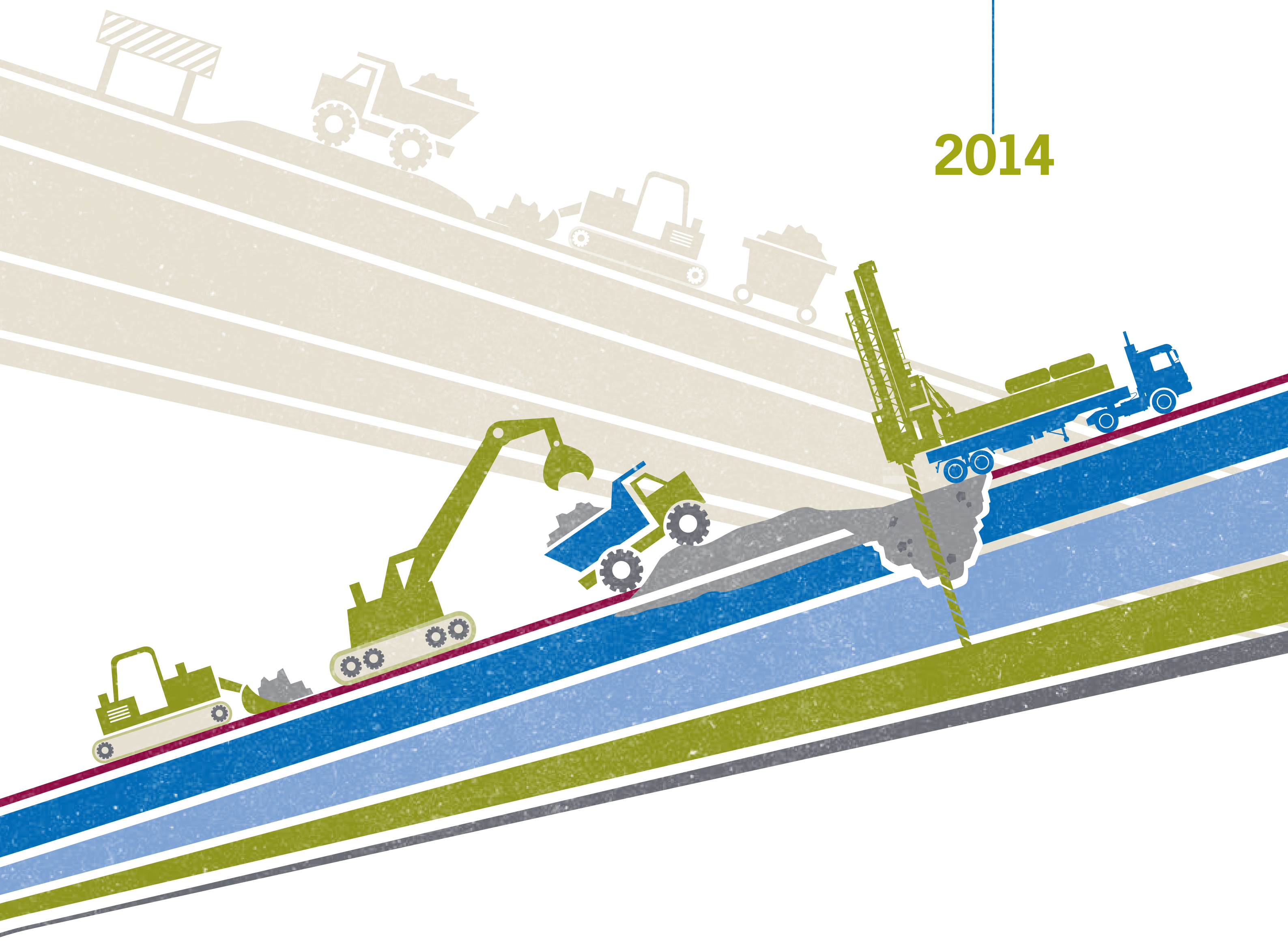
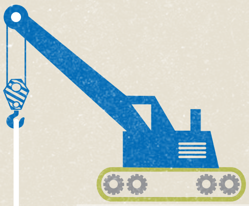
INDUSTRY POSITION SURVEY | OCTOBER 2014

JUMEX Survey

A survey of junior mining and exploration companies

2014





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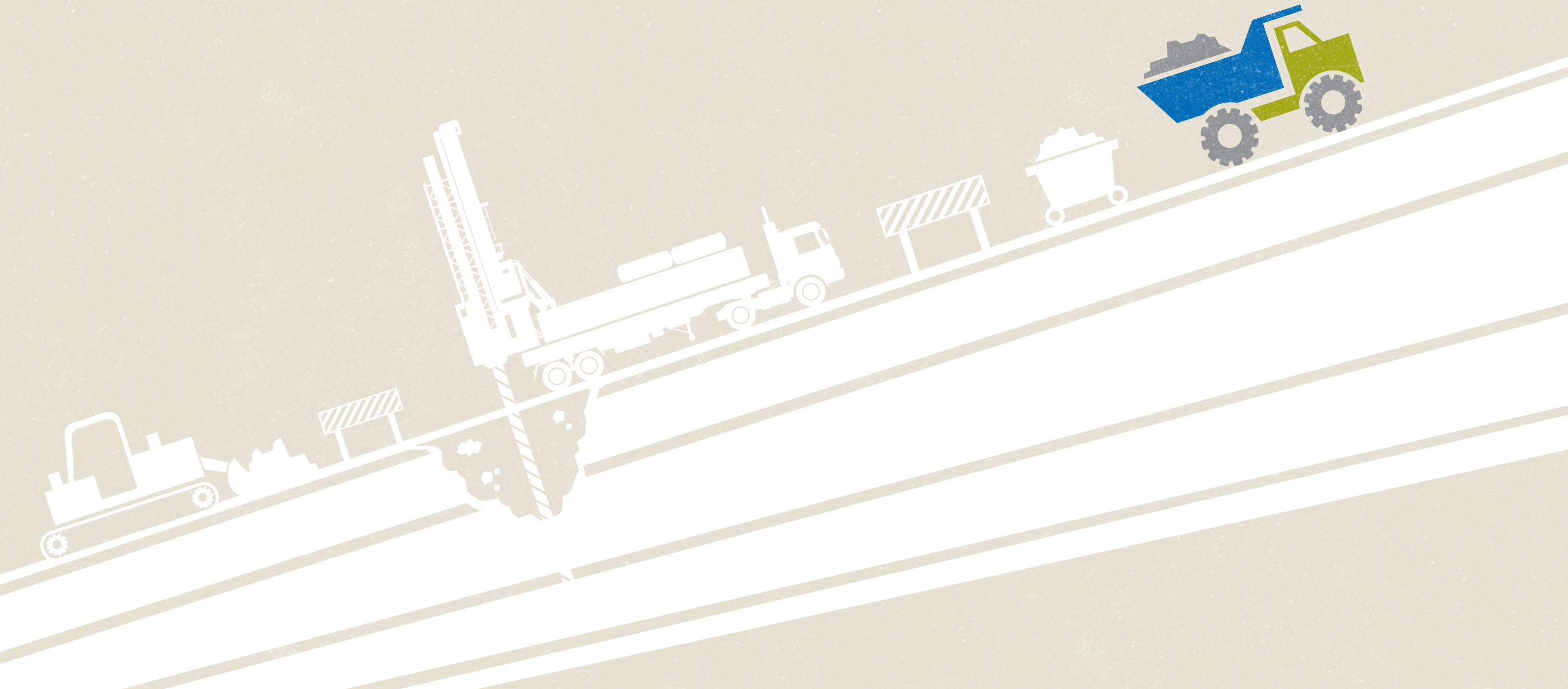


Simon Bennison

AMEC, Chief Executive Officer

The 2014 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) is pleased to provide this foreword to the 2014 Grant Thornton JUMEX Survey. The results are very much an extension of recent years.

Exploration companies are finding equity finance almost impossible to access as is reflected by the small number of Initial Public Offerings for mining and exploration companies.

Regulation continues to be a significant constraint to business, particularly in regards to cultural heritage and environmental approvals.

There are also a number of challenges in the economic climate that are directly and indirectly impacting JUMEX companies. These include low prices in the majority of commodities, comparatively high exchange rates, high and increasing operating costs, and limited cash flow.

AMEC
ASSOCIATION OF MINING AND EXPLORATION COMPANIES

Recent public policy changes through the repeal of the Minerals Resource Rent Tax and the Carbon Tax will remove some of the uncertainty prevailing over the industry for the past four years. As the JUMEX report demonstrates, investor confidence is starting to return. This will flow into increased greenfields exploration investment which is essential to discover the mines of tomorrow.

The Federal Government's Exploration Development Incentive (EDI) initiative is also represented in the JUMEX results. Launched at the AMEC Convention this year, the EDI is extremely positive for the exploration sector. It is a new system that has been designed specifically to accommodate Australian taxation arrangements and to encourage cutting edge greenfields exploration.

In the absence of any operational details on the EDI it is not surprising that it is not well understood at this early stage. However once the EDI is up and running and better understood, AMEC is extremely confident that it will be embraced by the greenfield exploration sector and it will contribute to new mineral discoveries in Australia.

Once the EDI legislation has gone through Parliament a comprehensive awareness and technical advice program must be initiated to inform companies on how this initiative will operate in practice.

The EDI will be implemented with a cap in the first three years and reviewed on an annual basis. This will allow the EDI to be expanded in the years to come. The 2014/15 Federal Budget provides an allocation of $100million over the next three years for the EDI. Whilst this is deemed as limited by some, it represents approximately $350 million in eligible exploration expenditure and will create about $1 billion in subsequent economic activity.

The EDI is the first of its kind in Australia and is therefore a starting point, working towards replicating the success of the Canadian flow through shares model. Whilst it will not be the sole panacea, combined with a range of positive State and Federal Government policies, the EDI will be a significant contributor to growing the greenfields exploration sector.

AMEC continues to advocate for policy changes that will make Australia an attractive, safe and stable investment destination. Included in these initiatives are changes to the Employee Share Schemes legislation amongst others.

Simon Bennison
AMEC, Chief Executive Officer

Introduction

Simon Gray

National Head of Energy & Resources, Grant Thornton Australia

We are pleased to present the findings from our fifth annual survey of junior mining and exploration companies (JUMEX). This research forms part of our on-going commitment to independent industry insight and our focus on junior resource companies.

FY14 was yet another tough year for JUMEX companies, with extremely tight capital markets, volatile commodity prices and tumbling share prices. The duration and extent of these conditions has wide ranging implications for companies and the industry as a whole.

At the company level, management remain heavily focused on financing considerations, taking their time and attention away from value adding operational and strategic development opportunities. Costs are cut to the bone, directors and staff may be demotivated by ongoing conditions of cost constraints and the lack of funding for business activities, not to mention salary cuts and redundancies.

At an industry level, the severe decline in exploration activities has far reaching impacts on future discoveries and significantly reduced spending by JUMEX companies which continue to have a major impact on the mining services community.

Combined, these factors significantly impact the competitiveness of Australia as a mining powerhouse.

However, we are very encouraged to see a range of signs that the bottom of the cycle may have passed. Whilst the years ahead will continue to be very difficult for many JUMEX companies, for those companies with attractive projects and some cash, investor interest levels may well pick up during the course of the year.

Recently there has been some notable M&A activity at the junior end of the market; however the predicted sharp increase in M&A activity among juniors is yet to fully take hold. Major mining companies have been making moves, over recent years, to reduce costs and tidy up balance sheets, including disposals of projects which don't align with their often narrower business focus and/or aren't economically justifiable. We would expect to see, as confidence starts to increase, a more outwardly looking approach and cashed up companies will move on undervalued explorers.

Regulatory challenges are still a major issue for the industry. There have been a number of positive changes in the past year, including the repeal of the carbon tax and MRRT and the proposed Exploration Development Incentive, however the industry is crying out for consistency of policies for planning purposes in order to restore Australia as a strong investment destination in this sector.

Given persistent pressures, we encourage JUMEX companies to continue to explore innovative ways to create shareholder value. We are encouraged by signs that conditions are improving, but in the meantime, are here to provide ongoing support to our clients and contacts.

Simon Gray
National Head of Energy and Resources,
Grant Thornton Australia

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

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

Top 10 findings

Despite improved conditions in the broader market, life for JUMEX companies remains particularly challenging. The major issues facing the industry in 2013 persist in 2014. Our survey participants confirmed that the overriding key issue for the industry is the lack of availability of finance. This continues to be the major constraint to business growth. However, there are some encouraging signs: two thirds of JUMEX companies are either seeing or expect to see an improvement in investor interest in the short term.

The top 10 findings of our 2014 JUMEX survey are:

01 **Funding constraints at crisis point for some**

As predicted in our 2013 survey, the lack of available equity was identified as the most significant constraint to business in FY14 and is expected to continue to be so in the future. Deterioration of company share prices was the second major constraint to business. This is both a contributing factor to, and a function of, the challenges in raising equity capital.

02 **Commodity price volatility**

Volatility of commodity prices remains a significant constraint to business; however industry executives are optimistic that prices will improve. 72% of participants anticipate an increase to the commodity price of their key resource commodity over the next 12 months (2013:56%).

03 **Regulatory challenges persist**

Regulatory challenges are seen as the third most significant constraint to business in the coming year, with the major issues being around environmental approvals, land access and cultural heritage.

04 **Investor interest is starting to improve**

41% of respondents are seeing improved investor interest. This is particularly significant given that 79% of companies that had a fund raising need in FY14 experienced moderate or significant challenges in raising capital (FY13:66%).

05 **Future discovery pipeline**

The impact of the decline in exploration expenditure on future discoveries was rated as the second most significant key issue for the industry, after the lack of available finance. Total exploration dollars fell 32% to $2.1 billion in FY14, down from the FY12 peak of $4.0 billion. Total metres drilled fell 24% in FY14; a lesser decline as a result of reduced drilling prices reflecting lower demand*.

06 **Capital raising needs**

Any improvement in investor sentiment is desperately needed with competition for capital continuing to be high. 74% of companies are anticipating a need to raise capital in FY15 (FY14:77%).

07 **Ongoing constraints**

44% of respondents acknowledged that market conditions remain difficult. As such, a key corporate strategy for these companies is to continue to focus on minimising expenditure until their funding position allows increased activity.

08 **M&A outlook is up**

M&A activity looks set to increase as the third highest priority for funds from the next capital raising is now acquisitions. In fact, 42% of companies plan to acquire a project/ projects while 16% are considering a corporate acquisition or takeover.

09 **Improvements will not be dramatic**

Reflecting early improvements in investor sentiment, the number of companies expecting to price their next equity raising at a significant discount is reduced. However, this is still high at 40% of respondents (2013:51%).

10 **Employment conditions remain depressed**

Many companies have reduced staff and contractor numbers dramatically over the past two years. Now, 65% of companies expect employee and contractor numbers to remain broadly unchanged in the year ahead (2013:61%). Only 25% of companies are planning to increase employee/contractor numbers.

*Australian Bureau of Statistics

Scanning the environment

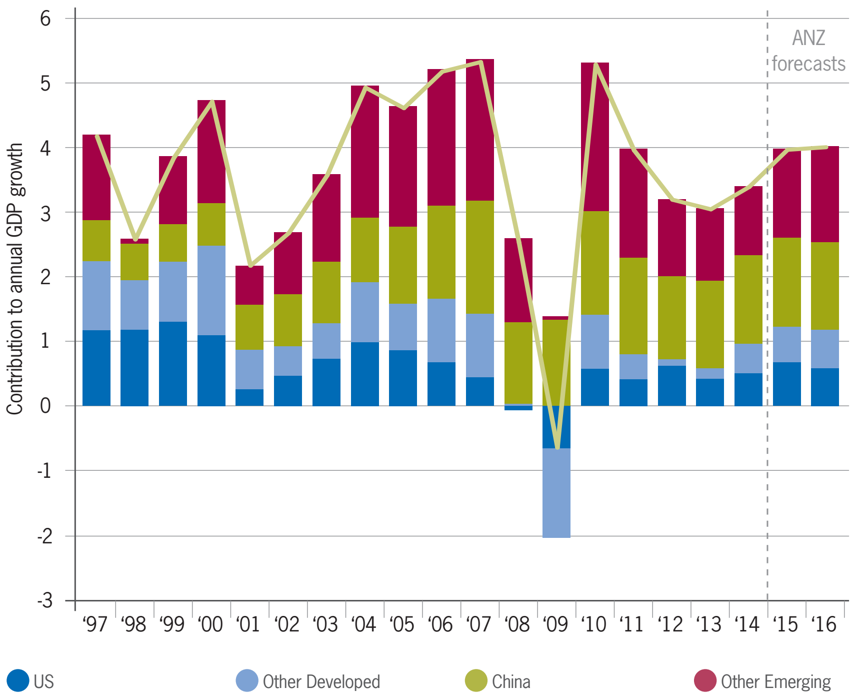
Macroeconomic commentary is kindly supplied by Justin Fabo, *Head of Australian Economics, Corporate and Commercial, ANZ.*

Global economic backdrop

The global economy continues to grow at a below-trend pace but growth has improved gradually over the past year or so and is expected to strengthen further over the coming year (Figure 1).

While growth is forecast to return to around its long-run average, it is likely to remain below rates experienced in the years just prior to the Global Financial Crisis (GFC). That was a very strong period of growth but the GFC also continues to cast a long shadow over economic activity, including through its effects on dampening businesses' appetite to take risks through new investments. Importantly, we are seeing some early signs that this is changing, albeit slowly.

Figure 1: Global growth

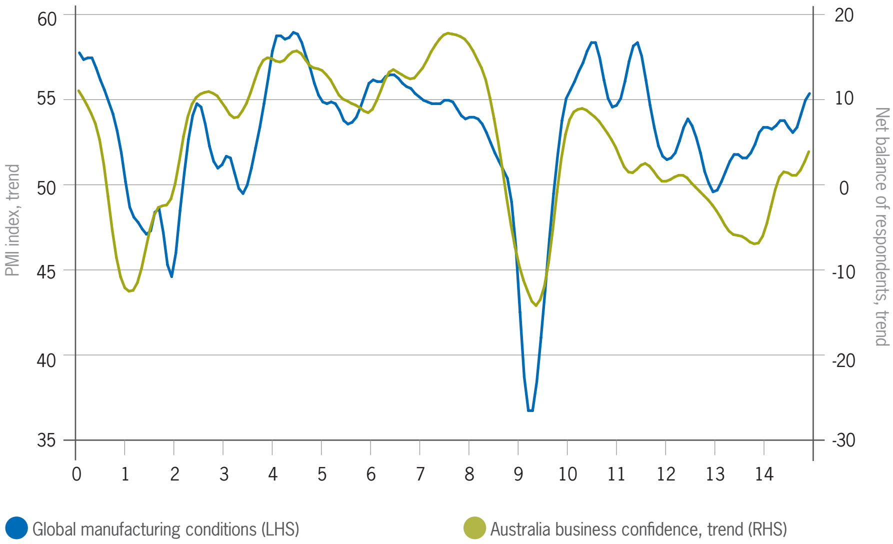


Source: IMF, ANZ Research

Importantly, the outlook for the US economy has brightened, as has global manufacturing activity (Figure 2).

Growth is currently around its long-run trend and is anticipated to be modestly above trend over the next year. This has prompted speculation that the US Federal Reserve will begin to increase official interest rates sometime during 2015, possibly early in the year in our view. If this view becomes commonplace in coming months we could see an abrupt increase in financial market volatility and a stronger US dollar. This, along with actual and expected falls in the prices of Australia's key commodity exports, would see the Australian dollar decline and to average roughly USD0.85 by mid-2015. This process has begun in recent weeks with the currency falling below USD0.90.

Figure 2: Global manufacturing conditions



Source: Bloomberg, NAB, ANZ Research

The performance of China's economy is vital to the commodities outlook.

Growth in China is currently around 7.5% per annum but it is expected to slow further in coming years. While still robust, current growth is slower than the 30 year average of almost 10% and is significantly slower than growth rates achieved just prior to the GFC. But the increasing size of China's economy means it continues to contribute more to global growth each year.

There are risks around China's growth outlook which are typically to the downside. The authorities have already brought forward some infrastructure and other spending this year as growth slowed a little more quickly than they anticipated.

Most of the immediate concerns around China focus on the potential for a rout in the property market. In our view, the major concern is the risk of a possible sharp slowing in residential construction activity, a sector which looks to be more vulnerable to slowing than at any time since the GFC.

Chinese developers are pulling back on land purchases and building commencements are slowing. As a result, growth in construction is slowing and is expected to help the market re-balance as demand softens.

With this slowing comes the risk of a significant retrenchment which requires monitoring. The task of maintaining sufficient growth in China will be made more difficult for China's authorities as they navigate the implementation of economic reforms.

The weaker commodity price backdrop has seen Australian resources investment decline since late 2012.

Mineral exploration spending has been falling for a little longer and in terms of metres drilled has returned to levels of a decade ago (Figure 3). The decline in exploration expenditure is evident in both new and existing deposits (Figure 4) and across a wide range of deposits by type (Figure 5).

In contrast, exploration expenditure in the petroleum sector (ie oil and gas) has remained elevated, and is expected to remain so, as gas finds are needed to supply the huge new gas projects being built in Australia (Figure 6). Both onshore and offshore petroleum exploration spending have held up, with around AUS $200m per quarter currently being spent on onshore drilling.

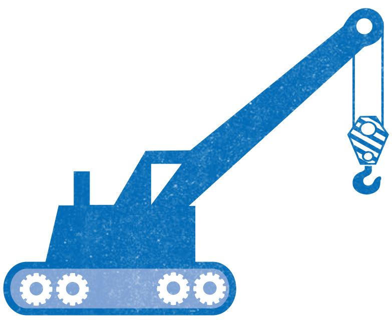
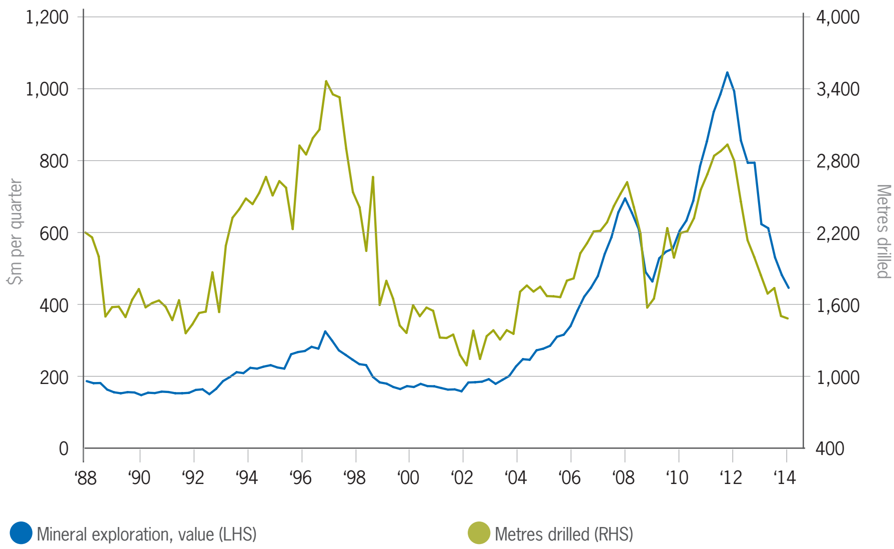
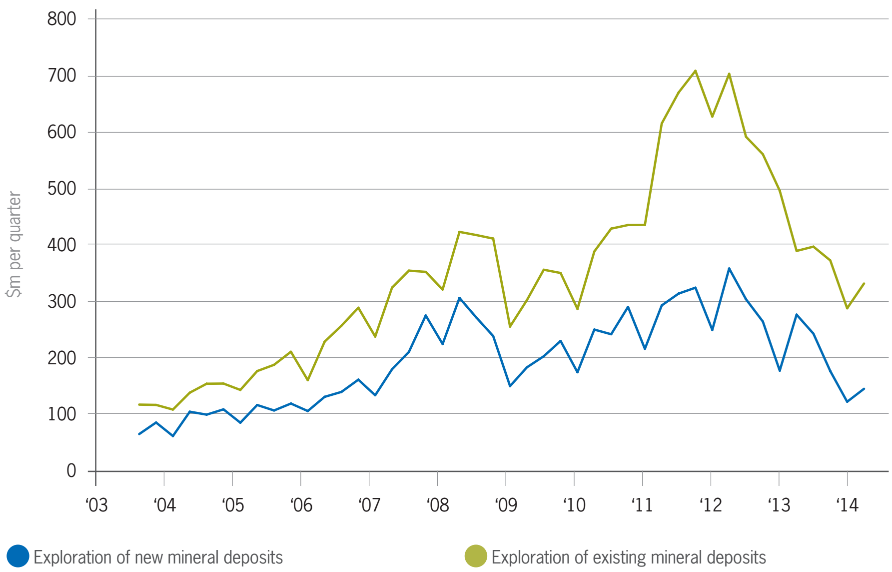


Figure 3: Mineral exploration, Australia



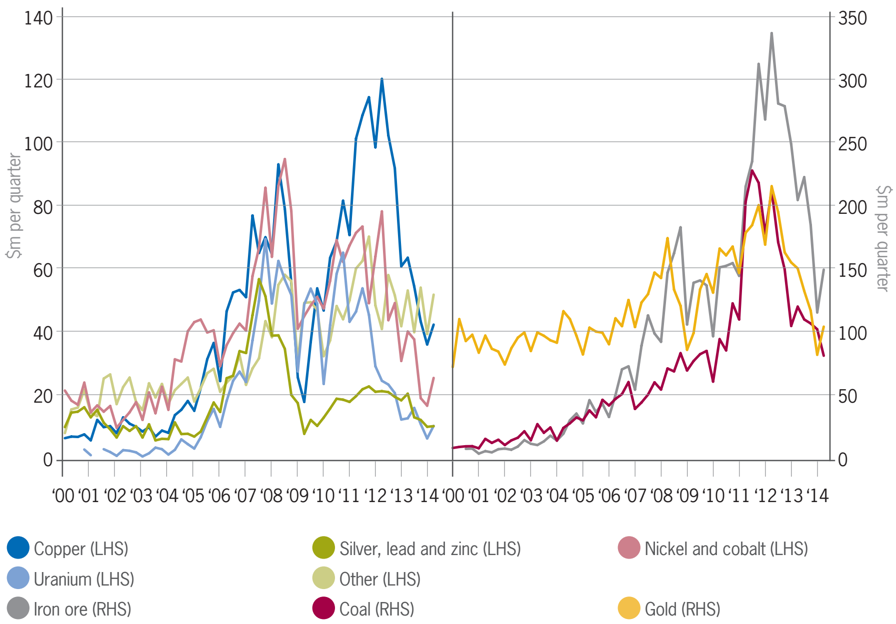
Source: ABS, ANZ Research

Figure 4: Mineral exploration, new vs existing deposits



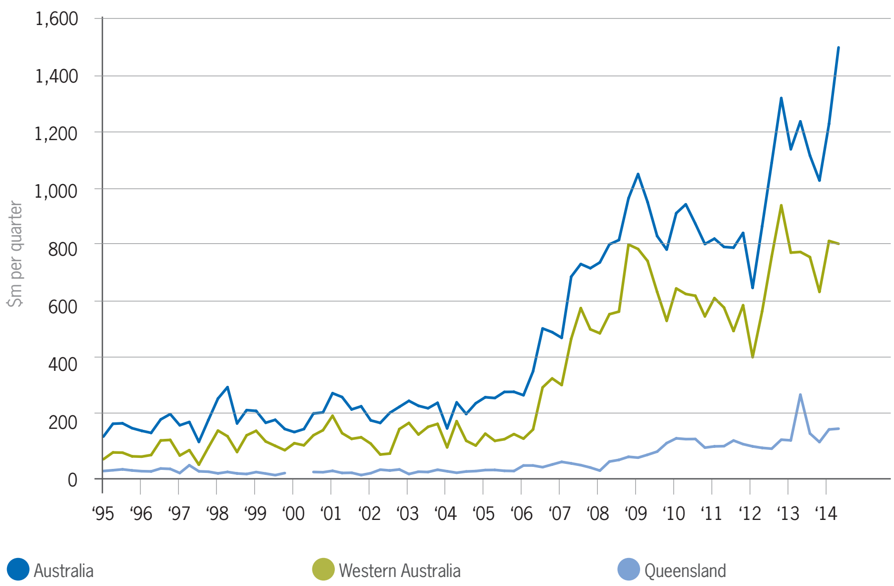
Source: ABS, ANZ Research

Figure 5: Mineral exploration by type of deposit, value



Source: ABS, ANZ Research

Figure 6: Petroleum exploration by state



Source: ABS, ANZ Research

"A key factor to watch out for in the next 12 months will be if interest rates in the US rise, and its effect on the AUD. A rise in the USD, relative to the AUD, can offset USD price falls of Australia's major exports, such as iron ore, coal and gold, providing much needed relief to Australian miners. A rising USD could also increase the manufacturing competitiveness of emerging economies, such as China and India, two of our key export customers. I look to India especially as an opportunity for Australian miners in the near term."

Gerard Rennick
Grant Thornton Client Manager – Tax

Macroeconomic conclusion

For junior miners, the fact that exploration activity has already fallen significantly could be seen as somewhat of a positive such that further weakness could be more limited. Nevertheless, despite the improvement in the overall global backdrop, this is largely a US story. The financial and economic risks around China, coupled with a very uncertain commodity price outlook, suggest that a rebound in exploration activity is of low probability. Capital availability for juniors is thus likely to remain hard to come by for quite some time.

Commodities outlook

The commodities outlook is kindly supplied by Justin Fabo, *Head of Australian Economics, Corporate and Commercial, ANZ.*

The combination of slower growth in China and significant supply additions in some commodity markets have weighed on prices in recent years.

In the near term, with the slow improvement in the global macro environment, commodity markets have entered the second half of 2014 on a mildly positive note. But it's likely to be a far more gradual recovery than in the past, as it will be tempered by lower liquidity and a stronger US dollar as the US Federal Reserve edges closer to raising interest rates.

At the same time, the lack of sustainable uplift in commodity prices on the back of increasing geopolitical risks around the world suggests the market is dismissive of their impact on commodity markets. But this view looks a bit too complacent and overall we see the risks skewed modestly to the upside for commodity prices in general.

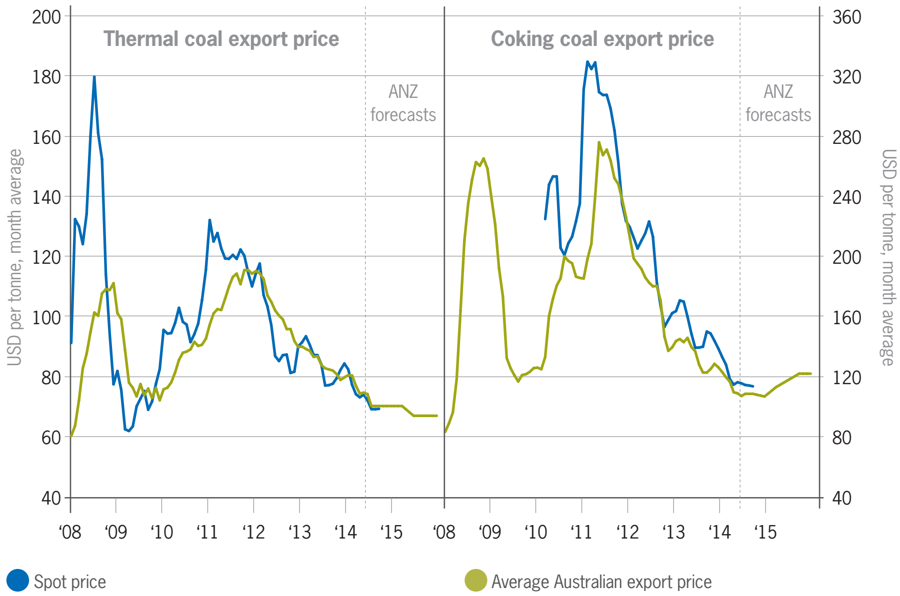
Bulk commodities

Coal markets are awash with supply pushing prices to multi-year lows. Major producers are showing no sign of supply discipline and demand growth is either waning or under pressure from alternative supply. We believe the situation is unlikely to improve in the near to medium term.

Coking coal looks oversold, and while the biggest exporter – Australia – continues to supply higher volumes into an oversupplied market, prices will find it hard to recover. Chinese steel mills currently have very strong pricing control – and with steel prices at multi-year lows, acceptance of higher raw material costs (coking coal and iron ore) won't be tolerated. Encouragingly, steel mill margins have improved in the past six months and tight industry steel stockpiles suggest firmer steel price aren't too far off (Figure 7).

Thermal coal is expected to remain weak for the foreseeable future. Renewed price discounting by large Chinese state owned coal producers in a weak demand environment is dragging seaborne prices lower. A very wet first half year has also swelled Chinese hydro capacity, which is giving domestic power producers strong pricing control in procuring coal.

Figure 7: Coal prices



Source: ABS, Bloomberg, ANZ Research

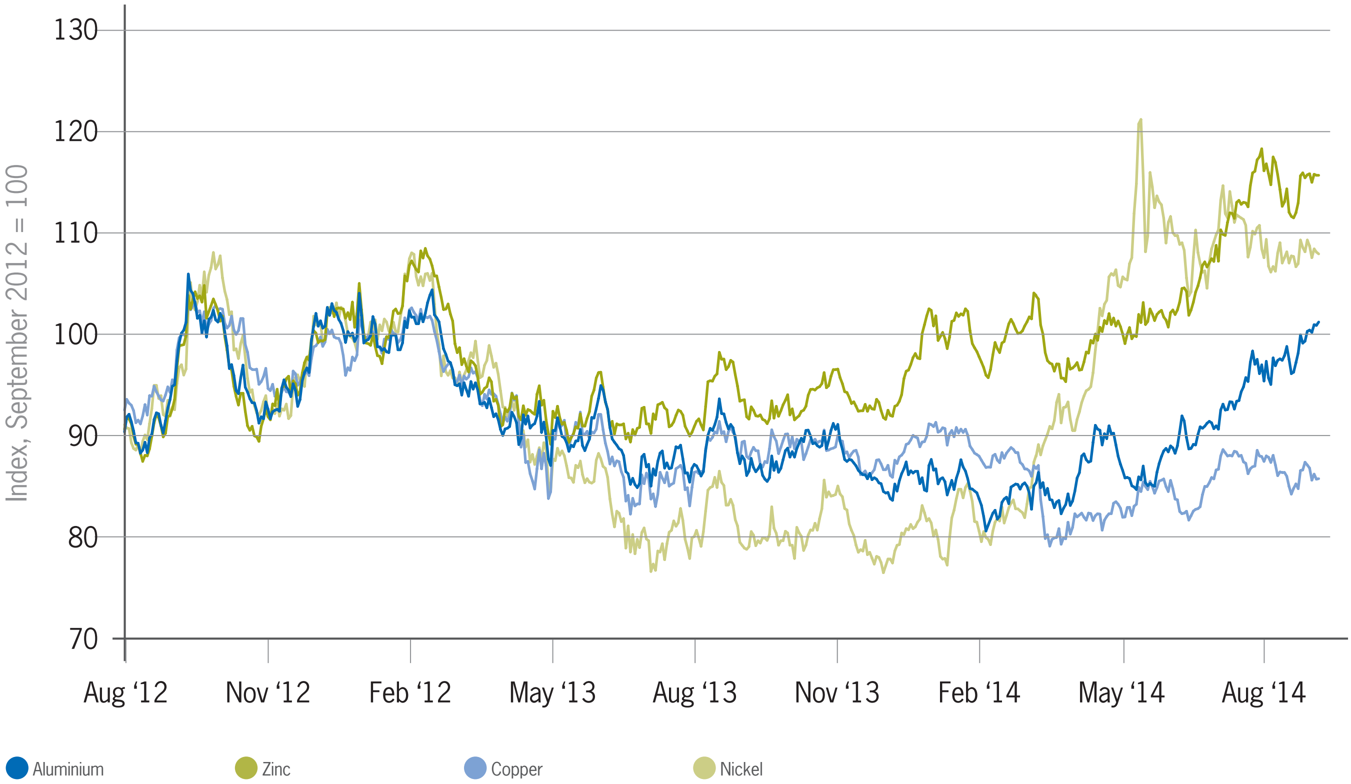
Figure 8: Iron ore price

Source: ABS, Bloomberg, ANZ Research

Reports suggest that Chinese coal supply is close to breakeven, with even the biggest and one of the most profitable coal companies, Shenhua, talking of production cutbacks, which should create a floor around current price levels. However, we don't expect any meaningful price recovery until well into the fourth quarter, with prices likely to hover around the USD70/tonne level for some time.

Iron ore has been one of the weakest commodities this year. Key consumers – Chinese steel mills – still don't seem convinced higher prices are warranted, while high iron ore port stocks and rising seaborne supply remains on offer. Swelling Australian iron ore exports have weighed on prices but the increase in supply will be slower in the second half. The negative market reaction has been overdone, and we think prices are now vulnerable to a relief rally if Chinese news starts to improve (Figure 8).

Figure 9: Base metals prices



Source: Bloomberg, ANZ Research

Base metals

Base metals prices have improved amid slightly more positive economic data in China and noticeably better news on the United States economy. While the macro environment is showing signs of gradual improvement, it will continue to be supply side issues that will drive base metal markets. On that front, we continue to favour nickel and zinc in the near term.

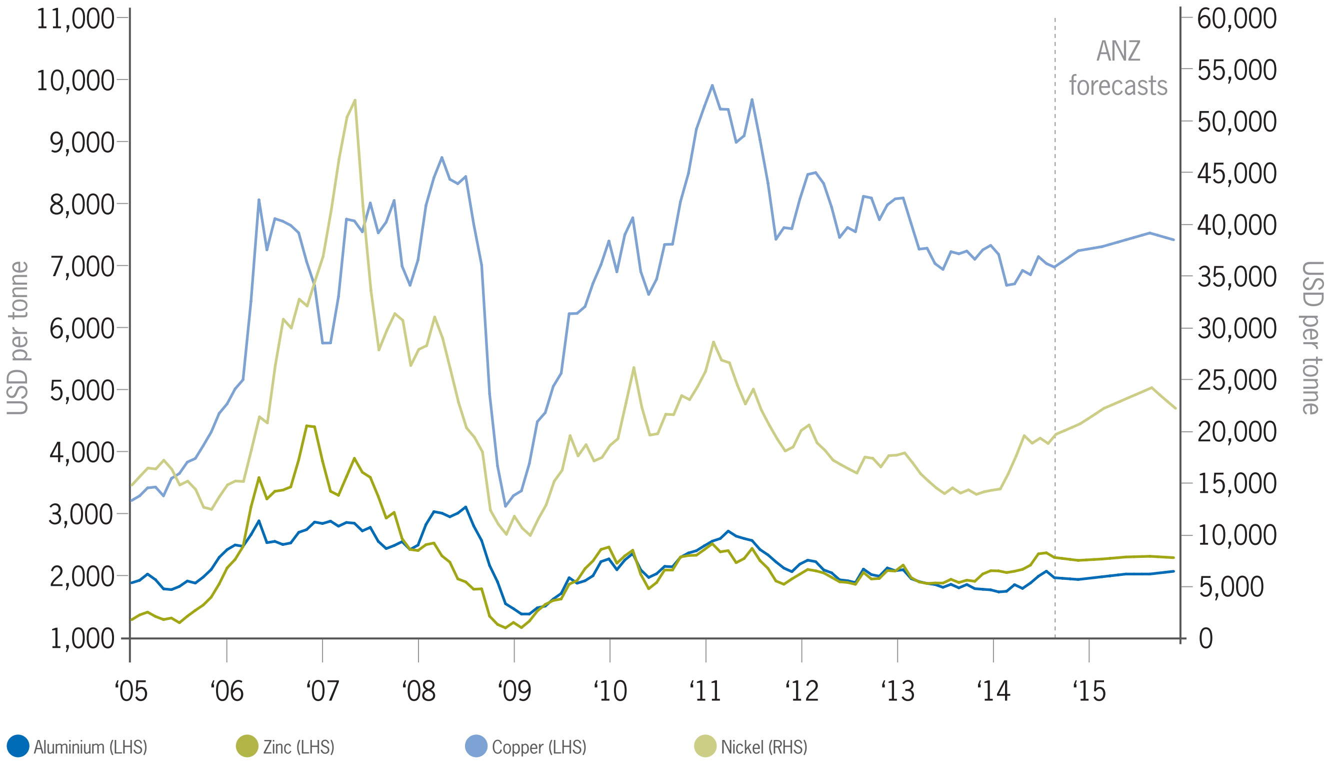
Aluminium markets have been buoyant this year as the market anticipates further capacity cuts in both China and the rest of the world (Figure 9). We are seeing signs that cuts are being reversed as the pressure on Chinese provinces to meet growth targets increases. Thus we view the recent rally as unsustainable and would look to weaker prices in coming months (Figure 10).

Nickel prices stagnated as the market awaited Indonesian election results. Widodo was viewed as pro-investment and thus a trigger for a partial unwinding of the current export ban on raw materials. We expect the ban to remain in place and push the market further into deficit. But with China having built a nine-month stockpile in 2013, the Chinese won't be forced to find alternative sources for their nickel units until Q4 2014.

Copper looks vulnerable enough to slip back through USD7,000/tonne as we approach the normally quiet northern hemisphere summer. Operating rates at copper tube and pipe fabricators fell below 80% mid year, an indication that end-user demand is weak. We would be positioned for some further downside in the short-term.

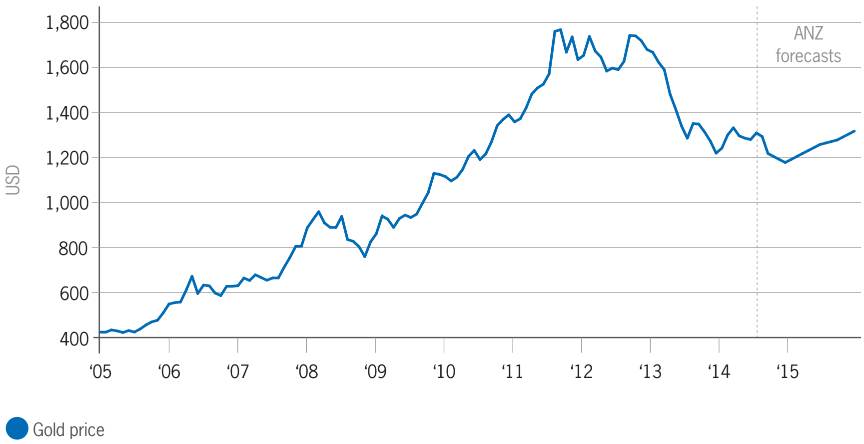
Zinc looks to require further short-term caution following recent strength. The SHFE/LME (Shanghai Futures Exchange / London Metals Exchange) arbitrage has closed (for Chinese importers), as reflected in refined zinc imports. Investor positioning is also building strongly on the long side as it becomes a consensus trade. The medium-term, however, still looks positive as weak supply growth pushes the market further into deficit.

Figure 10: Base metal price forecasts



Source: Bloomberg, ANZ Research

Figure 11: Gold price



Source: ABS, Bloomberg, ANZ Research

Commodities outlook conclusion

The key lesson here is that not all commodity markets are the same despite the uncertain global backdrop. So, while the overarching global factors are certainly very important for each commodity market, each market often has its own bespoke factors that can influence actual and expected prices. A key lesson from recent years, however, has been that some of these factors can be anticipated but some cannot (for example, changes in government policies in some commodities markets). Factoring in the potential for unexpected developments is vital.

Precious metals

Geopolitical tensions have taken centre-stage for the precious metals markets. Gold may find near-term support, though the state of physical demand suggests prices are likely to retrace lower over the medium-term.

Chinese demand for physical gold remains largely on the sidelines and we see further weakness in coming months (Figure 11). What was a key supportive factor for the gold market last year is proving to be a benign one currently. China's weak gold import volumes, down 14% year on year in the first half of 2014, confirm the softening in demand. An onshore stock build in China of over 100 tonnes in Q1 2014 is also having a dampening effect on fresh imports. In India, the lull in the festival/wedding season until November will see physical premiums subdued.

Constraints on growth

A lack of equity capital is again the number one constraint on business growth for JUMEX companies.

As a result of challenging fund raising conditions, 60% of respondents experienced working capital constraints during FY14. The implications of this are numerous, including project delays, limitations on exploration activities, reductions in staff numbers and salaries with management taking an extreme focus on cash balances and spend at the expense of value adding activities.

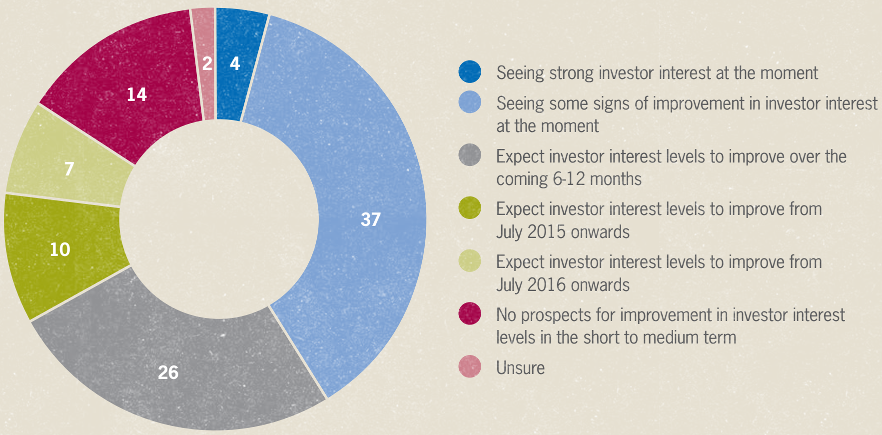
In our 2013 survey, participants predicted that further deterioration of their company's share price would be the fourth most significant constraint to business growth in FY14. However, it came in as the second key constraint to business growth. Frustratingly for many companies, share prices continued to tumble, further hampering efforts to raise capital and increasing shareholder dissatisfaction.

Regulatory challenges has moved up the scale of constraints for Jumex companies. We address this in detail in the report.

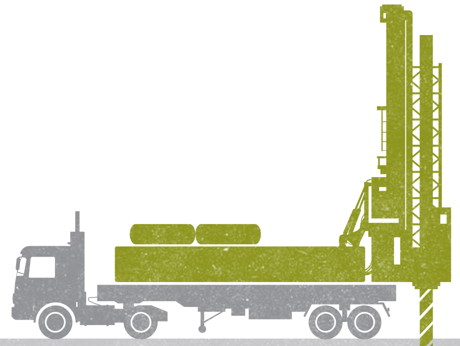
However, there are early signs of improvement. 37% of respondents are seeing signs of improvement in investor interest at the moment, with a further 4% already seeing strong investor interest. Only 14% see no prospects for improvement in investor interest levels in the short to medium term (figure 12).

Respondent quote:
"This is as grim as I have seen it in the past 20 years."

Figure 12: Expectations for investor interest in JUMEX companies (%)



Top 5 constraints to growth



FY15

1. Lack of availability of equity funding
2. Volatility of commodity prices
3. Regulatory challenges (eg project approval delays)
4. General stability of financial markets
5. Deterioration of company share price

FY14

1. Lack of availability of equity funding
2. Deterioration of company share price
3. Volatility of commodity prices
4. Regulatory challenges (eg project approval delays)
5. General stability of financial markets

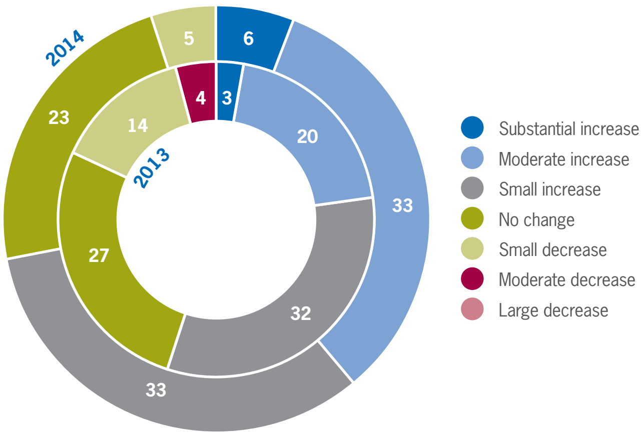
FY13

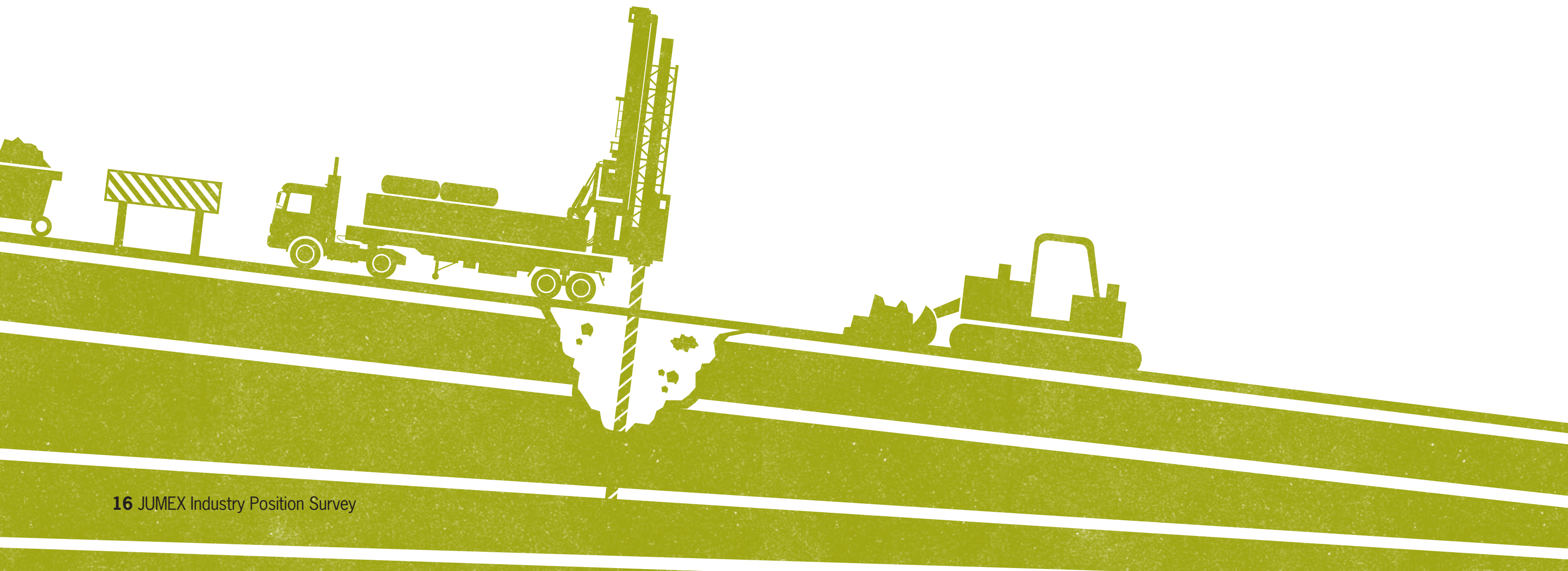
1. Lack of availability of equity funding
2. Volatility of commodity prices
3. Deterioration of company share price
4. General stability of financial markets
5. Lack of availability of debt funding

Constraints on growth

Volatility of commodity prices has slipped one place to the third key constraint to business, remaining a significant challenge. However, JUMEX directors and executives are optimistic that this will improve, with 72% anticipating an increase to the commodity price of their key resource commodity over the next 12 months (2013:56%) and only 5% anticipating a small decrease (2013:18% expected a small or moderate decrease) (figure 13).

Figure 13: Expectations for pricing of key resource commodity in next 12 months (%)





Funding for operations… and growth!

FY14 was another year of extremely challenging capital markets for JUMEX companies, however there are early signs of some light at the end of what has been a long tunnel.

For the third year in row the percentage of companies running a low cash balance has increased (Figure 14). In 2012, only 36% of companies surveyed had a cash balance of under $2 million, compared to 41% in 2013 and 50% in 2014. More concerningly, 18% of companies surveyed in 2014 had a cash balance of less than $500,000. At that level, without supportive shareholders, a company's options are very restricted. Minimal cash is available for value adding activities and there is insufficient cash to fund a significant corporate transaction.

As a reflection of the extent of investor apathy for JUMEX companies, 79% of companies that raised funds during FY14 experienced moderate or significant challenges in doing so (FY13:66%).

Competition for capital remains tight, with 74% of companies anticipating a need to raise funds within one year (FY13:77%; FY12:68%) (figure 15). The most common proposed fund raising methods are private placement (contemplated by 75% of companies) and rights issues (contemplated by 59% of companies). Interestingly, 18% of companies are considering private equity, a source of funding that has historically been infrequently used in the resource sector, but is gaining some attention as industry innovation drives resource focused private equity funds to be established (figure 16).

Companies with particularly low levels of cash and early stage projects are likely to continue to experience very challenging times for the foreseeable future. However, as mentioned, there are early signs of improvement in the prospects of capital raisings. 37% of respondents are seeing signs of improvement in investor interest at the moment, with a further 4% already seeing strong investor interest. We are seeing encouraging indicators from multiple sources that investors are willing to look again at companies with strong, advanced projects.

On funding sources

"While we know that 18% of companies are considering Private Equity (PE) as a source of funding, we would expect that these companies have well developed exploration assets that are close to or in the Bankable Feasibility Stage of their evolution. PE firms by their nature look for returns in the short- and at a push the medium-term, which generally puts this source of funding out of reach for those early stage explorers who need funding the most."

Iain Kemp
Partner – Audit & Assurance

Funding for operations…and growth!

To successfully secure the funds they need, 40% of respondents are expecting to have to price their next equity raising at a significant discount, down from 51% in 2013, but still a substantial proportion of companies.

Pleasingly, exploration has just crept above working capital as the most significant proposed use of funds from the next capital raising. Interestingly, acquisitions have moved to the third priority for future funds, from fifth in 2013, as companies increase their desire to adjust their portfolio of projects to improve investor interest and shareholder returns (Figure 17).

Respondent quote:

"Good projects and new exploration discoveries are being rewarded by the market with share price improvements and availability of equity funds."

Figure 14: Current cash balance (%)

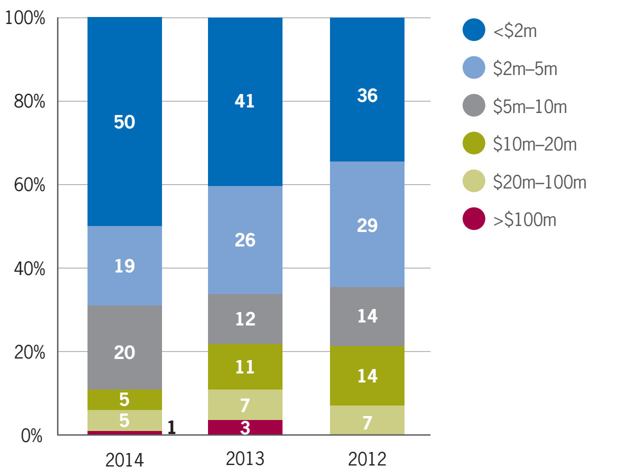
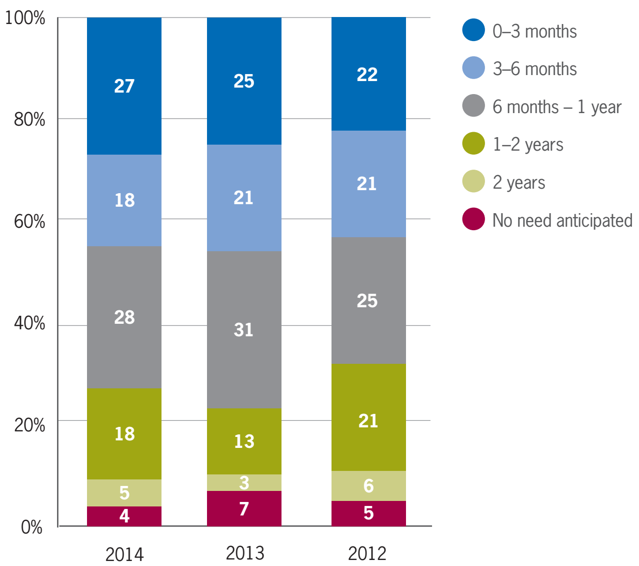


Figure 15: Anticipated timing of next required fund raising (%)



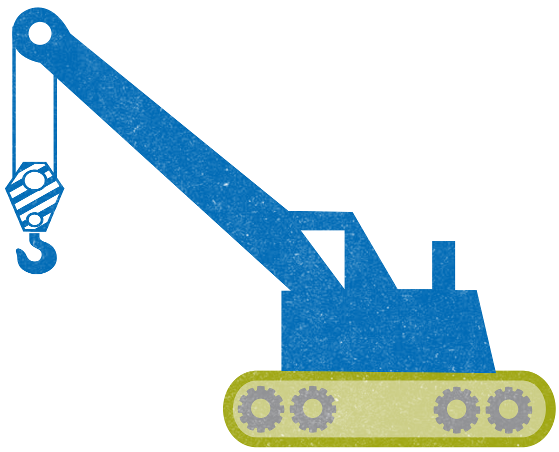


Figure 16: Sources of funds considered for next raising (%)

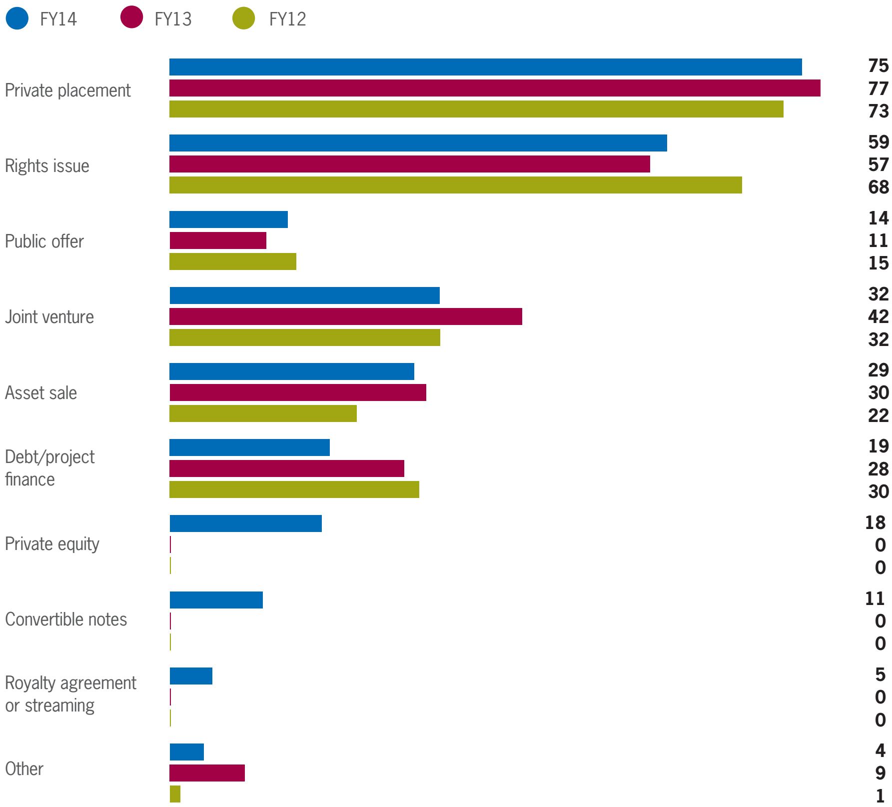
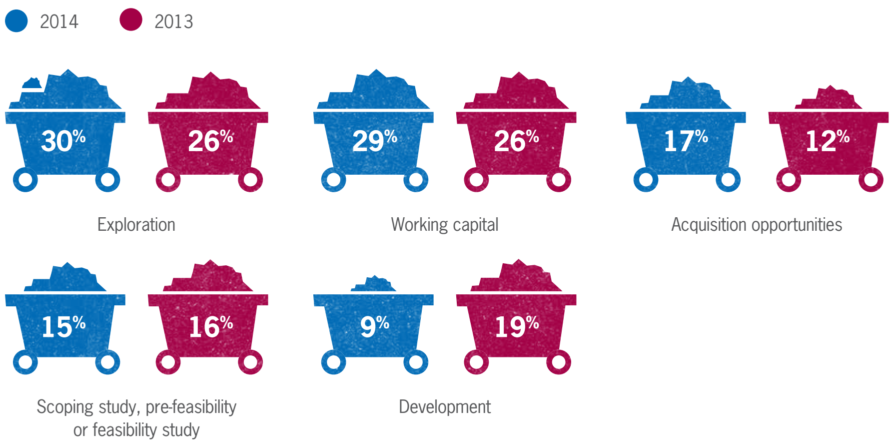


Figure 17: Proposed use of funds as a percentage of all responses (more than one response was permitted)



Respondent quote:

"It feels as though we have seen the bottom [of the cycle] but expect recovery in investor sentiment to be gradual and erratic."

"The increasing length of project lead times has become disconnected with the expectations of the investment community."

As always, certain commodities are more challenging to secure investor interest than others. Coal, for example, is receiving a particularly low level of investor interest currently, whereas other commodities, such as nickel and graphite, are more attractive.

Whilst debt providers still have a strong preference for projects that have been de-risked as far as possible, companies that have robust projects and have secured necessary equity funding can now have a positive experience raising debt. Many companies have struggled to raise the required equity to develop their projects. Therefore, the pool of available projects for debt providers is limited. In these circumstances, favourable terms can be secured through a competitive financing process by companies with appropriate projects.

Funding for operations…and growth!

There was a small improvement in the number of IPOs on the Australian Securities Exchange (ASX), from 71 in FY13 to 78 in FY14 (figure 18). However, FY14 was the year that very large IPOs became possible again, post GFC. Consequently there was a dramatic increase of over 200% in the amount of funds raised on IPO: $12.6 billion in FY14, compared to only $4.2 billion in FY13 and $2.2 billion in FY12. Large fund raisings on IPO included Meridian Energy ($1.1 billion), Spotless Group Holdings ($995 million), and Z Energy $741 million. Similarly, there was a significant increase in the average market capitalisation of companies on IPO in FY14 to $355 million, up from $140 million in FY14. This average is influenced by 11 companies with a market capitalisation on IPO of over $1 billion, including Nine Entertainment ($1.9 billion), Spotless Group Holdings ($1.8 billion) and Genworth Mortgage Insurance Australia ($1.7 billion).

However, despite significantly improved market conditions for new IPOs in general, investor interest in mining IPOs declined even further during FY14. There was an extremely dramatic drop in the number of mining IPOs to only nine in FY14, compared to 32 in FY13 and nearly 100 in FY11 (figure 19).

The controversial U & D Coal listed on the ASX in February 2014 raising $54 million. Excluding that outlier (the next largest fund raising on IPO by a mining company in FY14 was only $6.7 million), the average fund raising on IPO fell from $3.8 million in FY13 to $3.4 million in FY13. Average market capitalisation of mining companies on their IPO in FY14 fell to $20 million, from $27 million in FY13.

Respondent quotes:

"Risk money is slowly becoming available again if the project/prospect has clearly demonstrable chance of success."

"There have been many approaches [from overseas investors], but completing a transaction has not occurred."

"Being innovative some respondents are "issuing capital to future end-users, eg Asian steel mills."

Figure 18: IPOs on ASX

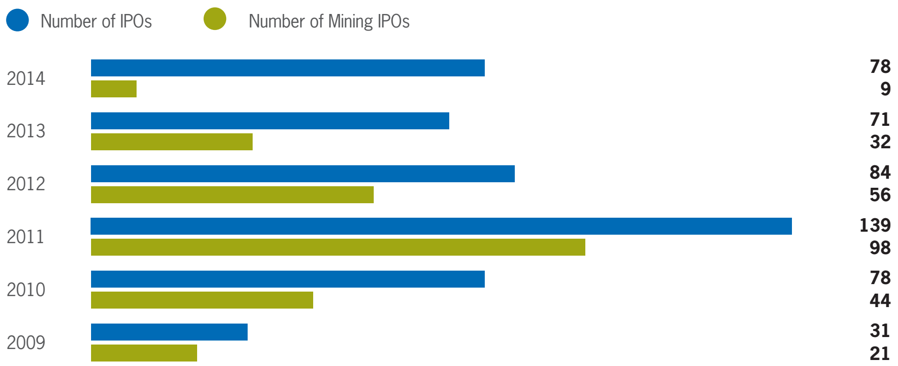


Figure 19: Mining IPOs on ASX

Source: Australian Securities Exchange (ASX)

On M&A activity

"As valuations have continued to fall over recent years, a significant increase in M&A was widely expected. This didn't transpire. However, many believe that the bottom of the cycle has passed, so those companies with cash appear to be more serious about doing a deal. The third highest priority for funds from the next capital raising is now acquisitions and 28% of companies have a key corporate strategy to take advantage of current valuations and secure the acquisition of attractive projects/companies."

Holly Stiles
Partner – Financial Advisory

Realising strategic growth ambitions

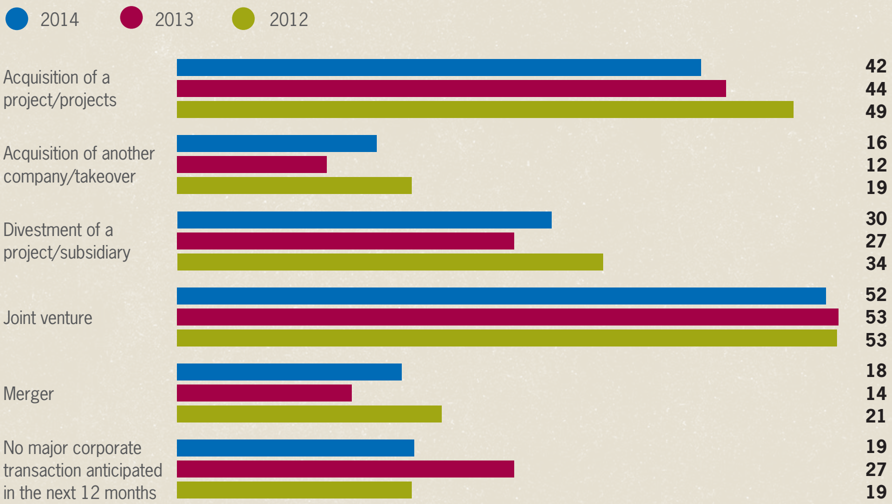
Whilst the Australian and World Share Price Indices continue favourable trends, life for JUMEX companies both locally and abroad remain competitive and difficult. 60% of respondents experienced working capital restraints, and the number of companies looking to dispose of assets or enter into farm-out arrangements continues to be significant.

In order to develop their current portfolio of assets, 68% of companies have an exploration program planned for FY15. 59% of these companies are planning to spend under \$2 million, 25% \$2–5 million and 16% over \$5 million. Other common plans to grow companies' existing assets include geological interpretive or analytical work (43% of respondents) and resource updates (23% of respondents). Only 16% plan a bankable feasibility study or have one underway.

Whilst 61% of companies have a key corporate strategy of focusing on the development of key assets, in an indication of the extent of the fund raising challenges, 44% of companies have a strategy of generally minimising expenditure until the funding position allows increased activities.

Acquisitions of projects or companies continue to be a popular part of corporate strategy for JUMEX companies. 42% of companies are considering an acquisition of one or more projects in the year ahead (2013:49%) and 16% are considering an acquisition/takeover of another company (2013:19%) (figure 20). 28% of respondents stated that a key corporate strategy was to take advantage of current valuations to secure acquisitions of attractive companies or projects. Moreover, as previously mentioned, the third highest priority for funds from the next capital raising is acquisitions, suggesting those companies looking for acquisitions are doing so seriously.

Figure 20: Are you considering any major corporate transaction to grow your business in the next 12 months? (%)



Respondent quotes:

"[Because of working capital constraints] rather than focus on developing our project, we have had to save the company."

"Strategies to manage working capital constraints: retrenchments, salary cuts, disposal of non-core assets, exiting from joint ventures, sale of assets, office relocation, reduction of out-sourced services, increased workload for remaining personnel."

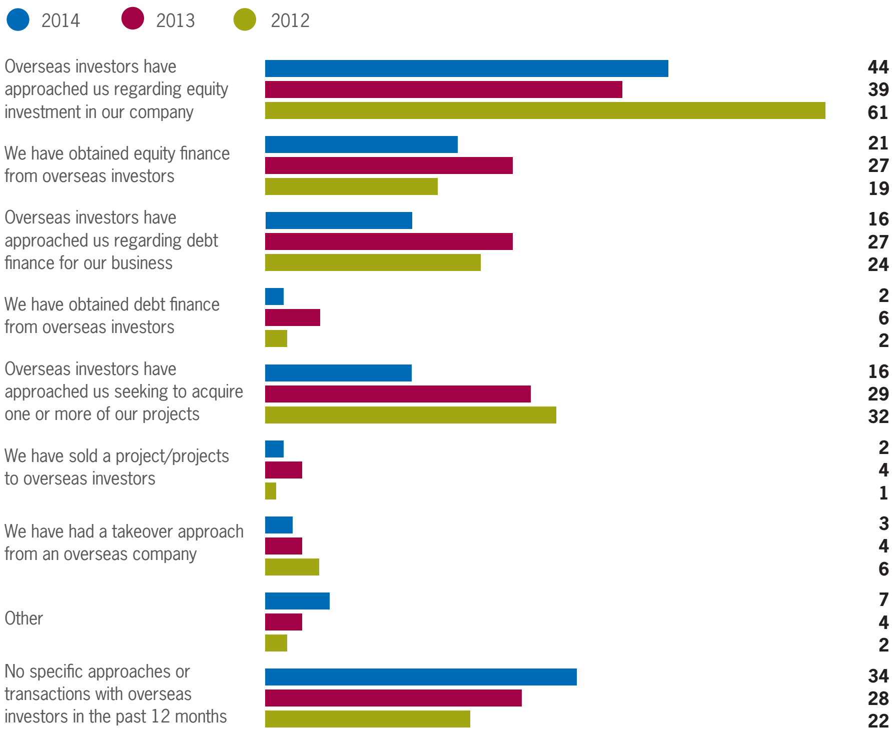
"[Working capital constraints have caused] reduced activities and we have surrendered tenements."

On overseas investment:

"Almost half of respondents have received approaches from China and other overseas markets. This paints a picture that there is inbound investment. Our experience is that whilst there a lot of approaches, the proportion of serious investors who complete an investment transaction is much lower."

Brad Taylor
Partner – Audit & Assurance

Figure 21: What interest in your projects/company have you experienced from overseas investors in the past 12 months? (%)



Australia remains the location most companies are focusing on for new project acquisitions, by some way. Africa is again the next most popular location, closely followed by South America, which has risen in popularity since FY14. The key reasons for selecting these locations are management knowledge of the region, prospectivity of the region and strategic fit with the company's portfolio.

A trend for 2014, and one that is gaining increasing scrutiny as it continues into FY15, is that of backdoor listings (mainly technology companies) into mining shell companies. JUMEX companies that have dwindled down to extremely low cash balances and are unable to attract investor interest in their projects, may have little choice but to consider such transactions.

Overseas investors, particularly from China, Asia, Europe and North America, continue to make approaches to provide equity and/or debt funding and to acquire projects or JUMEX companies through takeovers (figure 21). 44% of respondents were approached by overseas investors regarding equity investment (FY13:39%) and 21% secured equity investment from overseas investors during FY14 (FY13:27%). There were areas of declining interest in FY14, for example, only 16% of respondents had been approached by overseas investors regarding debt finance (FY13:27%) and only 16% had been approached regarding a project acquisition (2013:29%) (figure 21).

Investors from China were the most active, with 48% of companies approached by overseas investors having been approached by Chinese investors, who are mostly focused on companies at the development phase rather than exploration projects. The next most active were investors from North America (40%), Asia (40%) and Europe (38%).

On innovating:

"We are certainly in an interesting market place. Consistent with the survey results we are seeing exploration companies face very bleak times due to the lack of capital. We are seeing a number of larger international companies pull out of the Western Australian market and small to mid-sized companies are picking up these assets at bargain basement prices because these small to mid-sized companies have different cost structures and different hurdle rates they are gaining appropriate returns for their investments.

"Some companies are also looking at bringing brownfield sites back into production, again through different cost structures. Growth in some commodity prices like nickel and capital starting to be made available for sites that have a short lead time to production is becoming viable."

Peter Hills
Partner – Tax

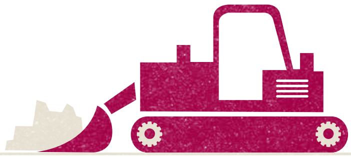
Regulation and reform agenda

There have been a number of significant regulatory improvements in the past year, with the repeal of the carbon tax and the Mineral Resource Rent Tax (MRRT), the proposed introduction of the Exploration Development Incentive (EDI) and the signing of the Japan-Australia Free Trade Agreement in early July 2014. However, companies need consistency of policies to effectively plan and to restore investor confidence.

The issue of red tape was again identified by respondents as the third most significant anticipated constraint to business in FY14 (after the lack of available equity funding and the volatility of commodity prices). It is also the third major issue for the mining industry as a whole (after lack of available finance and the impacts on future discoveries of declining exploration expenditures).

Regulatory challenges come in many forms. For those respondents that identified regulatory issues as a constraint to business growth, cultural heritage issues, delays or challenges in obtaining environmental approvals and land access issues were the most common contributing factors (figure 22). Some companies were impacted by local, country-specific regulatory issues for overseas projects. JORC 2012* has also caused concerns amongst some JUMEX companies, who believe that it has restricted their ability to properly communicate the actual size of their resource.

In the absence of any operational details on the Exploration Development Incentive (EDI) at the time of the survey, it is not surprising that the EDI appeared not to be fully understood by JUMEX companies. As the EDI is legislated and implemented JUMEX companies will undoubtedly gain an increased understanding of the operation of the program and the demonstrated benefits.



On exploration incentives

"Respondents have supported for a number of years an innovative tax measure to assist JUMEX companies raise high-risk equity capital for greenfields exploration in Australia.
The EDI is a significant step forward for the industry.
It must now be legislated and implemented as quickly as possible to realise the benefits and restore Australia's competitiveness.
The EDI is a starting point from which the program can be extended and increased beyond the current forward estimates."

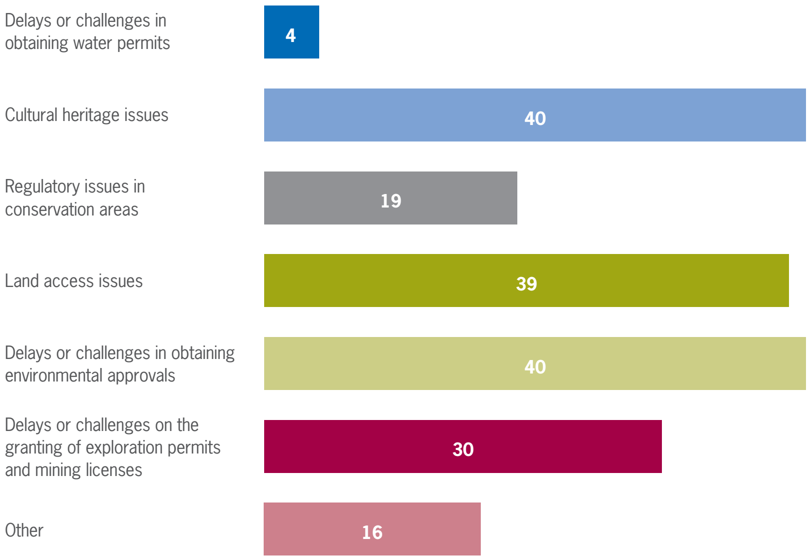
Peter Hills
Partner, Tax

*The Joint Ore Reserves Committee (JORC) produces The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ('the JORC Code') is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves. The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in Public Reports.

The Japan-Australia Free Trade Agreement is a significant step in securing the long-term competitive position of the broader Australian economy. This is particularly relevant when you consider a number of our commodity-based competitors already have free trade agreements with Japan.

At a more granular level for the mining sector, it secures tariff advantages for some otherwise adversely impacted commodities and will help us retain our strong market position in coal and iron ore.

Figure 22: If regulatory challenges have been a constraint to business, what have been the main issues? (%)



Respondent quote:

"R&D claims [have] been a 'lifeline' of support for a sector which will one day provide substantial revenue, employment and boost to regional economies"

On competitive differentiation

"The signing of the Japan-Australia Free trade agreement enhances Australia's relative competitive position with a major trading partner, and is great news for the sector."

Brock Mackenzie
Partner – Audit & Assurance

On regulatory challenges:

"Regulatory challenges are the third most significant constraint to business. Last year, *AMEC reported '67% of exploration funds raised on the ASX went to international projects'. Our concern is: Is it becoming too difficult to do business in Australia?"

Nicholas Smietana
Senior Manager – Audit & Assurance

Respondent quotes:

"We've experienced delays due to heritage matters regarding native title."

"Lack of Government stability and more red tape."

"Bureaucratic processes (Mines Dept, ASIC, ASX) are so onerous now that exploration cannot be conducted in timely fashion. Often juniors will be in breach of expenditure commitments because processes (Heritage, Native Title, Environmental surveys are not completed within a reasonable time to allow the planned exploration work to be carried out in the usual field season. So when the annual review comes around the work has not been done to the total dollar amount specified and the DMP is rarely if ever prepared to allow concessions for the timing problems. This then leads to extra costs to be incurred as lawyers are engaged to ensure that affidavits are lodged and the whole process gets dragged out [even] longer."

[State government exploration initiatives] have not had an impact YET but will in coming months assist us to expand exploration."

"A significant constraint is dealing with historical rights attaching to project areas."

* http://www.aig.org.au/tag/mineral-exploration/

Winning the talent battle

With the local new project pipeline slowing as larger miners focus on productivity imperatives (efficiency programs) and JUMEX companies remaining cash constrained, the employment outlook remains soft. Consequently, it is no surprise that the talent shortage reported as a major constraint in the 2010 to 2012 JUMEX surveys is no longer an issue.

Employment grew in the mining sector by 6,100 (or 2.3%) over the year to November 2013, well below the average annual growth rate of 11.5% recorded over the past 10 years. The medium term outlook also remains challenging when one considers the overall employment outlook for the broader economy of a 7.2% increase to November 2018 and the equivalent forecast for mining is a decline of 4.5%.

With tight funding impacting exploration strategies it is no surprise that unemployment amongst Australian geoscientists is at its highest level since records began, as reported by the Australian Institute of Geoscientists.

The medium term outlook remains challenging when the overall employment outlook is considered for the broader economy of a 7.2% increase to November 2018 and the equivalent forecast for mining is a decline of 4.5% as reported by the Department of Employment (DOE) (figure 25). This forecast is particularly given employment in mining more broadly, actually grew 2.3% during 2013.

Respondents to the 2014 survey have broadly adopted a wait and see approach as 44% (2013:39%) indicate that they are planning for head count to remain broadly the same while 10% are unsure of hiring intentions at this stage and only 25% (2013:32%) are taking an expansionary view. On a slightly more positive note the percentage of companies looking to reduce head count declined from 29% in 2013 to 22% for 2014 (Figure 26).

On employment conditions:

"A combination of difficult capital and commodity markets, in conjunction with an underlying structural transition (new mines transition from the construction phase to the less labour intensive operational phase) in the mining sector are creating adverse short and medium term employment conditions."

Brock Mackenzie
Partner – Audit & Assurance

Figure 24: Projected employment growth ('000) by Mining industry sector – five years to November 2018 according to Department of Employment paints a bleak picture for explorers as follows:

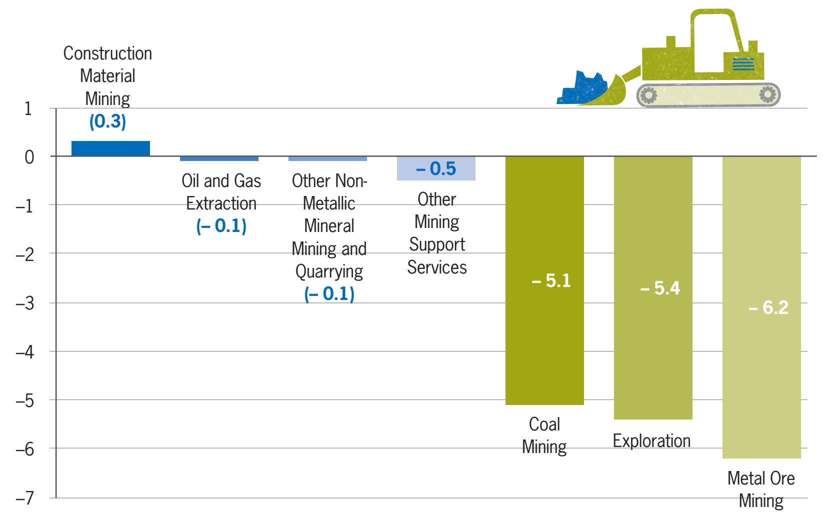
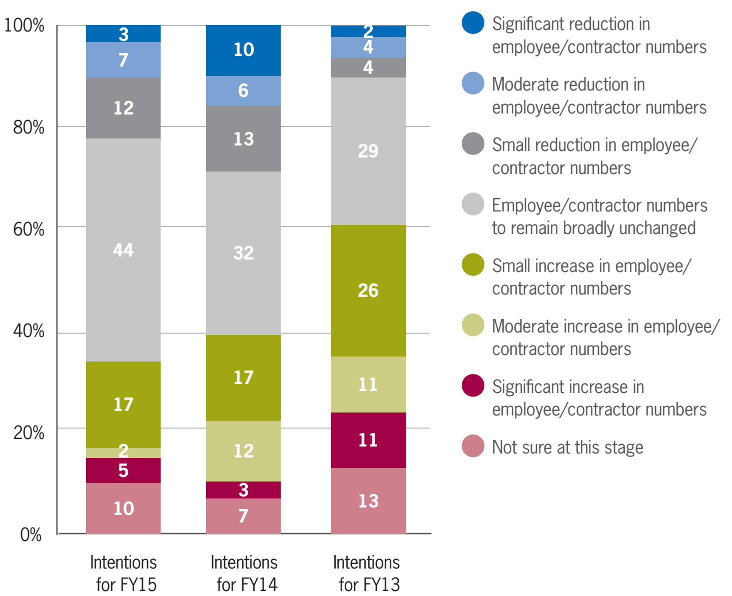


Figure 25: What are your intentions regarding employment of staff in the year ended 30 June 2015? (%)



On employment constraints

"A major public policy issue confronting the government is to reverse the most recent mining sector employment trend."

Brock Mackenzie
Partner – Audit & Assurance

Remuneration mechanisms remain largely consistent with the preferred non cash form of remuneration remaining equity based remuneration. 65% of companies (2013:64%) are supplementing base remuneration with share based payments. 28% of companies offer flexible working hours and 17% pay cash bonuses.

Survey methodology

Location of flagship asset

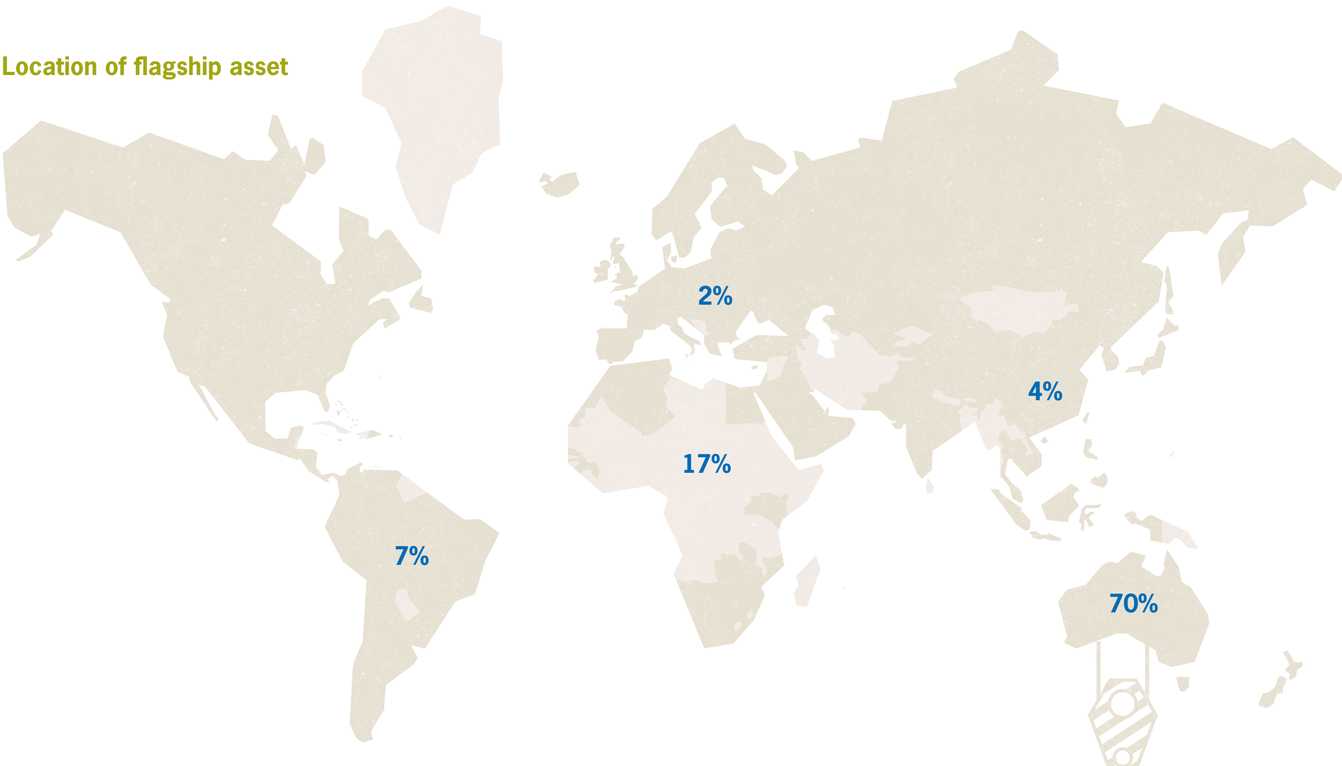


Figure 26: Key resource of flagship project (%)

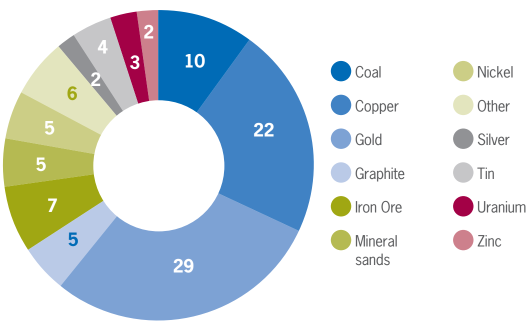
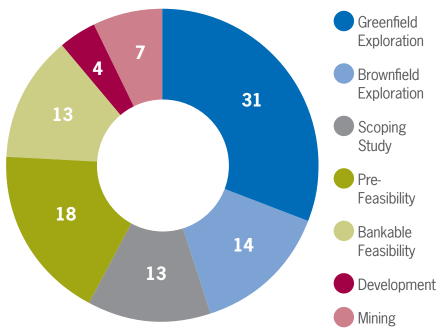


Figure 27: Stage of flagship project (%)

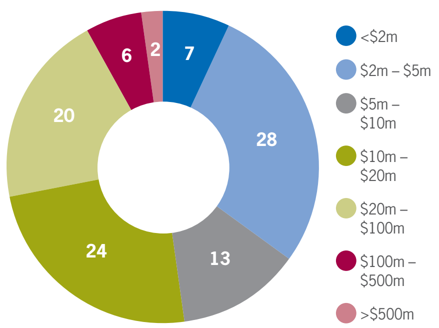


About the survey

This is the fifth survey of junior mining and exploration companies commissioned by Grant Thornton Australia.

The survey was conducted via a combination of online surveys and face to face interviews during July and August 2014, with 100 responses received. 52% 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.

Figure 28: Current market capitalisation (%)



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Our sincere appreciation is extended to those that assisted us with this research and contributed to developing our deeper understanding of the market. We reached out to and were supported by a number of parties including:

ANZ provide a range of banking and financial products and services to around eight million customers and employ 48,000 people worldwide. Thank you in particular to Justin Fabo who assisted with the macro-economic view and commodities outlook which is presented in the paper.

The Association of Mining and Exploration Companies (AMEC), which is the peak industry representative body for mineral exploration and mining companies throughout Australia. Our sincere thanks to Simon Bennison and his team for participating in our boardroom research discussions and helping us communicate the results.

The Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE) in South Australia for their guidance and insight into public sector initiatives. Now positioned within the Department of State Development (DSD) its mandate in terms of minerals and energy resources is to facilitate mineral, petroleum and geothermal exploration and development within a sustainable framework by providing geoscientific information and data, industry regulation, and legislative and policy development. Thank you to Dr Paul Heithersay and his team for the guidance on the issues in the public sector and the ability to collaborate in terms of our research findings.

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AMEC
ASSOCIATION OF MINING
AND EXPLORATION COMPANIES

Government of South Australia
Department of State Development

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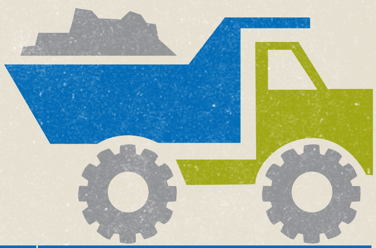

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