

Opinion

FROM THE CAPITAL

Going for broke

The funding well is running dry for many companies. But it won't stop some from trying to find the big one

John Robertson

Fewer than one in 10 of Australia's listed mineral explorers had enough funding at the end of March to last another year, according to a report from international accounting firm BDO as it confirmed the parlous financial state of the industry.

BDO has aggregated the operational and investing cash flows for the 793 ASX-listed mineral exploration companies filing an Appendix 5B report for the March quarter. The results of its study will not surprise those in the industry facing some of the bleakest times in its history. Nor, at face value, will it do anything to encourage investors to give the sector a second look.

Nearly one-third of the companies had conducted no activity or spent less than A\$10,000 (US\$7,430) in the quarter.

At the other end of the scale, 11% of companies spent more than A\$1 million on exploration, but this was half the 173 companies that spent more than \$1 million in the June quarter of 2013. The average exploration spend fell for the fifth consecutive quarter to \$539,000, well down on the \$980,000 average in the June 2013 quarter.

There was light at the end of the tunnel for a handful. BDO found four companies had moved from exploration to production and were no longer required to submit an Appendix 5B report.

Mining juniors are used to running with low cash balances topped up periodically with fresh equity from supportive retail investors, but are now hovering closer to the edge. Over one quarter of companies had only enough cash on hand to last another three months at the existing rate of use. Forty three percent had enough to last only two months.

Without an almost immediate improvement in the appetite of investors to fund activity, an end to meaningful exploration for a large proportion of the companies working in the industry appears imminent.

More companies are likely to drop out of the industry and the listed space. The pace of attrition has so far been modest given the unprecedented nature of the pressures. Only 11 companies were delisted or suspended during the quarter and no longer obliged to file.

A company with less than \$1 million will need to decide quickly the best way forward. Some will choose the bare bones strategy of spending only on essentials in the hope that market conditions will improve quickly



enough for them to survive. Companies with multiple exploration sites will find having more than one area to work is now a financial albatross, not the prized strategic position it was once thought to be.

To help sustain cash levels some are relinquishing areas to other better financed companies or companies on the lookout to upgrade the quality of the assets they are working. Selling off large slices of the more attractive prospects to better-funded joint-venture partners gains time, but is whittling away investor exposure in many instances.

So, the scene can be thoroughly dispiriting for those brave few investors still prepared to venture into the sector. But it is possible to put too much emphasis on the financial positioning of exploration companies in coming to a judgement about their investment prospects.

Mark Bennett, the managing director of Sirius Resources, has described how the Nova nickel discovery in 2013 had been the last throw of the dice for him. There would have been no more cash for another hole. Sirius is now regarded as one of the success stories of the Australian industry. Sandfire Resources, in its official history, describes a similar predicament in 2009 when it earmarked just \$200,000 for a last ditch drilling programme to find something "to keep the lights on".

A spate of recent mineral discoveries have highlighted how exploration success does not always come with financial strength.

Impact Minerals spent \$1.1 million in the March quarter and ended the quarter with a similar amount, making it one of those companies contributing to the dreary picture painted by the BDO report. In May, the company reported a high-grade platinum group metal find on its tenements near Broken Hill.

The Peel Mining share price tripled in June after it reported high-grade lead-zinc-silver

results at its Mallee Bull prospect near Cobar in New South Wales. It was one of the companies that had not spent anything on exploration in the March quarter because its joint-venture partner was footing the bill to earn a 50% interest. Peel finished the quarter with a relatively healthy \$2.3 million and a \$534,000 June quarter budgeted spend.

There was another near share price tripling after Talisman Mining and Sandfire Resources announced high-quality drill results at the end of June at the Monty prospect near the Degussa mine. The relatively well endowed Talisman, which has had to give up 70% of the Monty prospect to Sandfire, spent \$930,000 in the March quarter. It still had \$5.9 million in the bank after a well-timed exit from its iron ore holdings in 2011, but was working to a \$1.5 million budget in the just completed June quarter, making it another with less than one year to go at the current spending rate.

Enterprise Metals, a near neighbour of Talisman and one of the market beneficiaries of the Monty results, had spent \$300,000 in the March quarter and was heading into June with a \$170,000 budget and \$403,000 in the bank.

The best exploration results are typically the culmination of many years of activity. Within Australia, over half the spending on exploration over the past 10 years has occurred since 2011, according to the Australian Bureau of Statistics. Given typical gestation times, a pipeline of discoveries with their genesis in much earlier spending, remains possible.

Investment values have plunged but, as markets are trying to define a cyclical trough, against all expectations and despite their parlous financial condition, explorers might still make a positive contribution. ▼

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