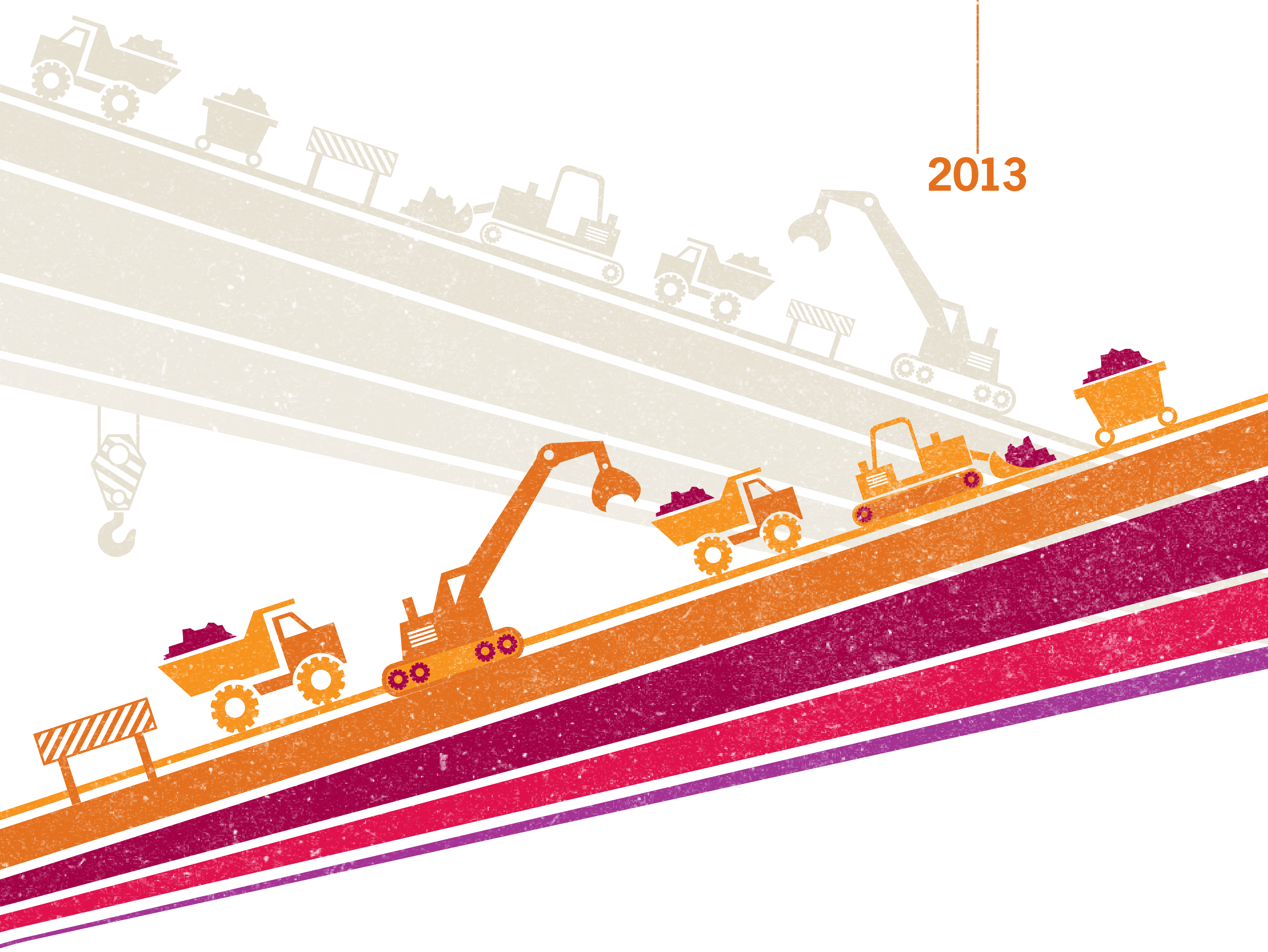
Grant Thornton
An instinct for growth™

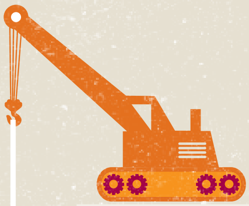
INDUSTRY POSITION SURVEY | NOVEMBER 2013

JUMEX Survey

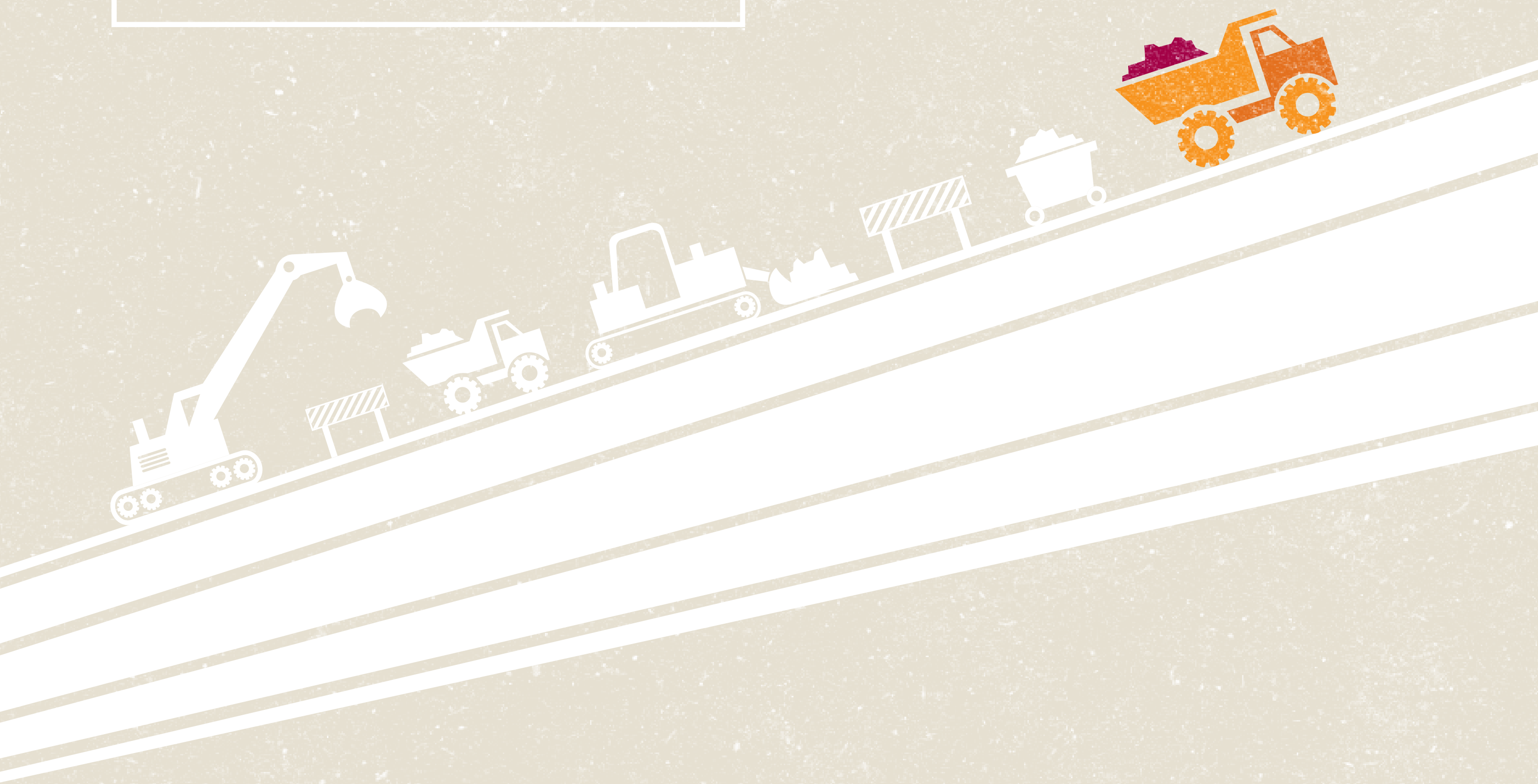
A survey of junior mining and exploration companies

2013





Contents



Foreword

Will Robinson
President of AMEC

The 2013 Grant Thornton Australia survey of junior mining and exploration (JUMEX) companies provides valuable insight into the industry. It also demonstrates Grant Thornton's ongoing commitment to independent industry research with a focus on junior resource companies.

The Association of Mining and Exploration Companies (AMEC), whose membership base consists of junior mining and mineral exploration companies and service providers, value the insights provided by the JUMEX survey.

The key constraints to business this year for JUMEX companies centre on the availability of equity funding and the deterioration of market conditions as well as ongoing concerns regarding approvals processes and government regulation.

Government action in Australia in recent years has created uncertainty in the industry which has had a negative impact on overseas investor sentiment. Key Federal public policy concerns raised in the JUMEX survey include:

- Carbon tax
- Minerals Resource Rent Tax (MRRT)
- Environmental and planning laws / delays
- Increasing regulation
- Industrial relations
- Land access

The issues and concerns highlighted in the JUMEX survey are central to AMEC's Federal, State and Territory Policy Platforms. There was a clear focus from respondents on the requirement for a Mineral Exploration Tax Credit (METC) model in Australia, to remove ill-conceived tax imposts on the industry and to streamline approvals processes at both a State and Federal level.

There is much that can be done to improve Australia's attraction as an exploration and mining investment destination. AMEC welcomes the Federal Coalition Government's policy to introduce an Exploration Development Incentive (EDI) from July 2014. The EDI is expected to be similar to the METC proposed by AMEC.

This policy will lower the long term cost of capital for exploration, level the playing field between companies with mining revenue and those without and it sends a strong message that will significantly improve Australia's standing as an exploration investment destination.

AMEC will continue to work with the State and Federal Governments to foster a positive political and economic environment for the mining and mineral exploration industry in Australia. During these trying times, AMEC congratulates the ingenuity and resilience of the junior mining and exploration companies and thanks those that took part in this important JUMEX survey.

AMEC
ASSOCIATION OF MINING
AND EXPLORATION COMPANIES

Foreword

Simon Gray
National Head of Energy & Resources

Welcome to the fourth annual survey of junior mining and exploration (JUMEX) companies. This research forms part of our on-going commitment to independent industry insight and our focus on junior resource companies.

JUMEX companies continue to face extremely challenging conditions, with on-going funding constraints and volatile commodity prices severely restricting activities and forcing many companies to make fundamental changes to their business plans and operations.

JUMEX companies account for approximately half of all exploration activity in Australia. After peaking towards the end of FY2012, the seasonally adjusted trends for exploration spend and meters drilled in Australia are in decline and are now approaching the subdued levels recorded during the Global Financial Crisis in 2009*. Furthermore, Australia's competitiveness in the mining industry globally is under threat with Australia's share of global exploration for non-bulk commodities reducing by nearly 50% over the past decade**.

Consequentially, with conditions so restricted, calls for Government policy responses continue to gain momentum. The most recent Federal Budget underwhelmed with little activity on an industry public policy front. However, with the recent change of Federal government a number of significant policy initiatives are firmly on the agenda. The repeal of the Carbon Tax and Mineral Resource Rent Tax (MRRT), in conjunction with recent announcements regarding an Exploration Development Incentive designed to encourage investment and stimulate growth in the industry, and an acknowledgement of a need to make the environmental approvals more streamlined, are all generally seen as moves in the right direction.

Despite current conditions, we continue to see entrepreneurial JUMEX companies adapt, continually striving for improvements to the financial attractiveness of their projects and finding ways to maximise every dollar spent.

Our JUMEX survey seeks the views of the industry's senior executives on a range of issues, providing a comprehensive, independent industry snapshot *.**

Issues investigated include:

- Key challenges
- Financing
- Mastering risk
- Winning the talent battle
- Realising strategic ambitions
- 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
simon.gray@au.gt.com

* source – Australian Bureau of Statistics, Mineral and Petroleum Exploration, Australia, June 2013
** source – Where are Australia's Mines of Tomorrow, Centre for Exploration Targeting, University of Western Australia
*** 85 respondents completed the survey, representing ASX listed mining companies with a market capitalisation of up to $500 million. See page 19 for further details of respondents

Top 10 key findings

2013 was yet another year of poor investor appetite for exploration and volatility of commodity prices and financial markets. As these market conditions continue JUMEX companies walk the very fine line between a need to conserve cash and a need to add value to projects in order to give the company the best chance of attracting investor interest. JUMEX companies have adapted and show remarkable resilience, helped by the experience of many previous economic cycles.

The key findings of our 2013 JUMEX survey include:

01	The most significant constraint to business continues to be the availability of equity finance
02	67% of companies that undertook fund raisings in the past 12 months experienced moderate or significant challenges in doing so
03	41% of respondents hold cash balances of less than $2 million, an increase from 35% in FY12
04	Competition for capital continues to be very high, with 46% of companies anticipating a need to raise funds within the next 6 months (FY12 44%)
05	To secure funding, half (51%) of companies expect to have to price their next equity raising at a significant discount and over half (56%) expect to conduct overseas investor presentations to expand the pool of potential investors
06	Major changes have been made by most JUMEX companies in order to survive – most commonly cessation of discretionary expenditure, focus on core assets, reduction of overheads, reduction in staff numbers and reductions in director fees
07	JUMEX companies are dynamic companies – 81% are considering a major corporate transaction in the coming 12 months
08	Half of respondents (49%) are considering acquisitions of projects in the coming 12 months and Australia remains the most popular location for new project acquisitions by some way
09	The industry is crying out for governments to help stimulate activity whilst also removing barriers to growth
10	Whilst JUMEX companies are generally optimistic about commodity prices, with only 18% of respondents expecting the price of the commodity of their flagship project to decline in the coming 12 months, volatility of commodity prices is still expected to be a major constraint to business for FY14

Macroeconomic view

Many commodities demonstrated positive price movements during the first part of FY13, in line with general strengthening in the global economy. However, the most recent trends show a return to falling prices within most resource commodities during the second half of FY13 and into FY14.

The metals market within the commodities sector is highly dependent upon the state of the Chinese market, with this one economy accounting for some 45% of global metal consumption. Moreover, the rate of growth in demand for metals from the Chinese economy is such that its share of world consumption jumped by a striking 2.25% in the space of the past twelve months.

Some markets have been significantly impacted by other commodities. For example natural gas is now acting as a substitute for coal. This has, in part, compounded the degree of volatility which has characterised coal prices over the past year.

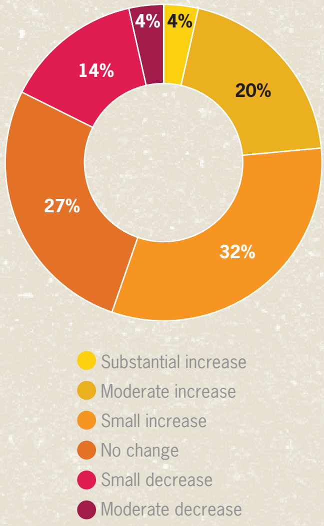
In the case of some metals, whilst there has been a noticeable increase in global demand, prices have been falling. For example, copper prices have eased somewhat, since they hit historically high levels back in early-2011. It appears that previous stockpiling has facilitated both easing prices and higher copper demand, across a variety of major copper consuming economies (including Brazil, Mexico and the USA).

In key areas within the commodities sector, such as metal prices, the expectation is for a continuation of recent downward trends, with this scenario largely predicated on comparatively subdued demand coming from the Chinese market.

However, it should be noted that while the outlook for energy and metal prices is generally one of further moderation, it is from an historically high base. Energy and metals prices, relative to manufacturing prices for example, experienced the largest and longest boom since the late 1990's. This is the critical reason why Australia's terms of trade have improved so much in recent times, given the disparate trends between the structure of Australia's exports and imports.

JUMEX companies continue to be fairly optimistic regarding the pricing of the commodity of their flagship project, with over half (55%) expecting an increase over the next 12 months and only 18% expecting a decrease.

What is your expectation of the pricing of your key resource commodity over the next 12 months?



Commodity research

Gold

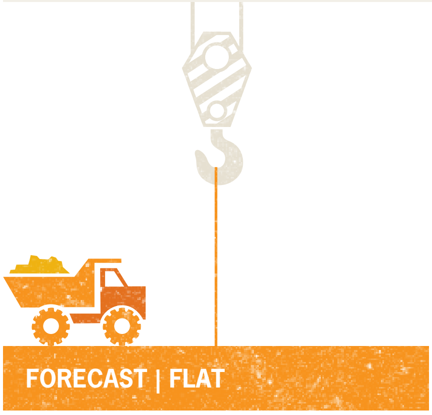
Since reaching a peak of US$1,901 in FY12, gold prices have declined significantly (approximately 23%) in FY13. The decline in gold prices is largely attributable to the continued recovery of the US economy and reduced appeal for gold amongst investors. Despite a downward trend over the past 12 months, brokers have forecast gold prices to remain relatively flat with an expected average price of US$1,329 per ounce over the five years from FY14 to FY18[1].

Gold spot price (US$/troy ounce)

Copper

Copper prices peaked in early-2011, at historically high levels, and have generally eased since then. Copper prices have been notably volatile since FY12, which has continued into FY13 due to weak economic conditions causing copper prices to fall by 18%. Similarly to gold prices, brokers predict copper prices to remain relatively flat with an average price of US$7,098 per ounce over the five years from FY14 to FY18[1].

Copper spot price (US$/metric tonne)



Nickel

The downward nickel price trend that began towards the end of FY12 has continued into FY13 with prices continuing to fall by 17% over the course of the year primarily due to subdued demand from alloy-makers. Brokers expect global demand for nickel to increase as the wider economy recovers. Accordingly, nickel prices have been forecast to increase by approximately 8% per annum from FY14 to FY18[1].

Nickel spot price (US$/metric tonne)

(1) Source: Consensus forecast, August 2013

Commodity research

Zinc

Zinc prices have been notably volatile since FY12. This has continued into FY13 due to global economic uncertainty and subdued demand for metals. Zinc prices peaked in February 2013 reaching US$ 2,188 per tonne followed by a price decline of 14%. Despite a downward trend, brokers expect an increase in demand for metals as the wider economy recovers and have forecast prices to increase by approximately 5% per annum from FY14 to FY18[1].

Zinc spot price (US$/metric tonne)

Uranium

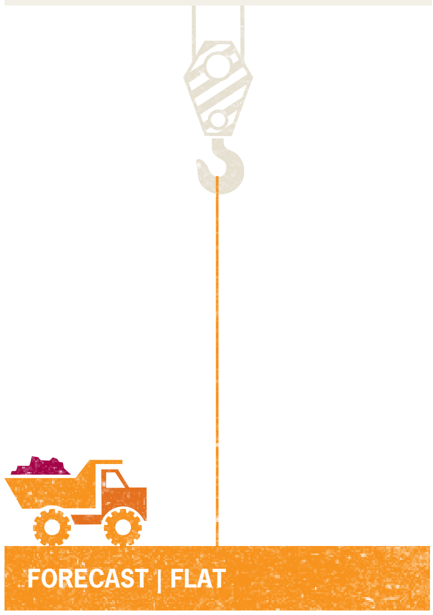
In FY12, uranium spot prices partially recovered from the trading price plunge following the Fukushima disaster in March 2011. However in FY13, prices dropped by 22%, largely due to subdued demand for uranium and rising global uranium oxide production. Despite a substantial decline in uranium prices, brokers are predicting a recovery and expect forecast prices to increase by approximately 11% per annum from FY14 to FY18[1].

Uranium spot price (US$/pound)

Coal

Current coal prices are less than half the price they were five years ago. Since FY12, coal prices have been trending downward as a result of production levels growing faster than consumption levels causing prices to decline by 14% in FY13. However, brokers expect consumption levels to improve with the recovery of the wider economy and have forecast coal prices to increase slightly by approximately 2% per annum from FY14 to FY18[1].

Thermal coal (Newcastle)
spot price (US$/tonne)



(1) Source: Consensus forecast, August 2013

Commodity research

Silver

Silver prices have begun to stabilise after falling from highs of US$35.1 in October 2012. Silver is down 28.7% over the previous year and currently quite volatile. Prices are forecast to recover in FY14 on the back of economic growth. Industrial use for silver accounted for 45% of demand over the last 2 years. Accordingly, silver prices have been forecast to increase by approximately 5.5% between September 2013 and FY18[1].

Silver spot price (US$/troy ounce)

Tin

Tin prices have fallen 21% from January highs of $25,085, as a result of weak economic demand and destocking. Despite recent falls, Tin prices are expected to increase and stabilise due to its applications in electrical items and semiconductors.

Although there has been adequate supply, increased demand or restocking of tin will likely lead to supply shortages, due to bottlenecks at the mining stage. Accordingly, tin prices have been forecast to increase by approximately 1.3% between September 2013 and FY18[1].

Tin spot price (US$/metric tonne)

Iron ore

Iron ore is forecast to decrease slightly to $119 per tonne in 2014 , with averages of $121 in 2013.

China, the largest consumer of iron is expected to increase its demand by 8% to 872 million tonnes in 2014 and up to 1 billion tonnes by 2018. Despite strong demand driven by economic growth and construction, increases in Australian supply are expected to depress prices. Iron ore prices entered a bull market in July as China replenishes stock, which is at it's lowest levels since 2009, pushing prices up to $127 per tonne. Iron ore prices have been forecast to decrease by approximately 17.6% between September 2013 and FY18[1].

Iron Ore spot price (US$/metric tonne)

(1) Source: Consensus forecast, August 2013

Key challenges

The 2013 financial year saw a continued deterioration of market conditions for JUMEX companies. The extent of the impact of these conditions is revealed by the fact that 97% of survey respondents experienced significant constraints to business growth in FY13.

Unsurprisingly the lack of availability of equity funding was the most significant constraint to business during FY13. Without regular equity injections JUMEX companies simply cannot prosper and the continuing lack of investor appetite for exploration is biting hard.

Volatility of commodity prices was the second highest constraint in FY13, rating significantly higher than in FY12. The unexpected rapid decline in the gold price was the major story in FY13.

Deteriorating company share prices were the third biggest constraint, with the vast majority of JUMEX companies seeing their share price decline substantially over FY13. The impact a falling share price has on the ability of a company to raise funds is significant. Without funds to progress projects, opportunities to build the value of the company are limited – a cycle that is very difficult to break.

Availability of skilled labour and equipment, top five constraints in FY12 and previous years, no longer feature in the top five for FY13 and FY14. As we discuss later in this report, one implication of working capital constraints has been employee cuts by both JUMEX companies and majors and therefore the market for skilled personnel is more open. Most JUMEX companies have been forced to limit discretionary expenditure, including exploration and evaluation activities, and this reduction in expenditure has therefore also hit mining service companies.

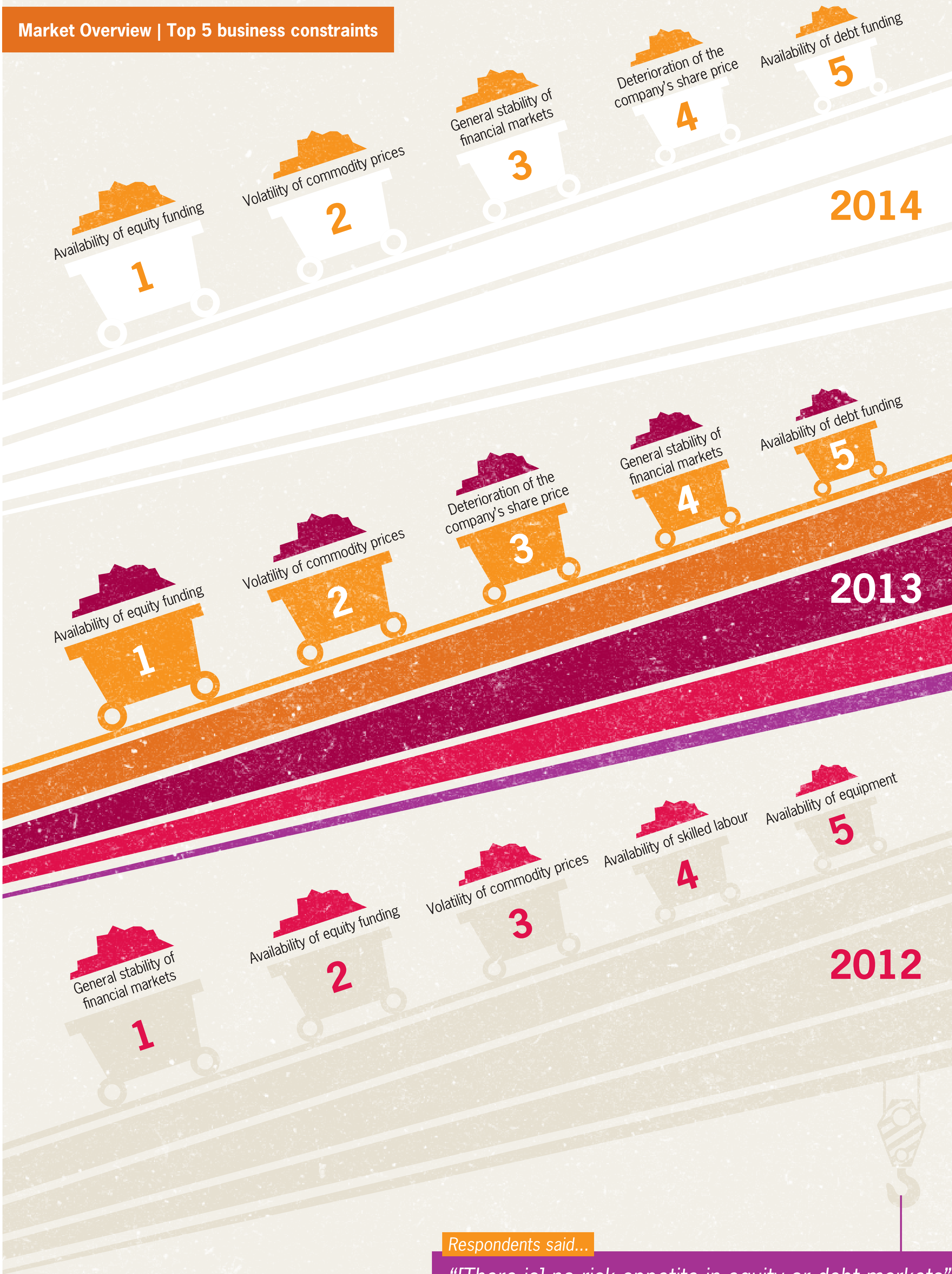
For FY14 there does not appear to be any prospects of improvement, with the lack of availability of equity funding expected to continue to be the major constraint to business growth, followed by the related constraints of volatile commodity prices and instability of financial markets.

Whilst the immediate environment is particularly difficult for JUMEX companies, capital will return in the medium to long term. Current levels of exploration spend are likely to be insufficient to provide a pipeline of mines to meet future demand for commodities. As a shortfall is identified, the laws of supply and demand will result in capital flowing back to the companies that make the most new discoveries – JUMEX companies. The question is, which companies and how many will survive until funding starts to return.

Respondents said...

"Fundraising for greenfields exploration projects is practically impossible in the current environment"

Market Overview | Top 5 business constraints



Respondents said...

"[There is] no risk appetite in equity or debt markets"

Financing growth

Overview

The funding crisis for JUMEX companies deepened in FY13 with no signs of abatement on the horizon.

67% of companies that undertook a fund raising in the past 12 months experienced significant or moderate challenges in doing so. Only 13% were successful in raising funds without any particular challenges.

The current funding position of companies is serious, with 41% of respondents holding cash balances of less than $2 million, an increase from 35% in FY12.

Despite more companies running lower cash balances, a comparable amount are planning a fund raising in the short term; 25% of companies anticipate a need to raise funds in the next 3 months (FY12 22%) and 46% anticipate a need to raise funds within the next 6 months (FY12 44%).

Management of JUMEX companies are only too aware of the lack of funding opportunities and have made major changes to their businesses to survive.

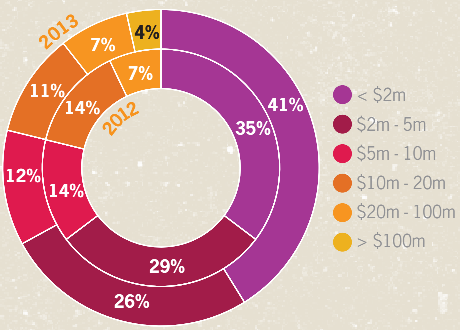
The most common changes respondents have made as a result of working capital constraints include:

- Cessation of discretionary expenditure, including exploration and feasibility studies
- Focus on core assets and disposal of non-core projects
- Reduction of overheads
- Reduction in employee / contractor numbers
- Reduction in management salaries and director fees and/or a reduction in the number of directors

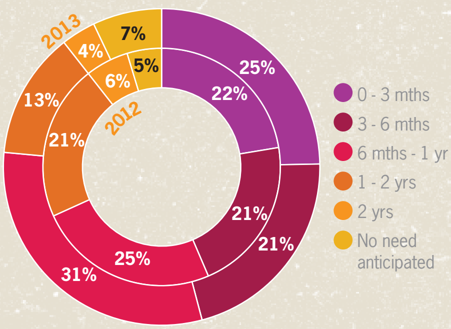
Another indication of the depth of the crisis is that working capital has now risen to the number one proposed use of funds, albeit very closely followed by exploration.

Proposed use of funds from next capital raising

Current cash balance



Anticipated timing of next required fund raising



Respondents said...

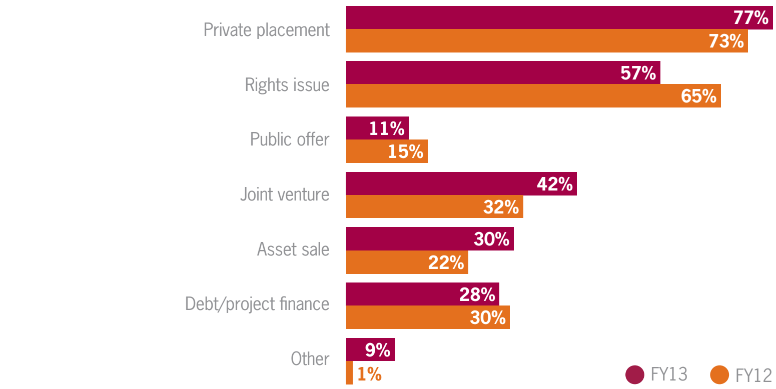
> *"royalties and streaming will be a complement to other traditional financing methods"*

Methods of funding

Despite the challenging conditions for equity funding over recent years, the mix of funding methods has not changed. Private placements continue to be the most popular form of fund raising, with 77% of respondents (FY12 73%) considering this funding method for their next fund raising. Rights issues remain the next most popular with 57% of companies (FY12 65%) considering them. There are a few alternative methods available, such as streaming and private equity, however most of these options are only available to a select few and therefore do not solve the fundamental funding issue for the sector.

To secure funding, half (51%) of companies expect to have to price their next equity raising at a significant discount. Over half (56%) expect to conduct overseas investor presentations to expand the pool of potential investors and a quarter (27%) expect to have to use less preferable fund raising methods such as convertible notes.

Sources of funds considered for next raising



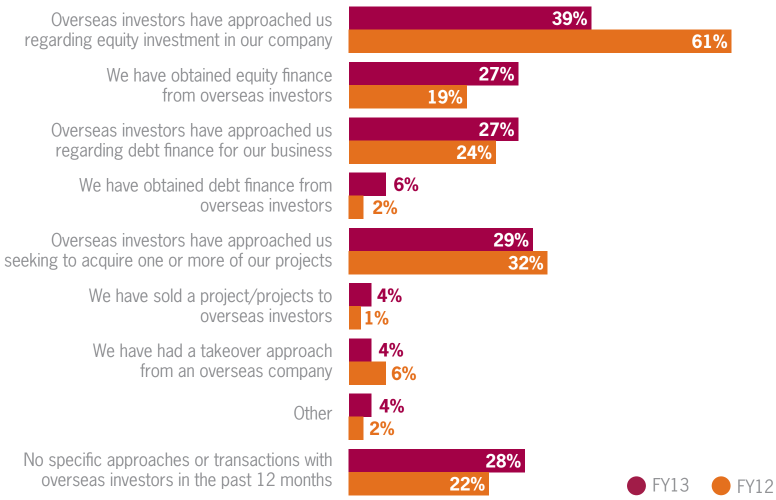
Sources of funding

Whilst 38% of companies expect the majority or all of next funds raised to come from new investors, only 17% expect the majority or all of next funds raised to come from existing investors. Existing shareholders are weary given continued deterioration of share prices and a lack of significant progress on projects as a result of limited spending on exploration and development.

There was a fairly even split between companies expecting to raise the majority or all funds locally (47%) compared to the majority or all funds from overseas investors (48%)

Whilst there has also been a significant decline in overseas investor approaches to Australian JUMEX companies, with only 39% having received approaches from overseas investors regarding equity investments compared to 61% in FY12, a higher percentage (27%) had obtained equity finance from overseas investors in FY13 (19% in FY12). There was an increase in both interest and successful raises of debt from overseas investors. A reasonable level of interest in projects continues, with 29% of companies being approached by an overseas party seeking to acquire one or more project. China continues to be the number one source of overseas investor approaches (53% had received approaches from Chinese investors), closely followed by other areas of Asia (50%) which is comparable to approaches made in FY12.

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



Respondents said...

> *"Assets are so undervalued that severe dilution becomes almost inevitable in attempting equity raising"*

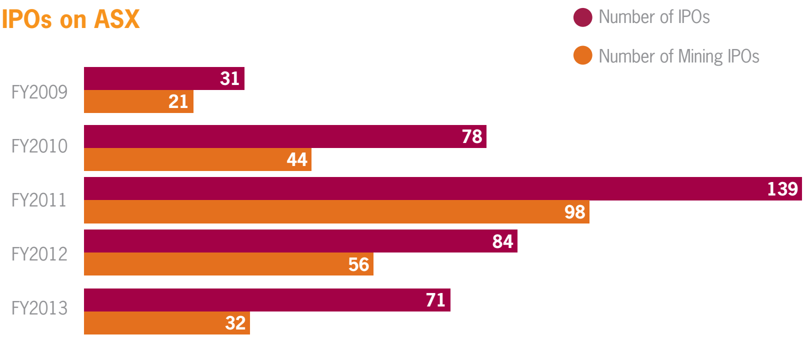
Respondents said...

"Foreign investors [are] becoming much more selective and discerning, pushing harder on deal metrics"

IPOs

FY13 saw a further fall in overall IPO numbers and, in particular, a significant drop in numbers of mining IPOs. Whilst overall IPO numbers fell 15% from 84 in FY12 to 71 in FY13, mining IPOs fell 43% from 56 to 32.

IPOs on ASX

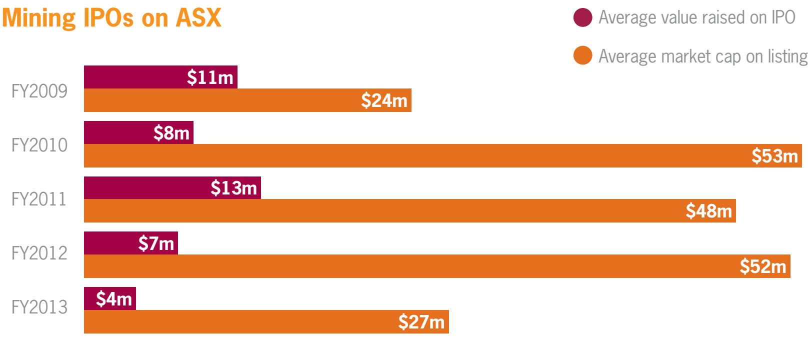


Source: Australian Securities Exchange data

Mining IPOs

In addition the amount raised on IPO by mining companies fell 69% to $121.6 million in FY13, with the average raising by mining companies on IPO being just $4 million. The average market capitalisation of mining companies on IPO in FY13 was $27 million, the lowest level since FY09.

Mining IPOs on ASX



Source: Australian Securities Exchange data

Respondents said...

"Investors... seem to have a higher expectation of how far a dollar can go in exploration and the type of results that can be achieved from minimal expenditure"

Mastering risk

The mining industry is a sector with particular exposure to risks of bribery and corruption, as well as facilitation payments. This is predominantly due to the number of companies with operations in developing countries, in regions such as Africa and Asia, where there is a perception that facilitation payments and bribery are fairly common practice.

Legislation with cross jurisdictional reach now puts mining and exploration companies that get caught up in bribery and facilitation payments at risk of prosecution in foreign jurisdictions, directly impacting on parent or subsidiary entities and their directors in Australia with potential personal criminal and corporate liability. Recent examples of high profile enforcement actions reported in the media include allegations of bribes allegedly paid by Leighton Holdings Ltd to win foreign contracts, allegations against BHP stemming from a hospitality and sponsorship program for the 2008 Beijing Olympics as well as earlier allegations of bribes paid in connection with an aborted attempt to establish a bauxite mine in Cambodia. Closer to home there was a recent bribery scandal regarding the issue of coal mining licences to Cascade Coal, in connection with former NSW Ministers Mr Eddie Obeid and Mr Ian MacDonald.

Accordingly, given this environment of increasing compliance and enforcement risk, we sought responses regarding the extent of concerns regarding bribery and corruption in the country of respondents flagship asset. 81% of respondents with flagship assets in Australia had no concerns over bribery and corruption, compared with 29% of respondents with offshore flagship assets. 36% of respondents with offshore flagship assets felt that bribery and corruption were moderate or significant concerns.

It is possible that a deep understanding of the extent and reach of the anti-bribery and corruption legislation has not yet been developed by all industry executives as we would have expected higher levels of concern amongst respondents with offshore projects, particularly in Africa and Asia.

On a positive note, 67% of respondents advised that they do have a Code of Conduct which address bribery and corruption issues, but there is still work to be done, particularly by the 29% of companies with offshore projects that don't (yet) have such a Code of Conduct.

With many JUMEX companies facing significant funding challenges it may be tempting to cut spending on corporate governance, including advice. However, Company Directors need to be alert to increasing and changing risks in environments where their companies operate. Directors should ensure that Management have and maintain an appropriate Integrity Framework. A key benchmark is the Bribery Act 2010 (UK), which provides a statutory defence against prosecution by demonstrating that the company has adequate procedures in place to prevent bribery. Guidelines issued by the UK Government advise that such procedures should be based on assessed risk and be proportionate to that assessed risk. Hence, company Directors have a benchmark which they can use to assist Management in identifying and managing risks and therein comply with their own duties and responsibilities under the Corporations Act 2001.

Realising strategic ambitions

As always, the ability to realise strategic ambitions is fundamentally underpinned by availability of funding. The current funding drought is limiting options to add value for shareholders and companies need to be much more creative with the cash they have available.

The declines in share prices most JUMEX companies have experienced, coupled with the need to offer significant discounts in order to achieve a successful fund raising, have resulted in a level of dilution many Boards find unacceptable. It is therefore no surprise that there is strong appetite for alternative funding sources and corporate transactions such as joint ventures, mergers and divestments.

Unsurprisingly, given that JUMEX companies have faced another year of difficult fund raising conditions, planned expenditures on exploration are lower than in FY12. Only 37% of companies are planning exploration expenditures of $2 million or higher for the next 12 months (FY12 51%).

Despite funding shortages half of respondents (49%) are considering acquisitions of projects in the coming 12 months. Australia remains the most popular location for new project acquisitions by some way, followed by Africa. Whilst there may be a perception that a number of overseas locations offer greater value for money, as cash constraints are severe many are restricted to focusing close to home.

Over half of respondents (53%) are considering a joint venture and approximately 20% are considering a takeover of another company or a merger.

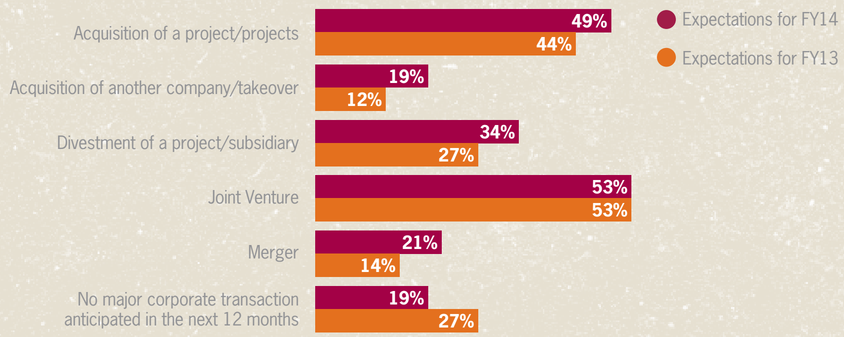
Companies that are fortunate to be in a strong cash position are ideally placed to capitalise on depressed share prices and, in some instances, companies in distress. We expect to see further industry consolidation. The ability to add advanced exploration projects with proximity to their current portfolios would be appealing for producers, especially if current mining operations could benefit from additional scale and synergistic benefits.

Only 19% of respondents are not considering a major corporate transaction in the coming 12 months, which is representative of the dynamic nature of JUMEX companies (FY12 27%).

With larger companies continuing to tighten exploration budgets, tie-ups with JUMEX companies could become more common place.

We expect to see producers looking for proximity plays to take advantage of the market conditions, to provide increased scale and throughput.

Are you considering any major corporate transactions to grow your business in the next 12 months?



Respondents said...

"We are relatively cashed up and in project acquisition mode"

Winning the talent battle

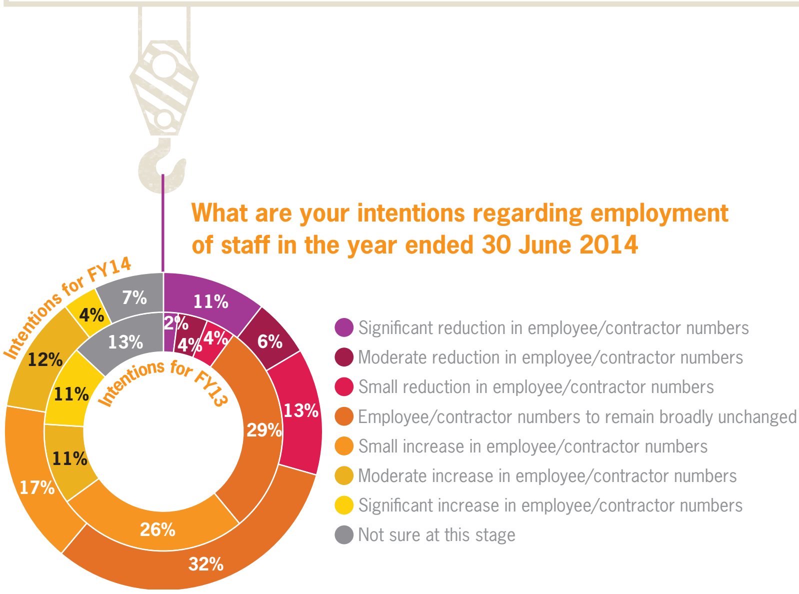
As a result of working capital constraints, many JUMEX companies reduced employee and contractor numbers during FY13. Many majors and mining service providers have also trimmed headcount. As a result, JUMEX companies are no longer facing the skill shortages of previous years. A lack of availability of skilled labour was the fourth biggest constraint to business in FY12 (and the number one constraint in our 2011 survey), however it was not a major constraint in FY13.

However, whilst skilled staff are available in the market, retaining and incentivising them as a junior with limited capacity to pay high salaries and to offer job security remains a challenge. 64% of companies use or are considering some form of equity incentives (such as options or performance shares) to supplement employee remuneration.

Hiring intentions for FY14 are mixed, with 29% of companies planning further reductions in employee and contractor numbers, 39% of companies adopting a wait and see approach (either indicating that they are planning on head count to remain broadly the same or are unsure of hiring intentions at this stage) and 32% planning increases in employee and contractor numbers.

> "With employment conditions softening in the sector, opportunities for JUMEX companies with prospective projects to attract high quality talent continue to improve"
>
> **Shane Mele** | Kidman Resources Limited

What are your intentions regarding employment of staff in the year ended 30 June 2014



Respondents said...

"Labour cost vs productivity imbalance needs to be addressed."

"Potential for significant loss of skills as people leave the industry due to declining employment opportunities."

Regulation & reform agenda

As reported in our 'International Mining Report 2013', the impact of federal government intervention on JUMEX companies has been perceived to be severe. Among Australian mining executives, government involvement or regulation was identified as a major constraint to growth over and above any of the other countries in the survey. Only 47% believed national public policy supported exploration and overwhelmingly 84% of respondents thought the government should do more to support junior and exploration companies.

These sentiments have continued with the majority of respondents in our 2013 JUMEX survey expressing negative sentiments towards the previous government's intervention in the industry. Red tape or bureaucratic processes was identified as the third major issue for the industry for FY14, after availability of funding and volatility of commodity prices. There is clearly a lot that could be done to simplify processes and reduce impediments to business for an industry that is already suffering from serious constraints.

Respondents raised many concerns regarding public policy at the federal level, including concerns about the additional costs of the carbon tax, the damage the MRRT was having on the industry, industrial relations and the removal of the immediate deductibility of expenditure on mining rights.

Respondents were given the opportunity to state what one thing they would ask the Federal Government for in the 2014 budget. 34% of respondents would request a flow through style scheme to provide incentives for investment in exploration companies. Therefore, the fact that the newly-elected Coalition Government has announced that it will introduce an Exploration Development Incentive (EDI) to encourage investment and stimulate growth in the industry is extremely welcome. The EDI is an incentive for taxpayers to invest in participating companies who raise equity capital for 'eligible exploration expenditure' purposes.

The key benefit of the EDI to Australian resident investors is that they will obtain a credit against their tax liability, or receive a refund if the credit exceeds the tax payable. Exploration companies can alternatively retain their tax losses. The reforms are limited to small exploration companies with no taxable income and the implementation date is 1 July 2014. This change is finally good news for JUMEX companies who have been crying out for support to encourage investment in exploration.

> "Encouraging exploration is critical for the industry at a time when greenfield exploration is at an all-time low due to market conditions and a lack of new capital. Share flow through schemes such as we see in Canada would be particularly well received"
>
> **Andrew McIlwain**
> Unity Mining Limited

Other common responses for requests to the Federal Government included reductions in red tape, streamlining of approval processes, assistance with reducing costs to the industry (particularly labour costs) and stability and certainty in policies.

Respondents said...

Red tape, green tape and their associated costs are killing the exploration industry

With the larger mining companies less interested in pursuing exploration programs and local explorers facing an ever more cash constrained landscape, the exploration and mining sector is presented with a number of challenges to the future identification and development of resources. The difficulty in attracting capital, combined with concerns regarding bureaucratic red tape, perceived and actual sovereign risk issues and volatility of commodity and financial markets means that the industry faces a significant 'Call to Action'

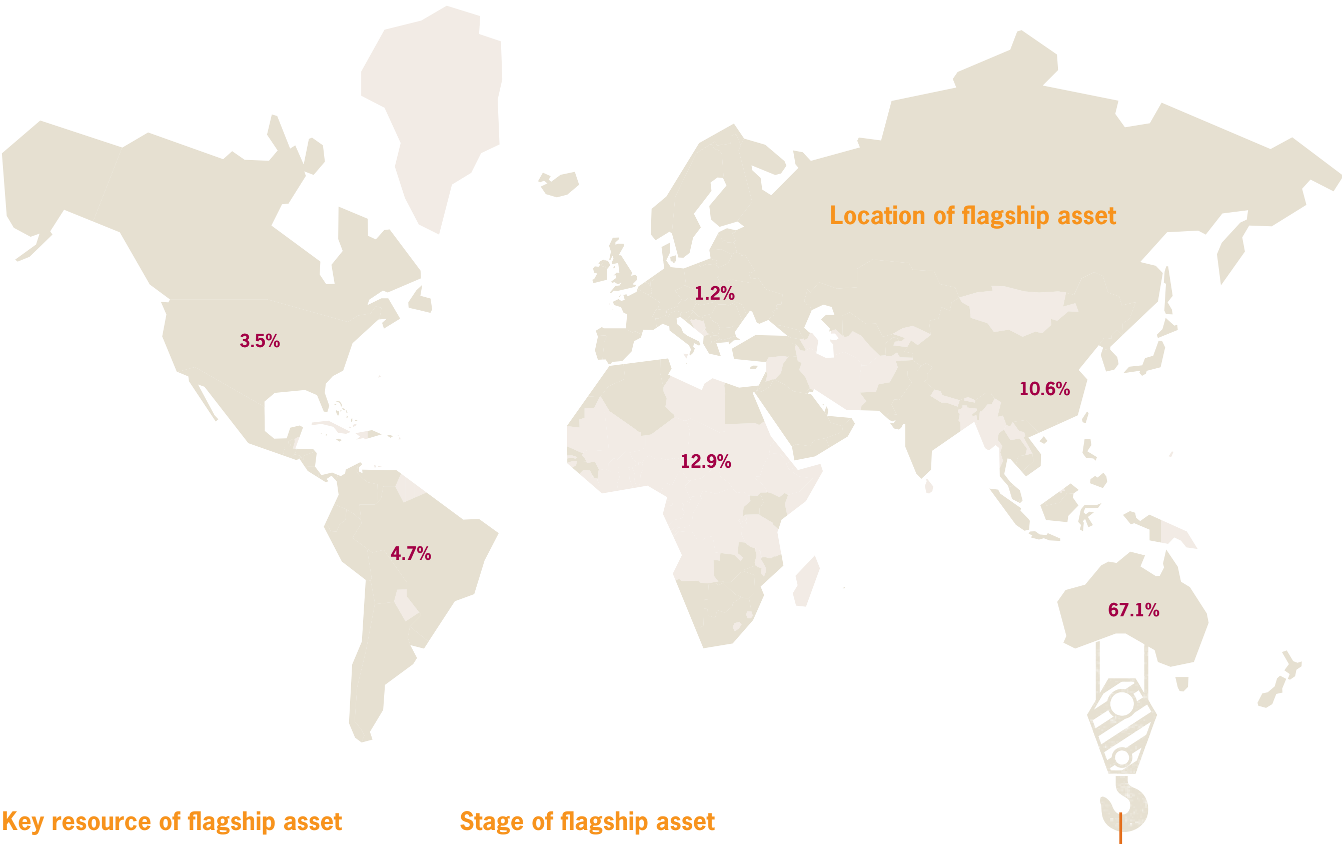
There is no single solution for the JUMEX industry. Rather, there are many levers to pull, to improve conditions and industry-wide performance.

JUMEX companies are entrepreneurial and have fought many downturns in the past. The current conditions have forced action to cut costs to the bone and to squeeze as much value as possible from every dollar spent. Some companies are achieving remarkable results despite these conditions, however many continue to struggle. We can already see a rationalisation of projects, industry and project consolidation, with an ever increasing number of alternative funding mechanisms and structures. There is no doubt companies will need to continue this trend. This is not without risk. The pursuit of fewer projects means less diversity at the company level, potentially also increasing the risk associated with that company.

From the Government's perspective more favourable taxation arrangements at the company and investor level will help. The removal of the MRRT and carbon tax and the implementation of a mineral exploration tax credit scheme would be well supported. However concerns persist regarding the time frames and levels of approvals required at both the state and federal level to commence and advance exploration and development programs, most of which are yet to be seriously addressed.

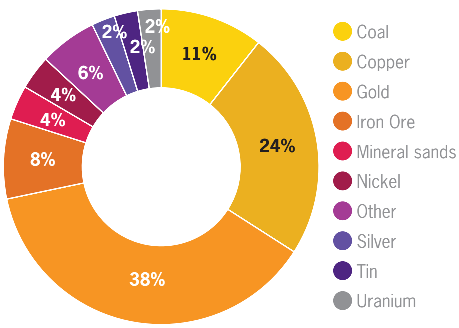
> "Australia is still an investment haven of choice for foreign investors due to a stable economy and a good banking system. Although the mining boom has subsided, strong underlying characteristics of the economy remain."
>
> **James Cooper-Jones** | Impact Minerals Limited

Survey methodology & respondents

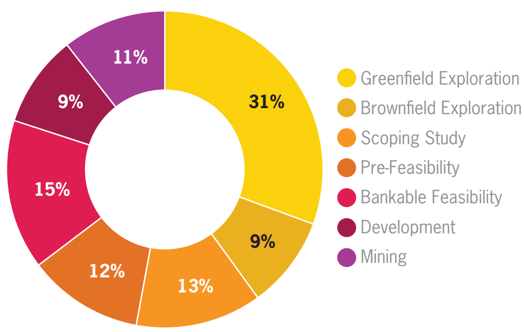


WA 29.4%
QLD 9.4%
NSW 7.1%
SA 5.9%
TAS 5.9%
NT 4.7%
VIC 4.7%

Key resource of flagship asset



Stage of flagship asset



About the survey

This is the fourth 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 July to September 2013, with responses received from 85 companies. 55% of respondents were either Managing Directors, CEOs or Executive Directors. The remainder were primarily 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

Contributors

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

Kidman Resources

Kidman Resources has assembled a portfolio of tenements in Australia with a focus on the Cobar region of New South Wales and the Arunta region of the Northern Territory. The company's focus has been on projects within regions that have potential to discover high grade deposits. The main focus is on base metals (copper, lead, zinc) and to a lesser extent precious metals (gold, silver).

Unity Mining Limited

Unity Mining Limited (ASX:UML) is an Australian gold explorer, developer and producer which owns and operates the Henty Gold Mine on the West Coast of Tasmania and is developing the Dargues Gold Mine in New South Wales. Unity is also involved in gold exploration in West Africa through its investment in GoldStone Resources Limited. Unity holds tenure over the Bendigo Goldfield in Victoria where it is engaged in realising the value of its Kangaroo Flat gold plant and Bendigo exploration tenements.

Impact Minerals Ltd

Impact Minerals Limited was established to explore for deposits of uranium, nickel, platinum group metals (PGM's) and gold and listed on the ASX in November 2006. The company has extensive tenement holdings in Africa and more recently Australia: a portfolio of projects with the potential for significant deposits of uranium and copper-nickel PGM's.

Venture Minerals Ltd

Venture Minerals Ltd is striving to discover and develop world class mineral deposits. The company's current focus is on realising the full economic potential of the Mt Lindsay tin/tungsten project in northwest Tasmania. Venture has already defined one of the worlds largest undeveloped tin projects and is currently completing a bankable feasibility study on the Mt Lindsay project. In addition to Mt Lindsay the company has also discovered the Livingstone and Riley projects, two direct shipping ore ('DSO') hematite deposits located next to existing infrastructure. The company is striving to bring these projects into production over the coming year.

About Grant Thornton

35,000
people globally

100
countries

$4.2BN
worldwide revenue 2012 (USD)

1,300
people nationally

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

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

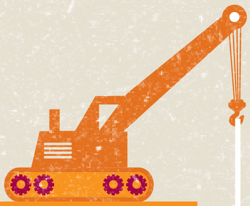
Corporate structuring

- 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

Key contacts



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

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

Adelaide
Justin Humphrey
Partner
T + 61 8 8372 6621
E justin.humphrey@au.gt.com

Brisbane
Tim Hands
Partner
T + 61 7 3222 0367
E tim.hands@au.gt.com

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

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

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

Grant Thornton contributors

Holly Stiles
Brock Mackenzie
Main sponsoring partners

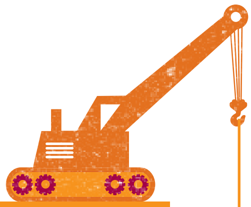
Bridget Kirby
Industry research support

Louise Osborn
Graphic design

Nicola Du
Commodity pricing

Steven Shepherd
Economic insight

Shane McDonald
Fraud and corruption insight



Grant Thornton Australia

Adelaide
Level 1
67 Greenhill Road
Wayville SA 5034
T +61 8 8372 6666
F +61 8 8372 6677
E info.sa@au.gt.com

Brisbane
King George Central
Level 18, 145 Ann Street
Brisbane QLD 4000
T +61 7 3222 0200
F +61 7 3222 0444
E info.qld@au.gt.com

Melbourne
The Rialto, Level 30
525 Collins Street
Melbourne VIC 3000
T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com

Perth
Level 1
10 Kings Park Road
West Perth WA 6005
T +61 8 9480 2000
F +61 8 9322 7787
E info.wa@au.gt.com

Sydney
Level 19
2 Market Street
Sydney NSW 2000
T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com

Grant Thornton
An instinct for growth™

www.grantthornton.com.au