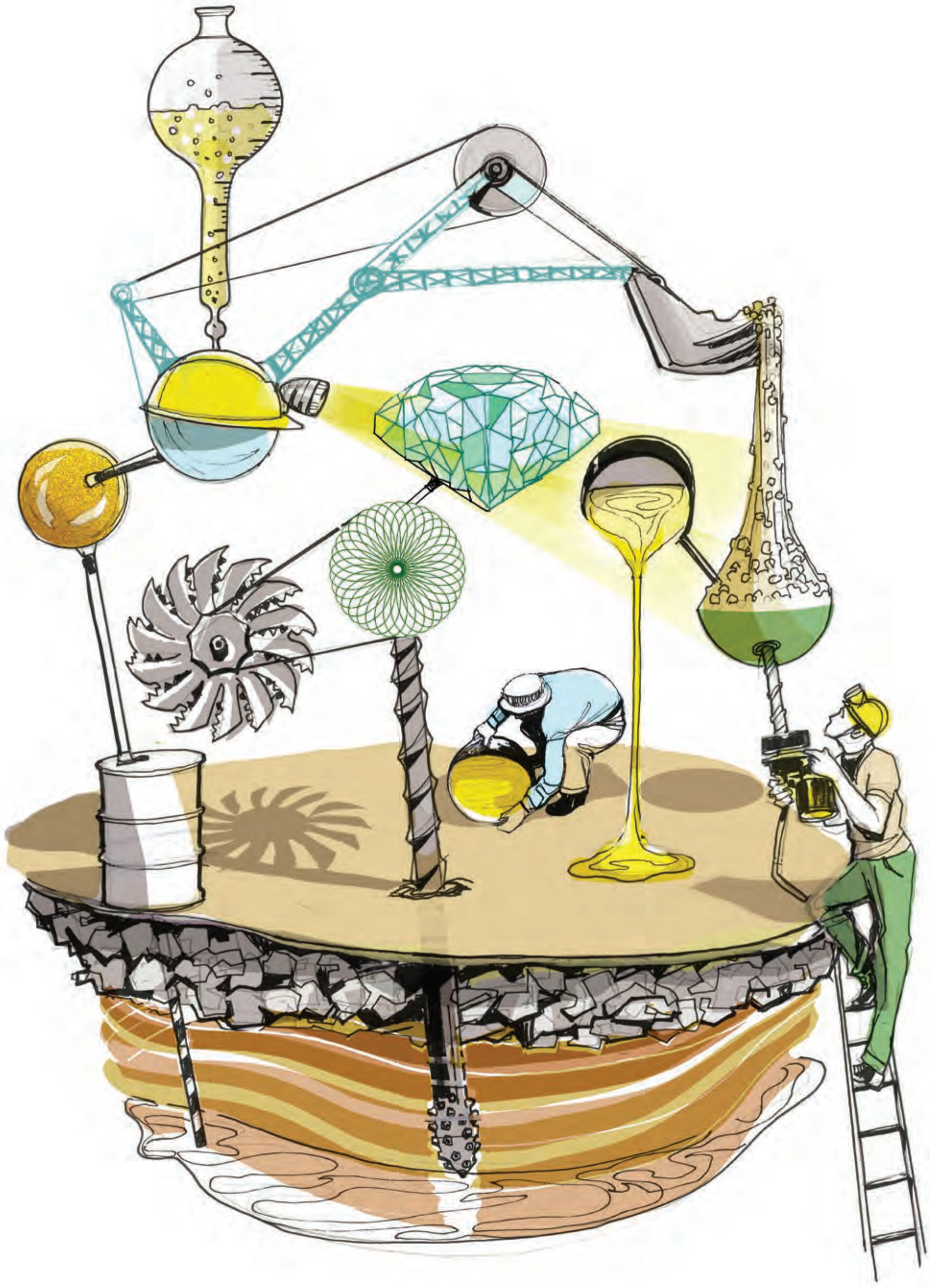
Grant Thornton

An instinct for growth™

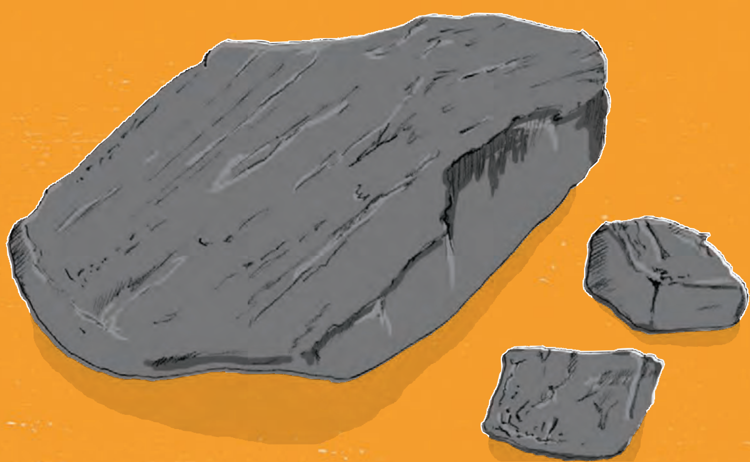
INDUSTRY POSITION SURVEY OCTOBER 2012

JUMEX Survey:

A survey of junior mining and exploration companies



Contents



Foreword

Welcome to Grant Thornton Australia's third 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.

A variety of issues, tight capital markets, global financial concerns, softening commodity prices and local and international political issues, have contributed to a particularly challenging year for JUMEX companies who are reliant on regular capital raisings.

Whilst the current market conditions present a number of challenges, Australia's JUMEX companies are dynamic, entrepreneurial and familiar with the need to adapt to changing circumstances.

Australia's proximity to the growing Asian economies is a key strength. The world class knowledge and skills within the Australian industry are being applied increasingly in highly perspective regions throughout the world, providing new opportunities to deliver shareholder value.

Our JUMEX survey seeks the views of the industry's senior executives on a range of issues, providing us with a comprehensive, independent industry snap shot.

Issues investigated include:

- industry sentiment
- constraints to business
- funding requirements and intentions
- project development plans
- government policy and regulatory environment

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

Simon Gray
National Head of Energy & Resources
T +61 8 8372 6620
E simon.gray@au.gt.com

Key findings of the survey

The age-old adage that funding will always be available for quality projects is being and will continue to be tested. In the case of more marginal projects the challenges will be even more severe, with the need and competition for equity capital to be particularly high during the coming twelve months.

Our key findings included:

- The most significant constraints to business have been, and are expected to continue to be, the availability of equity capital and general financial market instability
- The competition for capital is high with 68% of companies planning to raise capital in the coming twelve months
- For a significant portion of companies the requirement to raise capital in the short term is apparent with 35% of companies holding less than $2 million in cash and a further 29% holding between $2 million and $5 million
- A move towards alternative funding mechanisms such as joint ventures and asset sales
- Decreasing and volatile commodity prices have been a particular constraint for 2012 compared to previous years, with the volatility expected to continue in 2013
- The Australian public policy environment (with the introduction of the Minerals Resource Rent Tax, Carbon Tax, LAFHA changes, etc.) has created significant uncertainty in the industry and has had an overwhelmingly negative impact on respondents' perception of overseas investment sentiment towards Australia

A selection of comments from JUMEX survey participants are on the following page.

> Tight capital markets will ensure funding is the key challenge for JUMEX companies during the coming year.
>
> If conditions do not improve, increased levels of corporate activity, such as takeovers, are likely as companies with funding take advantage of the weakened positions and reduced valuations of those that don't.

Equity market short term focus is inconsistent with finding and developing mineral assets.

Right now [conditions] are about as bad as I have seen in 30 years in the industry.

It is better to have a smaller share of a funded project rather than 100% and lose the project due to lack of funds.

Overseas funding is still very selective and certainly not really interested in exploration stage projects. The Government needs to re-visit the incentives for the sector, such as flow-through shares.

Market sentiment is collapsing, calling into question the reality of any 'mining boom' and juniors are becoming starved for capital in depressed market conditions.

Australia is a more difficult place to raise funds as a result of high sovereign risk and poor overall Government decision-making. Most funding will be sought offshore for offshore projects.

The market does not understand the extent to which the Native Title and Heritage processes are adversely affecting the junior explorers. There is nothing wrong with the underlying principles, but the process is not working. Too expensive, taking too long, and delivering outcomes that restrict excessively the ability to explore.

We left Australia as a considered decision due to the impact of government intervention on the industry in the last 12 months.

[There is a] disconnect between market capitalisation and inherent project value across the industry in Australia.

The current business climate is presenting various growth opportunities, via both organic means and M&A activity.

Growth opportunities for cashed up companies will expand as juniors struggle to survive due to cash starvation.

Industry context

Introduction

An examination of the key commodity sectors with significant relevance to Australia (energy, metals and minerals and precious metals), reveals that all have recorded recent price softening. This comes after experiencing noticeable price rises during 2011. These recent trends follow a decade of marked commodity price increases.

While current volatility is evident in commodity markets, the reasons for this volatility reflect the state of the world economy, consequent risk aversion across global markets and concerns about the robustness of the Chinese economy. The culmination of these factors has prompted an increased desire for US dollars as the preferred 'flight to quality' strategy of many international investors.

It is worthwhile noting that in recent months price trends among major commodity groups have not been consistent. For example, iron, nickel, tin and aluminium prices have continued to ease, whilst other commodities such as copper and lead have been experiencing modest increases despite significant price falls for much of 2012.

The immediate outlook for commodity markets is continuing volatility. With so much uncertainty in Europe and concerns around China's growth rates, it is unlikely that greater certainty will return to key financial markets, including the commodities market. The most recent historical legacy of weak demand for commodities has seen relatively high stockpiles accumulate within many commodity markets. As a result, this has placed a ceiling on price trends, as higher inventories act as an additional downward pressure on commodity prices.

Steven Shepherd
Senior Economic Advisor
Grant Thornton Australia Ltd

Commodity prices

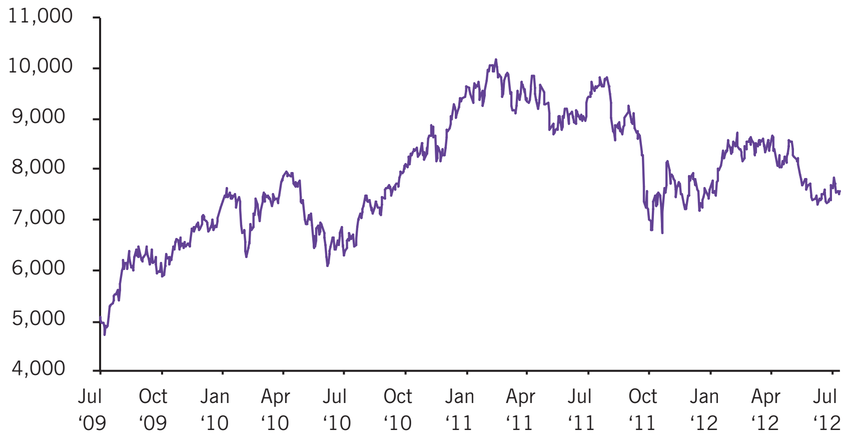
The average price of the vast majority of commodities was considerably lower during 2012 than in 2011. This has been driven by persistent sovereign debt issues in Europe, a slowing of the Chinese economy and heightened risk aversion in financial markets.

Coal (Newcastle) - spot price (US$/tonne)
Source Capital IQ

Coal

Coal prices rose by more than 22% during 2011. However, over the past year prices have fallen by a significant 28%.

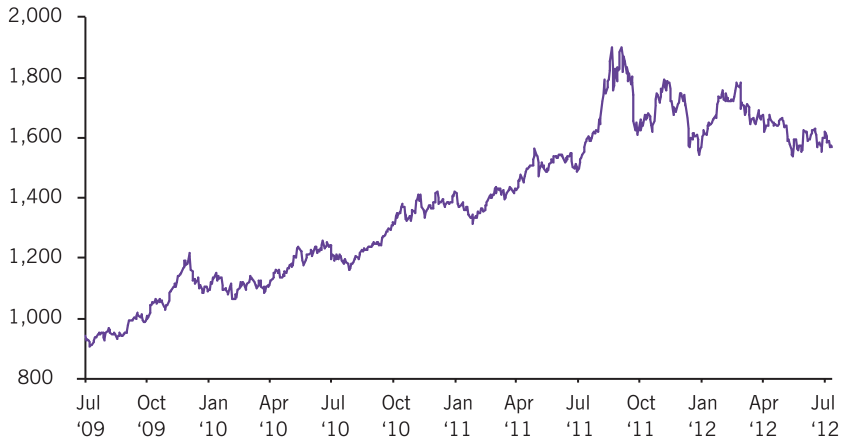
Copper - spot price (US$/metric ton)
Source Capital IQ



Copper

After experiencing a price rise of over 17% during 2011, recent falls have offset the majority of 2011's price increases.

Gold - spot price (US$/troy ounce)
Source Capital IQ



Gold

Gold prices experienced significant increases of some 28% during 2011. After peaking during the September quarter 2011, there has been notable volatility, with prices slightly lower than where it was one year ago.

Iron ore - spot price (US$/metric ton)
Source Capital IQ

Iron ore
From the peak price in February 2011, prices have fallen a dramatic 25% to June 2012.

Nickel - spot price (US$/metric ton)
Source Capital IQ

Nickel
On average, nickel prices increased by around 5% in 2011. Since then, prices have fallen by a dramatic 31%.

Silver - spot price (US$/troy ounce)
Source Capital IQ

Silver
From the peak in April 2011, silver prices have seen substantial volatility and have ultimately fallen almost 40%.

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

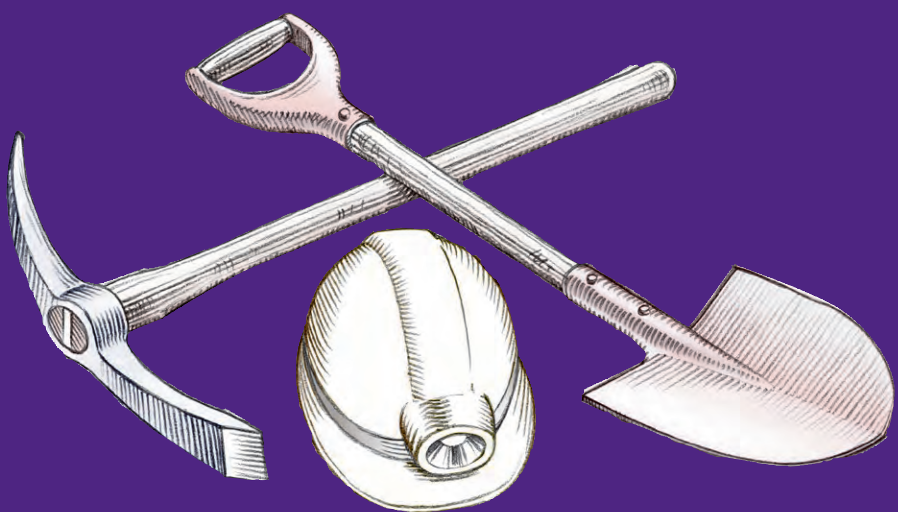
Uranium

Uranium prices have fallen by some 7% over the past year after having increased by around 15% over the previous twelve months.

Zinc - spot price (US$/metric ton)
Source Capital IQ

Zinc

Zinc prices improved marginally during 2011 when they rose by just 2%, at a time when most commodities were experiencing significant rises. Since then there has been quite a marked price fall of some 18%.

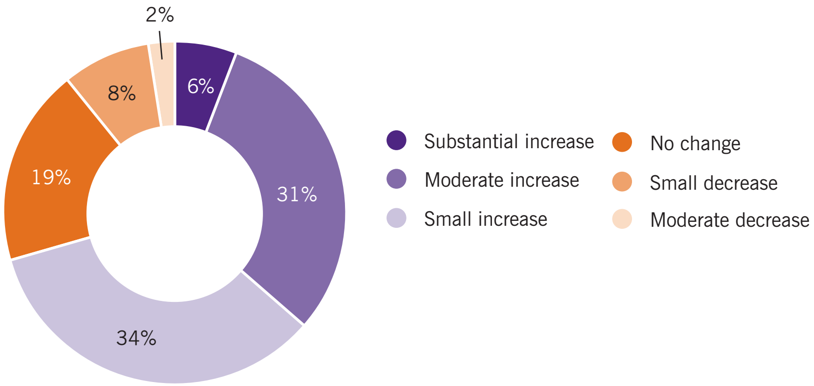


Commodity price outlook

The majority (71%) of respondents to the 2012 JUMEX survey have a positive outlook for the price of their key resource commodity over the coming year, despite adverse moments in the prices of almost all commodities. This has been the third biggest constraint to business in FY12.

Whilst respondents may be optimistic regarding the price of their key commodity, these forecasts are made with much trepidation. Volatility in commodity prices is expected to continue to be the third biggest constraint to business in FY13. This is particularly significant given commodity price volatility has not been in the top five constraints in previous surveys.

Commodity pricing expectations



Industry Outlook

With global growth around 3% and Chinese GDP around 8% we expect positive implications for metals and minerals markets for the second half of 2012. Policy measures introduced in China in 2011 to address inflation and asset bubbles have now ceased, if not reversed.

However there are important risks to this outlook related to the ongoing sovereign debt crisis in the Eurozone and the potential for financial crises arising from OECD debt problems more broadly. This suggests ongoing commodity price volatility in the short-term.

In the medium-term, as the world economy returns to the trend rate of growth, rising incomes and increased prosperity in developing countries with associated industrialisation and urbanisation, will continue to drive underlying growth in demand for commodities.

Looking further to the future, our view remains that there will be a high average demand growth setting for our markets but also one that will be characterised by elevated volatility and scope for discontinuities.

Steven Shepherd
Senior Economic Advisor
Grant Thornton Australia Ltd

"Tin is a very positive emerging story that some capital market specialists had recognised but the broader market has to date largely ignored.

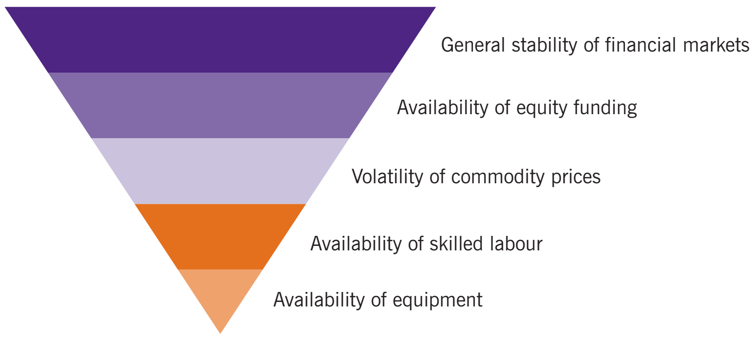
We are confident that low industry stocks and declining production from the three major producing countries will be reflected in much higher prices with the return of stronger global economic growth. At that point, the general market will need no convincing of the strong tin market fundamentals"

Peter Blight
CEO
Stellar Resources Limited

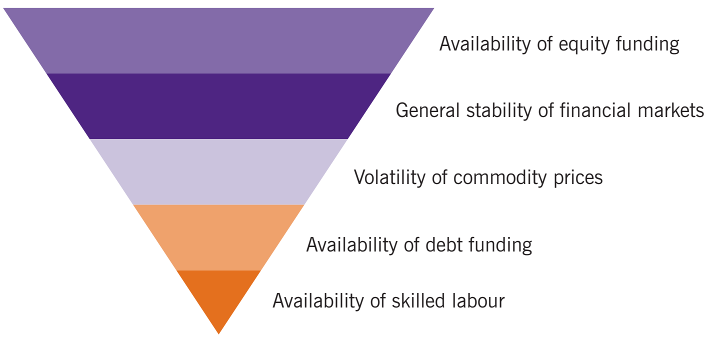
In depth survey findings

Market overview

Top 5 business constraints in FY12



Top 5 business constraints expected in FY13



Availability of funding

Junior mining and exploration companies have had an extremely challenging year. Global market uncertainty combined with declining and volatile commodity prices have resulted in falling share prices and investors maintaining relatively higher cash allocations in their portfolios.

Finding funding for early stage projects has proven particularly difficult. With capital markets continuing to be tight and low levels of cash reserves at many JUMEX companies, the competition for capital in the coming year will be significant.

The instabilities in financial markets and consequent challenges regarding the ability to access equity finance were identified as the major constraints to business during FY12 and are expected to continue to be the major constraints for the coming year.

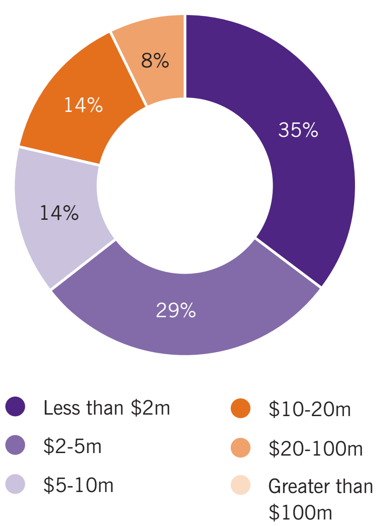
It is no surprise that JUMEX companies are considering a wide range of alternative sources of funding.

> Small explorers are currently unable to raise capital in a risk adverse market. Initiatives such as flow through share tax deductibility would assist to entice investors.
>
> **Robert Kennedy**
> Chairman
> Monax Mining Limited

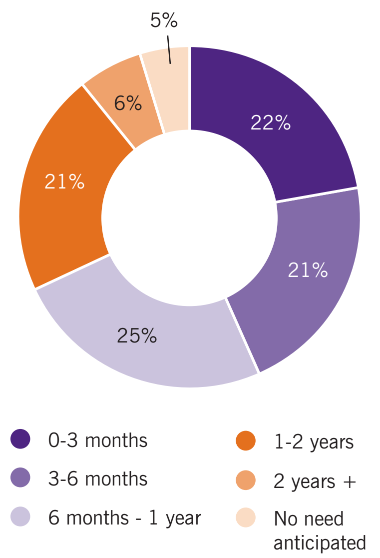
The percentage of companies with less than $5 million of cash on hand (64%) has increased significantly from our 2011 survey (49%). This suggests that JUMEX companies are running lower cash balances due to ongoing shortages in equity capital. With 35% of companies having cash balances of less than $2 million and 68% expecting a need to raise funds within 12 months, the pressure to raise funds and the competition for capital will continue to increase.

The difficulties in attracting funding for early stage exploration and for more marginal projects have not been this great since the depths of the GFC.

Current cash balance



Anticipated timing of next required fund raising

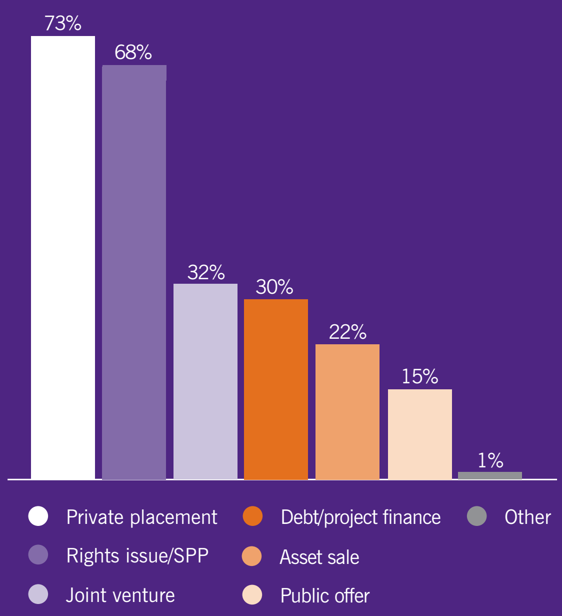


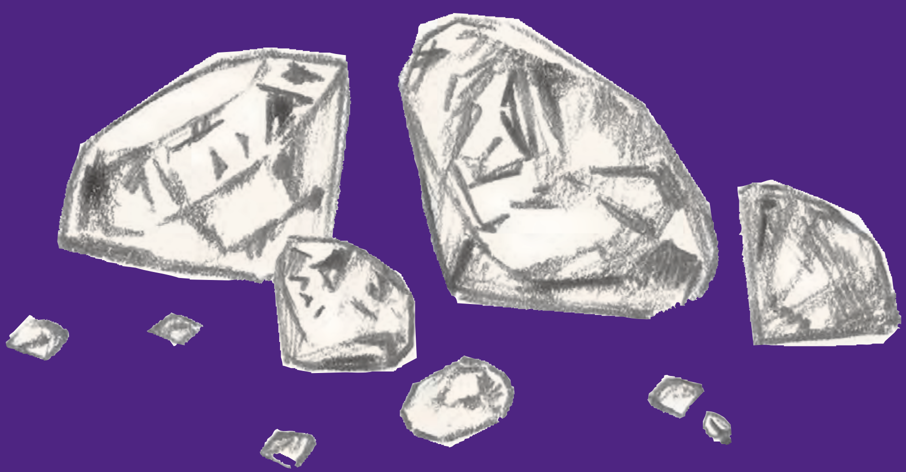
Source of funds

For companies intending to raise funds, consistent with previous years, private placement and rights issues are the preferred funding mechanisms. However, with competition high and investment sentiment relatively suppressed, it is not surprising to see a significant increase in the percentage of companies considering other funding solutions such as joint ventures and asset sales.

In a move designed to assist smaller market participants to raise capital, the requirements for listed companies outside the S&P/ASX 300 and with a market capitalisation of under $300 million have been relaxed. From 1 August 2012 such companies will be able to issue up to 25% of their issued capital to raise new capital (subject to shareholder approval at the AGM).

Type of raising considered





International funding

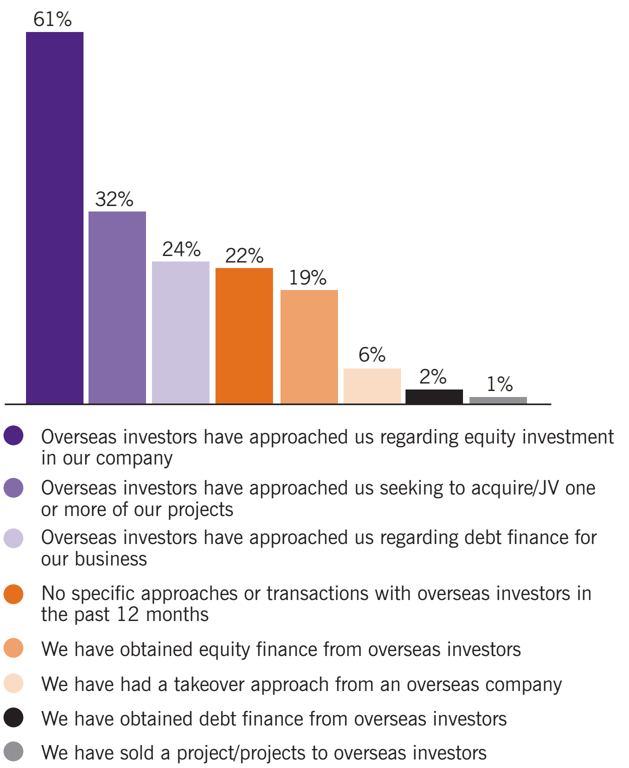
The trend of recent years continues with the level of interest from overseas investors remaining high. This is despite respondents' concerns regarding the local public policy environment in Australia (discussed in the next section).

61% of companies were approached during the past 12 months by international investors with a view to providing equity. Furthermore, many companies were approached regarding provision of debt finance, sale of an asset, a joint venture or received a takeover approach. Only 22% of companies did not receive an approach and did not conduct a transaction with an overseas investor in the past year.

58% of companies expect the majority or all of their funding for the coming year to come from Australian investors, demonstrating the continuing importance of the local market to JUMEX companies. However, the significant majority do rely (to some extent) on overseas investors, reflecting the global nature of this sector.

The interest from Asian investors in Australian projects and companies continues. Of the companies that have been approached by overseas investors in the past 12 months 57% have received interest from China, 47% from other parts of Asia, 34% from North America, 25% from Europe and 22% from India. In addition small numbers had received approaches from the Middle East, South America and Africa.

What interest in your projects/company have you experienced from overseas investors in the past 12 months?



> Government funding has supported exploration programs when other funding levels are insufficient.
>
> **John Parker**
> Managing Director
> Lincoln Minerals Limited

Growth strategies

Consistent with the 2011 survey, 73% (77% : 2011) of respondents are considering a major corporate transaction, with joint ventures and project acquisitions the most likely options.

In addition to Australia, Africa, Asia and South America are the major locations companies are focusing on for future project opportunities, with the vast majority of overseas project opportunities either identified by the company's directors/management team or through contacts of those parties.

In terms of activities aimed at growing existing portfolios of assets, 91% (93% : 2011) are planning an exploration program over the coming 12 months, with 40% (24% : 2011) budgeting up to $2 million, 32% (35% : 2011) budgeting between $2 million and $5 million and 19% (35% : 2011) budgeting over $5 million.

Public policy

There were significant changes in the Australian public policy environment during the last 12 months, with the highly publicised passage of the Minerals Resource Rent Tax (MRRT) and Carbon Tax. The Federal Government also announced significant changes to the Living Away From Home Allowances (LAFHA). LAFHA provide benefits for accommodation and food for employees working away from home. The new rules will see the benefit removed for non-residents. For residents, benefits will be subject to a 12-month time limit and will require people to keep their house in their home city vacant for the time they receive the benefits.

These three changes were of particular concern to respondents with 68% identifying that the public policy environment had created significant uncertainty for the industry in the past 12 months.

While the introduction of Carbon Tax has contributed to uncertainty in the industry, 50% of respondents had not considered its impact on their business. 10% had assessed the impact to be significant, 24% had assessed the impact to be moderate and 13% anticipate there to be no notable impact to their business.

"The lack of congruent process between State and Federal legislation is affecting the sectors ability to get greenfield projects off the ground. Furthermore, decisions such as the MRRT and Carbon Tax have reduced the confidence of international investors in the attractiveness of JUMEX projects"

Todd Harrington
CEO
Blackwood Corporation Limited

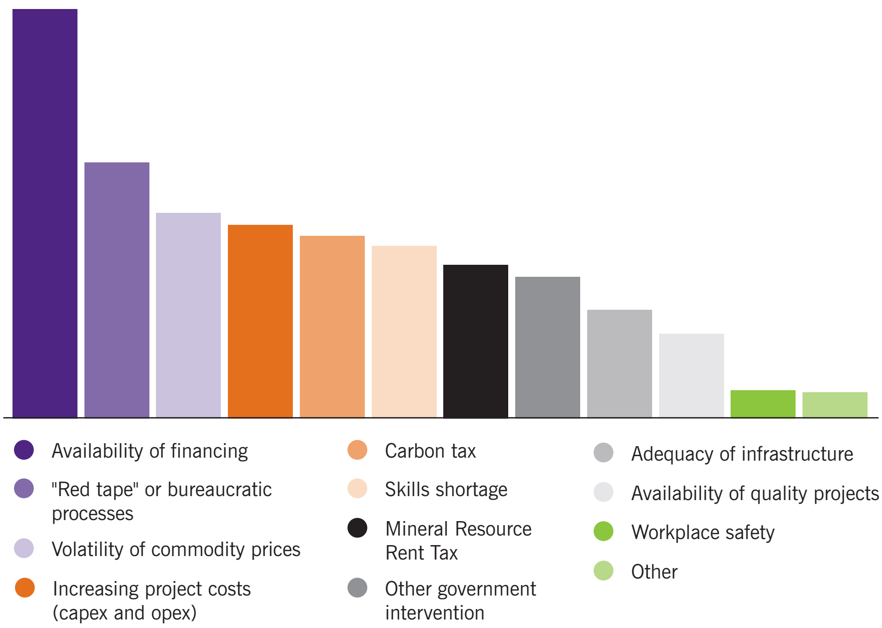
We left exploration in Australia and found Africa to be mineral rich, underdeveloped, less costly, attractive to other investors and for us there is minimal sovereign risk in Cameroon.

Mark Wilson
Managing Director
Legend Mining Limited

Red Tape

On a more macro level, respondents identified that the major industry issue for the coming 12 months, behind availability of funding, is government red tape.

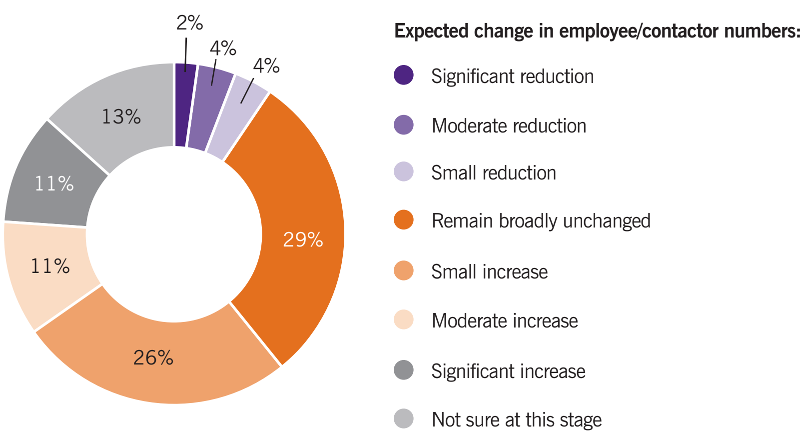
Which of the following issues do you believe to be key for the resource industry in the year ended 30 June 2013?



"The state approvals process can be difficult to navigate and consumes significant senior management time. Further simplifying the approvals process and streamlining the departments that are involved would enable us to deal with people who have the authority to drive the process and reduce the costs involved."

David Singleton
Managing Director
Poseidon Nickel Limited

What are your intentions regarding employment of staff in the year ended 30 June 2013?



Skills shortage

Despite a number of high-profile redundancy announcements in the broader Australian economy, and very recently from the major mining companies such as Fortescue Metals Group and Rio Tinto, overall employment conditions in the JUMEX sector remain strong. Almost half of companies (48%) are expecting to increase staff numbers and only 10% are expecting to reduce employee/contractor numbers.

With expansionary views towards employment it is no surprise that accessing skilled labour remains one of the top five constraints for JUMEX companies. In response an increasing percentage of companies (45%) are considering additional remuneration incentives such as share based payments to attract and retain staff, whilst approximately one third (36%) are considering sourcing labour from overseas.

Survey design & respondents

About the survey

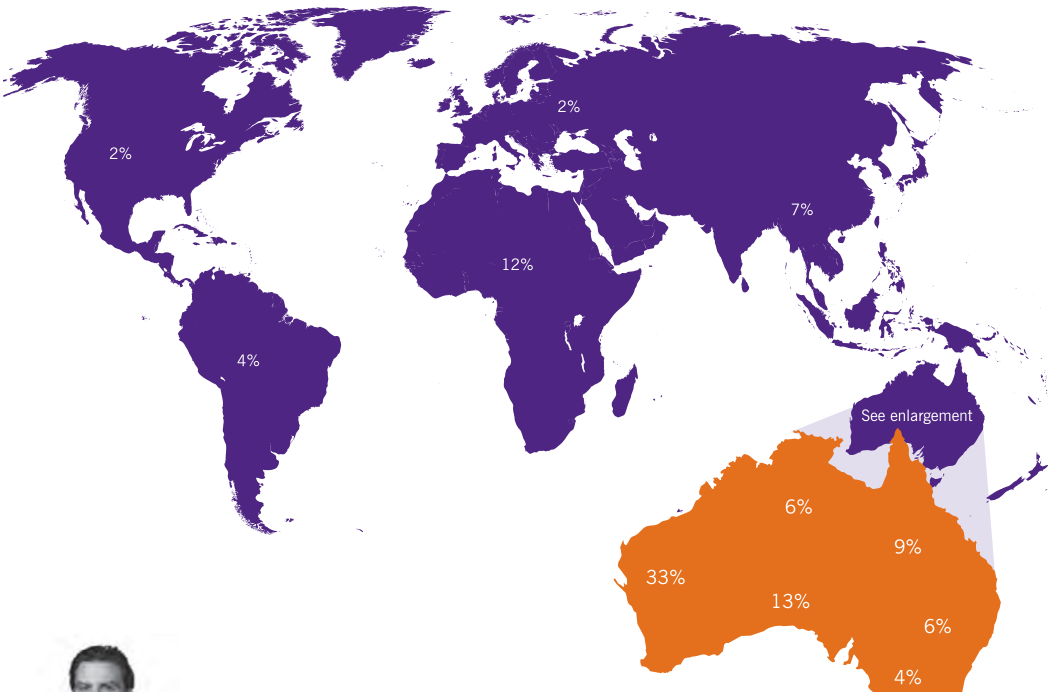
This is the third survey of junior mining and exploration companies commissioned by Grant Thornton. The survey was conducted via a combination of face to face interviews and online surveys during June and July 2012, with responses received from 85 companies. 67% of respondents were either Managing Directors, CEOs or Executive Directors. The remainder were Non-Executive Directors and other C-suite executives, including Company Secretaries and CFOs.

Enquiries regarding this survey may be directed to:

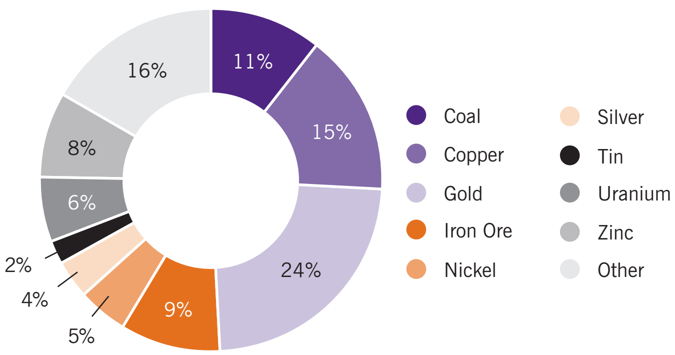
Holly Stiles
Partner
T+61 8 9480 2111
E holly.stiles@au.gt.com

Brock Mackenzie
Partner
T + 61 3 8663 6273
E brock.mackenzie@au.gt.com

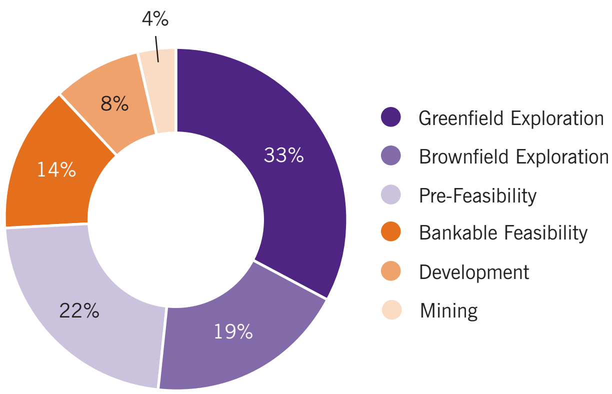
Location of flagship asset



Key resource of flagship asset



Stage of flagship asset



Our contributors

Grant Thornton wishes to acknowledge the following companies for their additional contribution to this report.

Blackwood Corporation Limited
Blackwood Corporation Limited is an emerging Australian energy and resources company, with a primary focus on the exploration and development of its coal tenement portfolio in Queensland, Australia. Through its wholly owned subsidiary, Matilda Coal Pty Ltd, Blackwood Corporation Limited holds tenure of approximately 6,000 square kilometres in world class and internationally recognised coal basins, including the Bowen Basin, Galilee Basin, Surat Basin and Clarence-Moreton Basin. Many of its assets are adjacent to proven coal reserves of significant size and export quality, as well as excellent infrastructure. The company is based in Brisbane, Australia.

Lincoln Minerals Limited
Lincoln Minerals Limited engages in the exploration and development of mineral properties in Australia and Indonesia. The company primarily explores for iron, graphite, nickel, cobalt, uranium, lead, zinc, copper, silver, and gold ores. Its principal property includes the Gum Flat iron ore project located on Eyre Peninsula in South Australia. The company is based in Wayville, Australia.

Poseidon Nickel Limited
Poseidon Nickel Limited is developing the first new Nickel Project in Western Australia for many years. The Windarra Project is a higher grade nickel sulphide deposit that has demonstrated high recovery levels through a standard nickel floatation concentrator. The total current Mineral Resource is located at two positions approximately 10kms apart and includes the existing brownfields mine at Mt Windarra and a new discovery at Cerberus. Poseidon Nickel Limited has completed its Definitive Feasibility Study (DFS) during 2012 and is targeting initial concentrate production in 2013. The concentrator plant to be constructed at Mt Windarra is expected to have a nameplate capacity of 700,000 tonnes of ore per annum.

Legend Mining Limited
Legend Mining Limited engages in mining and exploration of iron ore and precious metal deposits in Australia and West Africa. The company's flagship project, Ngovayang iron ore and gold project comprises 3 exploration permits covering an area of approximately 2,970 square kilometers (km2) in Cameroon.

Monax Mining Limited
Monax Mining Limited engages in the exploration of mineral properties in Australia. It explores for copper, gold, manganese, iron, and bauxite properties in South Australia and Queensland. The company's principal property includes the Punt Hill copper-gold project located on the eastern margin of the Gawler Craton within the Olympic iron oxide copper-gold province in South Australia. It has a strategic alliance with Antofagasta Minerals Adelaide Pty Limited for copper exploration in South Australia. The company is based in Adelaide, Australia.

Stellar Resources Limited
Stellar Resources Limited is a tin exploration and development company. Its key asset, the Heemskirk Tin Project, is located near Zeehan within Tasmania's west coast mining district. Heemskirk is one of the highest grade undeveloped tin deposits in the world. Its location, in a supportive mining community and close to excellent infrastructure under pin its potential for development. The company is based in Melbourne, Australia.

About Grant Thornton Australia

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms.

We help dynamic organisations unlock their potential for growth by providing specialist services, business advice and growth solutions. In Australia, we have more than 1,300 people across seven offices in Adelaide, Brisbane, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable "client first" mindset and a broad commercial perspective.

We are a member of Grant Thornton International which comprises firms operating in more than 100 countries worldwide. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

Our services to Energy & Resources industry

Grant Thornton assists with challenges faced by companies across the mining life cycle.

Attracting and retaining staff

- Employee share schemes
- Ex-pat tax services
- HR advisory (including remuneration strategies, policies)

Fundraisings

- Fundraising assistance (eg pre-IPO raisings)
- Capital markets – advice on selection of appropriate market and assistance with the listing process
- Independent Accountant for IPOs (ASX and other markets such as AIM)
- Nominated Advisor services for AIM listings
- Independent Expert Reports

Transactions

- Valuations
- Independent Expert Reports
- Project acquisitions and divestments
- Sourcing joint venture/offtake partners
- Financial modelling
- Due diligence

Meeting regulatory requirements

- External audit
- Corporate governance reviews
- Corporate tax
- Transfer pricing reviews
- Indirect tax advice (GST, payroll tax, R&D tax incentive etc)
- Option valuations

Corporate structuring

- Tax effective structuring advice
- Corporate simplification (winding up of dormant/defunct subsidiaries)
- Insolvency

Systems and outsourcing

- Systems and controls review
- Technical advice and financial reporting assistance
- Technical training (IFRS, accounting, auditing and legislation changes etc)
- Financial statement preparation
- Payroll outsourcing/interim payroll
- Internal audit
- IT audit

National Energy & Resources key contacts

If you want to know more, please contact us…

Adelaide
Simon Gray
National Head of Energy & Resources
T + 61 8 8372 6620
E simon.gray@au.gt.com

Brisbane
Dan Carroll
Partner
T + 61 7 3222 0304
E dan.carroll@au.gt.com

Melbourne
Brad Taylor
Partner
T+61 3 8663 6137
E brad.taylor@au.gt.com

Perth
Holly Stiles
Partner
T+61 8 9480 2111
E holly.stiles@au.gt.com

Sydney
Iain Kemp
Partner
T+61 2 9286 5489
E iain.kemp@au.gt.com

Grant Thornton
An instinct for growth™