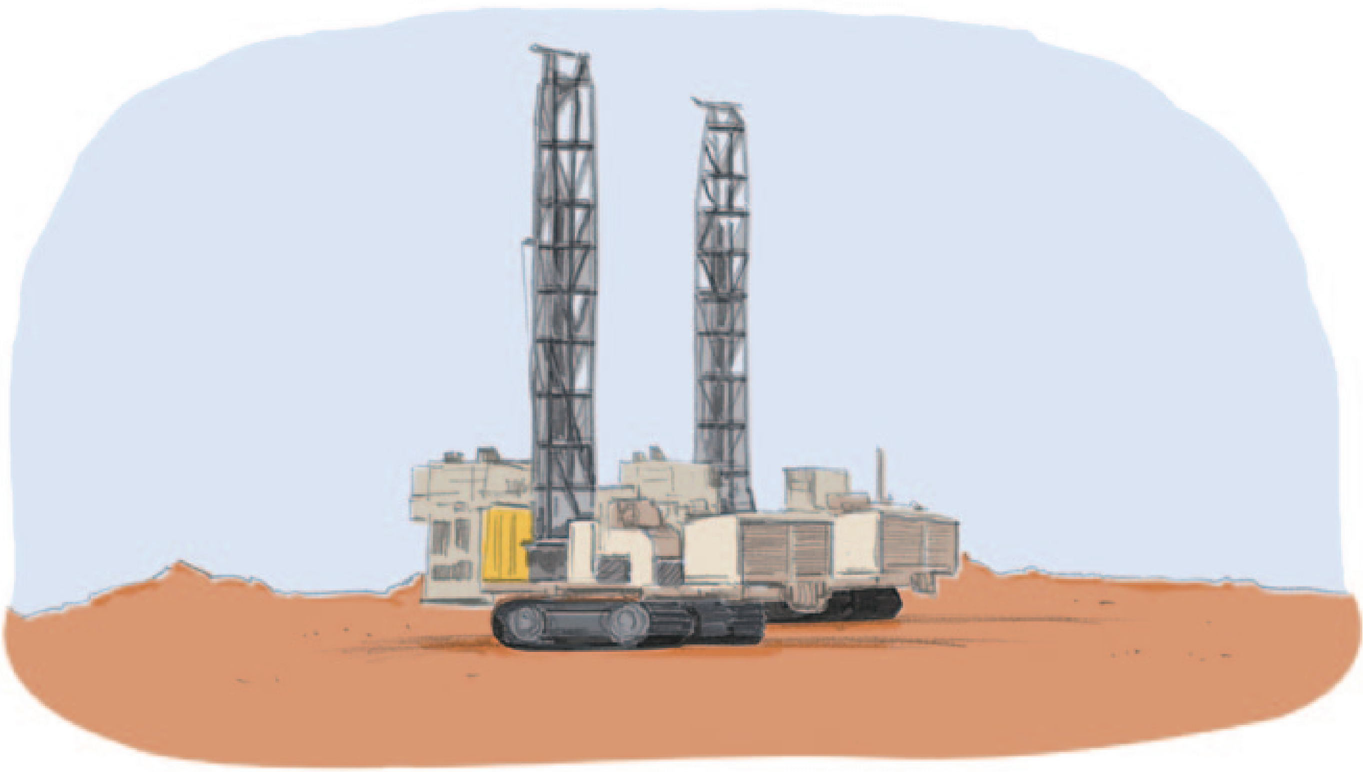
JUMEX Survey:
A survey of junior mining and exploration companies

July 2011



"Our 2011 JUMEX survey has revealed a pragmatic and more mature JUMEX community than at the time of our 2009 survey, focused on accelerating their exploration and development activities during buoyant, yet volatile times. The survey has also revealed the JUMEX community's continuing concern over government intervention, particularly around the MRRT and carbon tax. These are key issues which will trigger much debate over the coming year."

Scott Griffin
National Head of Corporate Finance
Industry Leader – Resources & Energy

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Foreword

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

The landscape for JUMEX companies has changed significantly since the time of our last survey, undertaken in March 2009 during the depths of the Global Financial Crisis (GFC). The continued growth of the Asian economies and consequent demand for mineral and energy commodities, particularly from China and India, has provided junior resource companies with an attractive operating and investment environment in comparison with other sectors of the economy.

Australia's mining sector has planned investment at a record $A173.5 billion in April 2011 (Australian Bureau of Agricultural and Resource Economics and Sciences), representing 94 projects at an advanced stage of development, including 35 mineral mining projects, 35 energy projects, 20 infrastructure projects and 4 processing projects. Investment in mineral exploration also remains strong, with Australia expected to record its third highest annual mineral exploration expenditure in 2010-11.

Overall, global market conditions have improved considerably from the depths of the GFC. This is evidenced by the recent IPO of Glencore on the London Stock Exchange and the Hong Kong Stock Exchange, raising US$10 billion and being the first company in 25 years, and only the third company ever, to enter the FTSE 100 at close of business on its first day of trading. However, market conditions remain volatile, impacted by factors such as natural disasters, the Japanese nuclear incident, the European debt crisis and US economic uncertainty.

Our JUMEX survey provides an independent perspective of the current environment for junior resource companies. This report outlines the main trends affecting these companies and highlights certain key findings. Issues investigated include:

- Constraints to business
- Financing intentions
- Growth plans
- Impact of increased investment by overseas parties in the resource industry
- Key industry issues (MRRT and carbon tax)

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

Market conditions for JUMEX companies are robust, yet volatile. Accordingly these dynamic and fast growing companies need to grasp each opportunity to undertake transactions and activities which are company transformational.

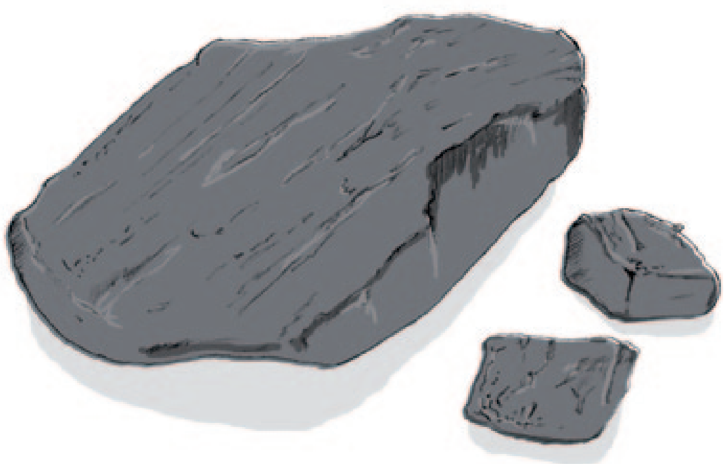
Overview of survey findings

The majority of JUMEX companies surveyed indicated that access to skilled labour is the key constraint to their businesses in 2011. Despite the renewed optimism generally, this issue is likely to continue to impact on each company's ability to undertake and deliver economically viable projects in a timely manner. The effectiveness of current and future government initiatives to assist and alleviate this skills shortage and address the core drivers such as mobility, education and training issues will be critical. Respondents are also acknowledging the challenge for the industry as a whole to increase their involvement.

Other key findings included:

- The availability of equity funding continues to be a key constraint although some junior resource companies have already returned to the markets to raise funds and the vast majority expect to do so in the next two years.
- Interest from overseas investors continues to grow with a significant number of respondents indicating that they have been approached by overseas investors keen to invest in their businesses.
- A lack of clarity on Government regulation, particularly in relation to mining and carbon taxes, continues to create uncertainty in the sector and has the potential to reduce the international competitiveness of the Australian mining industry.

Junior resource companies have recovered well from the global financial crisis, are optimistic about the future and have big plans to continue building value for shareholders. Whilst there remain ongoing constraints to business, opportunities from increased globalisation are significant. However, the Government has a major role in a number of material issues for the industry and this has created uncertainty in otherwise generally buoyant times.



Industry context

Junior mining companies (with a market capitalisation less than $500 million) account for approximately 90% of all resource companies listed on the ASX at the time of printing. These companies are predominantly involved in mineral exploration, as opposed to production and are responsible for most new discoveries.

Accompanied by a recovery in global economic conditions, new IPOs of junior mining companies have demonstrated a strong growth trend, increasing from a total of 26 IPOs in calendar year 2009 to 84 IPOs in calendar year 2010, with a further 27 IPOs in the first six months of 2011. Many junior miners have experienced strong growth in share prices over the past 18 months as a result of increased global resource demand and commodity prices.

Additionally, a significant number have undertaken further capital raisings and corresponding corporate activities to roll out ambitious mining projects in 2010 and 2011.

Copper – spot price (US$/tonne)
Source: Capital IQ

Nickel – spot price (US$/tonne)
Source: Capital IQ

Commodity prices

Prices of a number of the major commodities, such as nickel, copper, gold, zinc and coal have experienced strong growth from the low point in late 2008.

Natural disasters have had a significant impact on certain commodity prices, including the Queensland floods which severely hampered production capacity and exploration activities and the Japanese earthquake, which led to a fall of over 30% in uranium prices.

Copper

The price of copper increased from US$3,109 per tonne in January 2009 to US$9,441 per tonne in June 2011 reaching its peak of US$10,204 per tonne in mid February 2011.

Nickel

The price of nickel increased from US$10,810 per tonne in January 2009 to US$23,125 per tonne in June 2011 reaching its peak of US$29,030 per tonne in February 2011.

Zinc

The price of zinc increased from US$1,121 per tonne in January 2009 to US$2,315 per tonne in June 2011 reaching its peak of US$2,635 per tonne in January 2010.

Uranium

The price of uranium fell from a high of US$68 per pound in June 2009 to US$41 per pound in June 2010 and rebounded to a new high of US$70 per pound in March 2011 with a subsequent plunge to US$50 per pound following the earthquake in Japan.

Gold

Gold continued to be attractive as a safe investment in continuing global uncertainty which has resulted in an increase from US$884 per ounce in January 2009 to US$1,503 per ounce in June 2011.

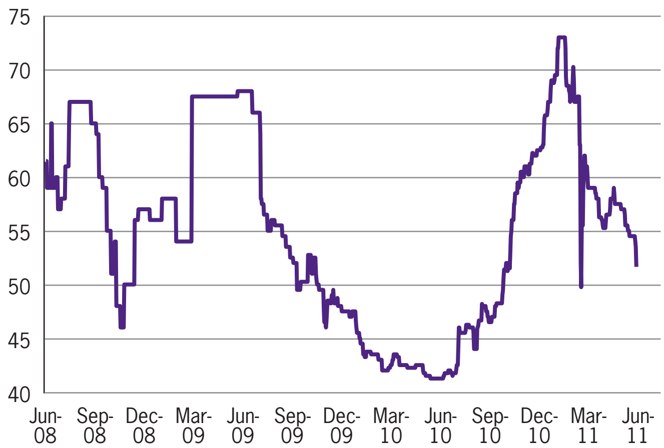
Coal

The price of coal has trended upwards since 2008, reaching a new high in January 2011 at US$139 per tonne. However, a slow down in Chinese demand stemming from a mixture of reduced construction activity and tendency to switch to diesel for electricity generation purposes, has added to the recent decline in coal prices.

Zinc – spot price (US$/tonne)
Source: Capital IQ

Gold – spot price (US$/ounce)
Source: Capital IQ

Uranium – spot price (US$/pound)
Source: Capital IQ



Coal – spot price (US$/tonne)
Source: Capital IQ

Market capitalisation

Over the past two years the total market capitalisation of all junior mining and exploration companies listed on the ASX increased 46.7% from $30.6 billion in June 2009 to $44.9 billion in June 2011.

The average market capitalisation of the junior mining and exploration companies listed on ASX was $41.3 million at 30 June 2009, $46.0 million at 30 June 2010 and has grown over the past year to $55.6 million at June 2011.

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.

Although there has been a recovery in the general economic climate and investor confidence there is still nervousness in key economies such as the US and Eurozone; political instability in the Middle East; the impact of the Japanese earthquake and the floods in Queensland; and a lack of clarity on government policies, all of which have created uncertainty and volatility in the market. This volatility may impact junior mining and exploration companies' ability to raise additional capital globally to fund international grade projects.

IPOs

The mining and resource sector dominated the IPO market in calendar year 2010 and continues to do so in 2011. In 2010, approximately 69% of all floats were resource related. Resource companies continue to take advantage of favourable commodity pricing, customer demand and renewed investor confidence. However, the market is still valuation sensitive and significantly influenced by regulation and macro-economic uncertainty.

In depth survey findings

The resource sector has certainly enjoyed a stronger recovery post GFC than many other sectors within the Australian economy, however JUMEX participants still need to be nimble in volatile and sometimes tight Australian capital markets conditions.

General market conditions

Most of the junior mining companies surveyed are relatively optimistic regarding the direction of the global economy, with 44.5% expecting some improvement in conditions and a further 53.1% expecting conditions to remain broadly the same.

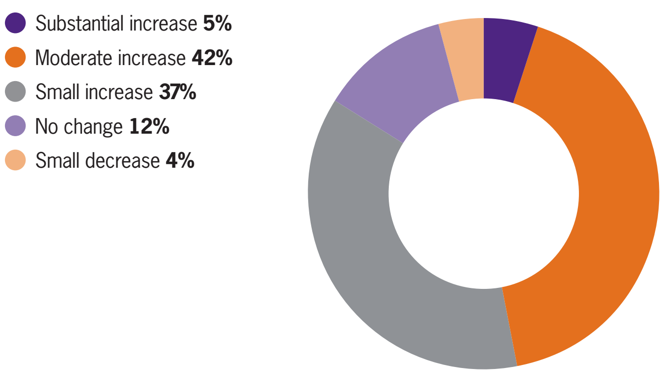
This sentiment is reflected in the expectations of commodity prices over the next 12 months, with 84.0% of those surveyed expecting that there will be an increase in the price of their key resource commodity and only 3.7% anticipating a small decrease.

However, a number of key constraints are still evident in the sector – principally the availability of staff and equity funding, both of which are discussed in the following sections.

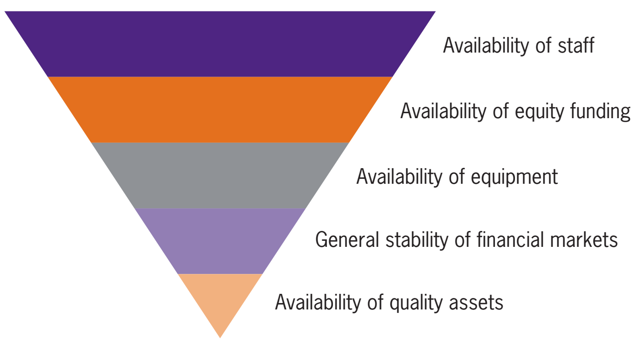
Other significant constraints included the availability of equipment and quality assets and, more generally, the stability of global financial markets.

The uncertainty around government regulation and legislative change is an area of growing concern. In particular, junior miners are troubled by the potential impact of proposed mining and carbon taxes.

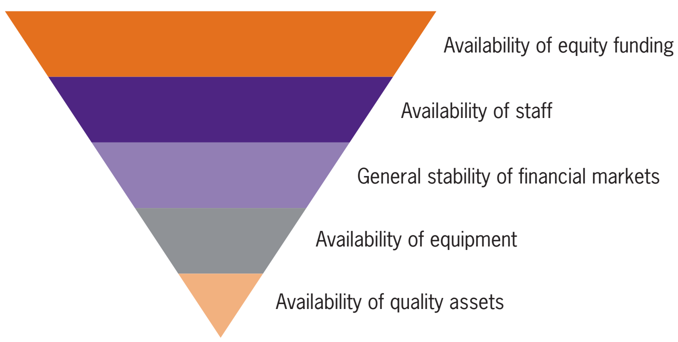
Commodity pricing expectations



Top 5 business constraints in 2011



Top 5 business constraints in 2010



Availability of funds

Access to sufficient funding continues to be a major constraint to junior resource companies as the nature of their business necessitates regular capital injections.

The availability of equity funding was seen as the biggest constraint for survey respondents during the 2010 calendar year and is expected to be the second biggest constraint during 2011. Availability of debt funding also remains a constraint, although to a much lesser degree given that the traditional channel for raising finance for junior mining companies is through equity.

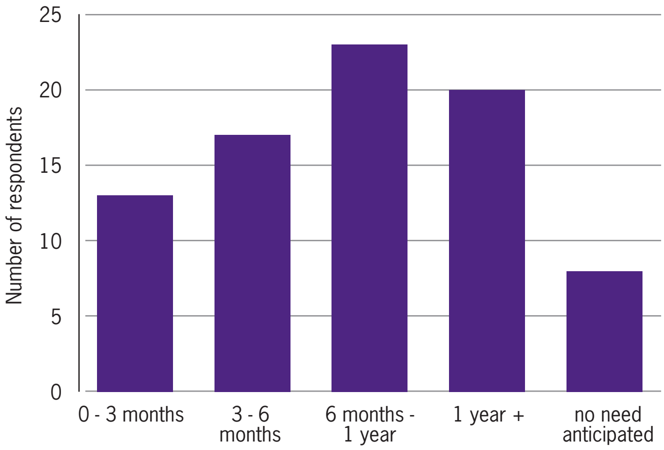
Of the companies surveyed, 49.4% had a cash balance of less than $5 million and a further 34.6% had a cash balance between $5 million and $20 million. The majority (65.4%) anticipated a need to supplement their existing cash reserves by raising additional finance in the coming year, up from 55.0% in our 2009 survey. It is interesting that more companies are now planning a fund raising within the next 12 months than at the height of the GFC. This perhaps reflects an increase in the opportunity to raise capital, despite the availability of funds still being a key constraint to business.

For those companies expecting to raise funds in the coming 12 months, private placements continue to be the most popular form of fund raisings, with 69.9% of respondents considering this option. Rights issues are also being considered by 45.2% of the companies surveyed.

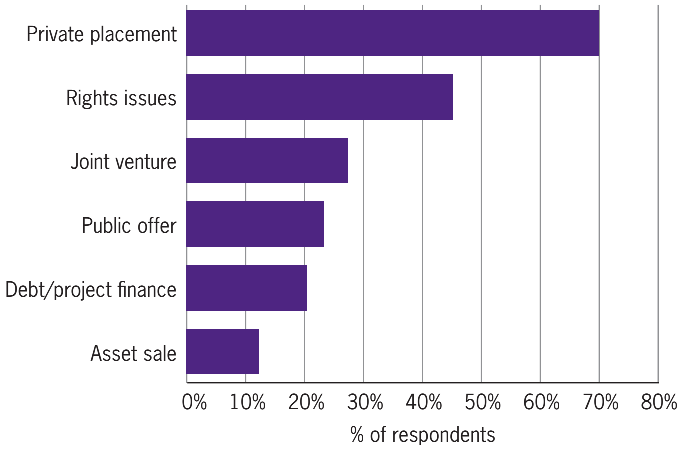
Use of funds

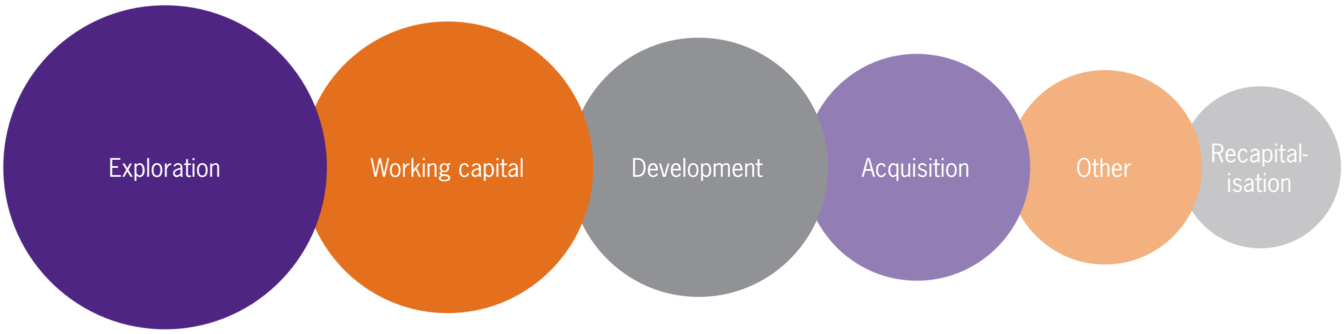
The most commonly stated reason for the need for fundraising was to carry out exploration work, followed by working capital requirements and then development activities.

Anticipated fund raising



Type of raising considered





Interest from overseas investors

In recent years there has been a significant increase in overseas investment in the resources sector either as a direct portfolio investment and/or a means to secure supply via joint ventures and off-take agreements.

This increase in foreign investment has become particularly evident with an increasing value of investments provided from Chinese and Indian companies.

Junior resource companies are increasingly looking to overseas investors to fund their capital requirements, with 79.5% of respondents expecting to have at least some contribution from overseas investors/financiers in their next fund raising. However, as many as 30.1% of companies expect to have the majority of, if not all, funds provided by overseas investors, compared to only 16.4% who expect to only involve Australian based investors.

For junior mining and exploration companies, this increased investment is mostly seen as a positive for the industry (81.5% of respondents) with 21.0% of respondents viewing it as strongly positive. Conversely, only 12.3% of respondents felt that foreign investment had negatively impacted the industry.

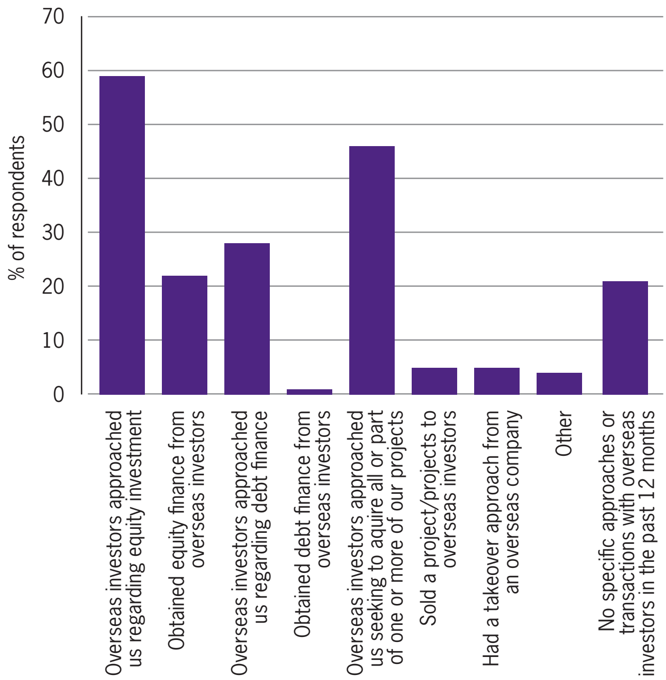
The perceived impacts of increased overseas investment in the Australian junior mining and exploration industry have been broad. Of the respondents surveyed, 69.1% believe overseas investment has provided funding for projects that Australian investors would have been unlikely to fund and that takeovers of Australian resource companies by foreign companies have provided good outcomes for shareholders (42.0%).

The increase in overseas interest has led to greater competition for Australian assets (58.0%), which is perceived to have resulted in an increase in the value of Australian mines (49.4%), development projects (42.0%) and, to a lesser extent, exploration projects (29.6%).

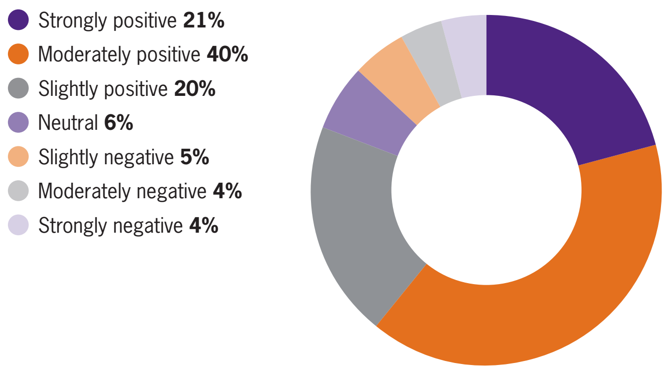
Only 14.8% of respondents felt that the Australian Government and the Foreign Investment Review Board should restrict future acquisitions of Australian resource assets by overseas companies.

A significant majority (79.0%) of the junior resource companies surveyed have been approached by, or conducted a transaction with overseas investors in the past 12 months. Most interest has been in relation to equity investment opportunities (59.3%), sale of all or part of one or more projects (45.7%) and provision of debt finance (28.4%). In terms of actual transactions with overseas companies, 22.2% of respondents have recevied equity finance from overseas investors, 4.9% have sold a project(s) to overseas investors and 1.2% have received debt financing from overseas financiers.

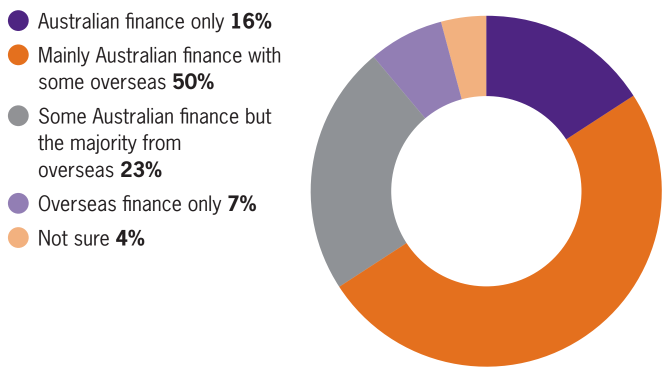
Interest from overseas investors



View of overseas investment



Source of funding



Growth strategies

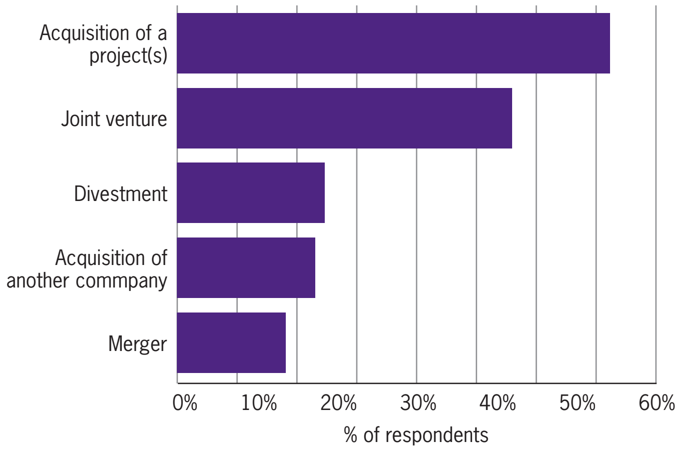
Given the relative optimism of junior mining companies regarding the direction of the global economy and their expectations for commodity prices over the next 12 months, it is not surprising that M&A activity in the junior resource sector is expected to continue.

As a response to market conditions, 76.5% of companies are considering undertaking a major corporate transaction in the next 12 months. The most common transactions anticipated are acquisitions of a project(s) (54.3%) and joint ventures (42.0%).

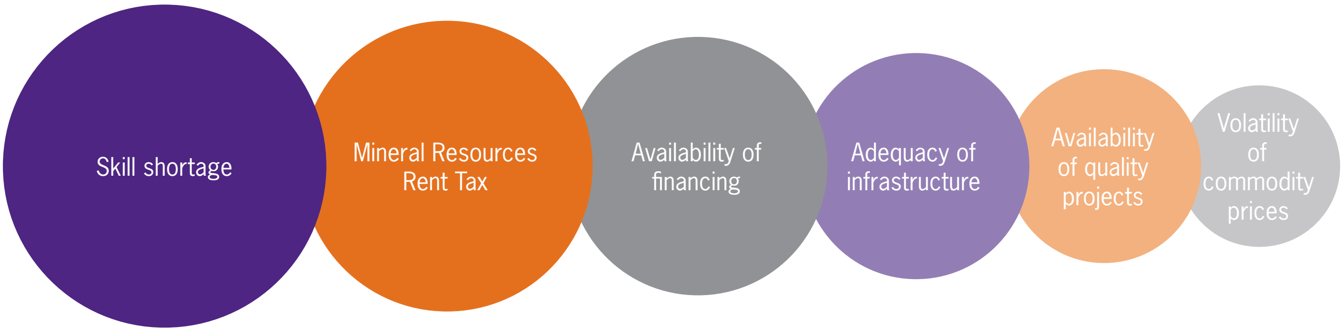
In terms of activities aimed at growing companies' existing portfolios of assets, 92.7% are planning an exploration program in the next 12 months, with 23.5% budgeting up to $2 million, 34.6% budgeting $2-5 million and 34.6% budgeting over $5 million.

Other common planned activities include resource updates (54.3%), geological interpretive/analytical work (45.7%), scoping studies (21.0%), bankable feasibility studies (21.0%) and preliminary feasibility studies (17.3%).

Types of corporate transactions under consideration



Key resource industry issues in 2011



Industry issues

Key issues for the resource industry include the skills shortage, Mineral Resource Rent Tax (MRRT), availability of financing, adequacy of infrastructure and government regulation issues.

Skills shortage

The availability of skilled labour is a prominent issue in the Australian economy as the unemployment rate continues to decline to a current rate of 4.9% and is expected to fall further by 2012 – 2013.

The reduction in unemployment across the economy, the aging workforce and the current government labour market and immigration policies have all contributed to a skills shortage that is beginning to impact across the entire economy. This is particularly evident in the resources sector.

During the GFC many junior resource companies reduced staff numbers to survive – over half the companies (55.2%) in our 2009 survey had cut employee numbers. Interestingly, whilst only one company in our 2009 survey expected the availability of staff to be a key constraint to business in 2009, by 2010 it had become the second biggest constraint and is predicated to be the largest constraint in 2011 by a significant margin, reflecting the swift recovery of junior resource companies.

The Federal Government indicated in the 2011/12 Budget that it intends to introduce new initiatives aimed at lifting workforce participation and increasing the domestic skilled workforce. However, with the supply of skilled labour in Australia not keeping pace with the demand, particularly in the resources sector, there has been a focus by lobby groups and industry bodies to push for changes to current migration schemes and legislation.

Although the government has proposed additional visa places for 16,000 skilled migrants (including an increase in the Regional Sponsored Migration Scheme) it is questionable whether this would be sufficient to alleviate the pressure that the lack of skilled workers is putting on junior miners.

A skills shortage is likely to remain a key constraint and challenge in the resources sector as new policies are introduced and their impact takes time to flow through the economy. In the short term the availability of staff is likely to continue to have an inflationary impact on wages and act as an impediment to future productivity and overall financial performance.

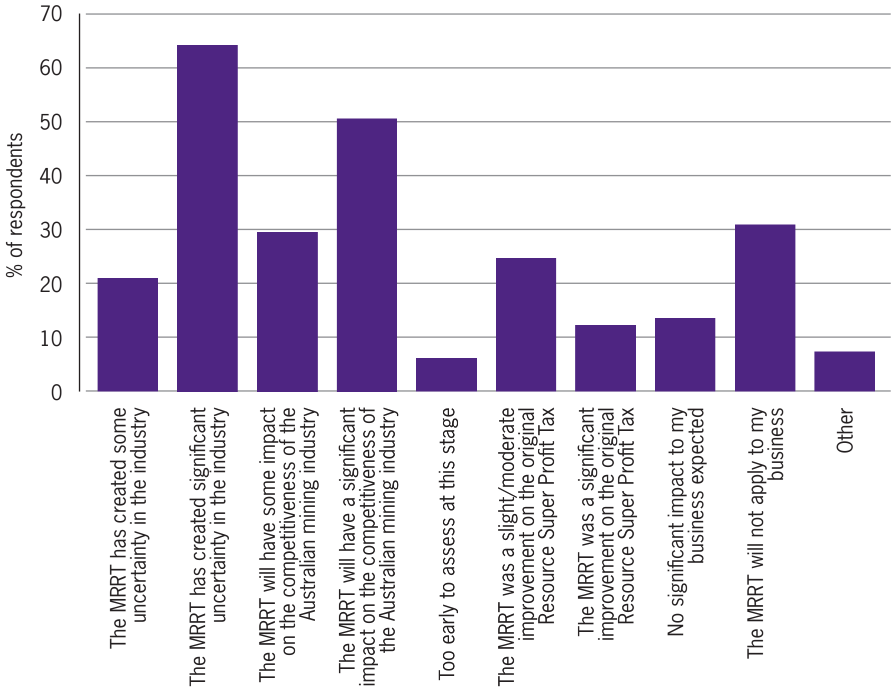
Mining and carbon taxes

The resource industry's response to the Resource Super Profits Tax in May 2010, its replacement with the MRRT in July 2010 and subsequent developments, has been well publicised. Whilst the majors, such as Rio Tinto, BHP Billiton and Fortescue Metals Group, have been most vocal, alongside industry groups, junior resource companies have been far from unaffected.

Junior resource companies believe that the MRRT has created uncertainty in the industry (85.2%, with 64.2% of respondents reporting that it has created significant uncertainty in the industry). It is also believed to have had an impact on the competitiveness of the Australian resource industry (80.2%, with 50.6% of respondents believing it has had a significant impact). Only 37.0% of respondents felt that the MRRT was an improvement on the original Resources Super Profits Tax.

Interestingly only 13.6% felt that there would be no significant impact to their business from the introduction of the MRRT, despite the fact that 86.4% of companies have flagship projects that won't be captured by the MRRT (as they relate to minerals other than coal and iron ore).

Views on MRRT



This uncertainty surrounding the MRRT has the potential to increase sovereign risk and reduce competitiveness of the Australian industry which would have far reaching consequences.

At an earlier stage of implementation is the carbon tax and the full consequences of this for the resource industry are not yet clear. However, the introduction of a further tax that is likely to impact on the resource sector is controversial and there are real concerns that the attractiveness of the Australian resource industry to overseas investors will suffer. As we have seen from the results of this survey, overseas investors are increasingly important and any damage to the attractiveness of the sector is likely to have material consequences for junior resource companies.

For more information on how Grant Thornton can assist contact:

Scott Griffin
Industry Leader – Resources & Energy
T +61 2 8297 2400
E scott.griffin@au.gt.com

Geoff Lloyd
Director – Tax
T +61 8 8372 6666
E geoff.lloyd@au.gt.com

Dan Carroll
Director – Audit & Assurance
T +61 7 3222 0200
E dan.carroll@au.gt.com

Brad Taylor
Director – Audit & Assurance
T +61 3 8663 6000
E brad.taylor@au.gt.com

Holly Stiles
Director – Corporate Finance
T +61 9480 2000
E holly.stiles@au.gt.com

Survey design and respondents

Survey design and methods

An online survey was conducted during late March and early April 2011. Junior mining and exploration companies listed on the ASX with a market capitalisation of under $500 million were invited to participate. The survey was circulated by way of an email invitation.

Junior resource companies were asked to submit information regarding their flagship resource, issues impacting their business, current activities, expected plans for the future and industry issues.

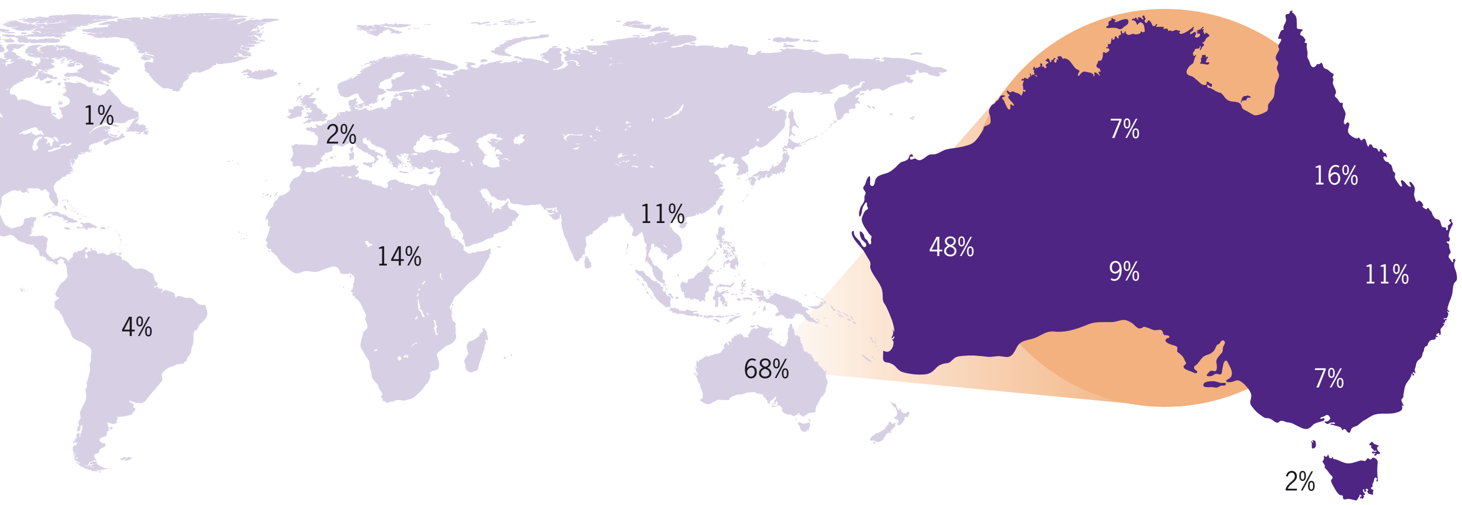
Analysis of respondents

Responses were received from 81 companies representing 13% of all the junior resource companies listed on the ASX.

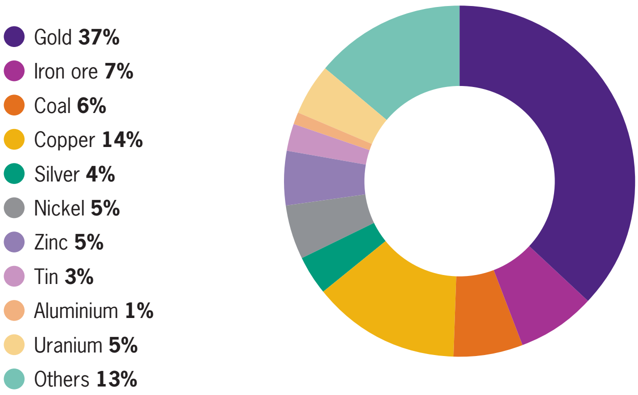
73% of respondents comprised the Managing Director, CEO or an Executive Director of the company and 15% of respondents the Company Secretary or CFO.

Set out below is an analysis of the respondents.

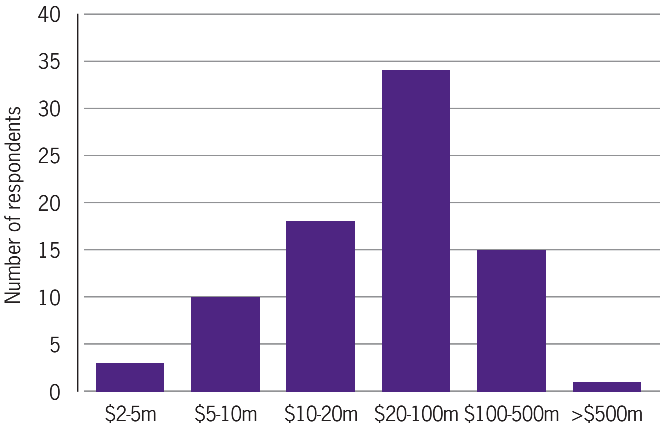
Breakdown of companies surveyed, by location of flagship asset



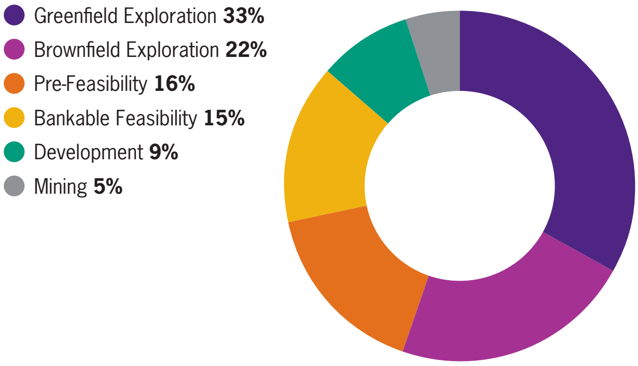
Breakdown of companies surveyed, by key commodity of flagship asset



Breakdown of companies surveyed, by market capitalisation



Breakdown of companies surveyed, by stage of flagship asset



Breakdown of companies surveyed, by current cash balance

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.sa@au.gt.com

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

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

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

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

Grant Thornton

www.grantthornton.com.au