newsletters.nsw@grantthornton.com.au

Grant Thornton

www.grantthornton.com.au