



Business News (WA)

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Explorers find their project flow

With explorers well funded and strong commodity prices, all signs point to a lengthy period of activity.



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ASX-LISTED juniors would no doubt be grateful for the fruits of Western Australia's Archean geological eon, which has provided for a bountiful past year in exploration.

Satisfied, too, would be the investors who helped those companies raise more than \$9.6 billion in 2021 to fund their pursuits.

That figure comes from research by former geologist and Austex Resources managing director Rob Murdoch, who runs the independent research company from Brisbane.

"WA is a pretty big market for juniors; in fact, it is the market for juniors," Mr Murdoch told *Business News*.

He said the combination of increased knowledge in the sector, coupled with WA's rich resources, had helped cultivate a prominent junior mining culture in the state in recent years.

"You've just got that old Archean geology in WA that's prospective for everything," Mr Murdoch said.

"If iron ore's a go you can usually find some iron ore, if gold's a go you can usually find some gold in there, now everyone's finding lithium everywhere."

That geology has brought several WA-based juniors to prominence this year.

Among those are Chalice Mining and its spectacular Julimar discovery, one of the largest nickel finds in decades, De Grey Mining's Hemi gold deposit, and Liontown Resources' Kathleen Valley lithium project.

Cash call

Explorers across Australia spent \$973 million for the December 2021 quarter, the highest figure since 2013, according to BDO's most recent explorer quarterly cash update.

The quarter also featured 40 IPOs by exploration companies, which BDO said was surprising for the tail end of the year, out of about 104 for the 12-month period.

BDO global head of natural resources Sherif Andrawes said the amount of money these companies had raised was indicative of the strong interest in the sector.

"It has been busy in terms of the quarter but also for the year of 2021," Mr Andrawes told *Business News*.

"Every quarter of the last few

years there's been increasingly more exploration expenditure, increasingly more money being raised and increasingly more listed companies.

"Interest in the sector continued in the last quarter, raising more money than the previous, which is almost a record itself."

Gold emerged as one of the leading commodities in terms of fundraising, according to BDO, raising \$1.9 billion in 2021 on the back of \$US1,800 per ounce spot prices.

Oil and gas also featured strongly with raisings of \$477.5 million in 2021, while support for sulphate of potash exploration fell to \$254.2 million from \$528.4 million in calendar 2020, according to BDO analysis for 2020.

But it was lithium that piqued investor interest consistently over the year, accounting for \$918 million in the December quarter alone out of just over \$2 billion for the calendar year.

Driving this lithium renaissance were high prices, spurred by threats of supply shortages and the promise of a global energy transition.

Indicative of this was the support for Liontown Resources' monster

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\$450 million capital raising in December to bankroll the first stage of its Kathleen Valley project in WA's Goldfields.

That's even after it undertook a \$52 million capital raising in July.

WA-based lithium play Vulcan Energy Resources, which is working to establish what it claims would be a world-first zero-carbon lithium project in Germany, also attracted market attention.

It tapped investors for \$318 million during 2021, including Gina Rinehart.

Also active was Global Lithium Resources, which raised \$10 million from its IPO in April.

Mr Murdoch said juniors had few issues raising cash for their projects, but suggested inflation could slow things down for companies without a solid project.

"There have been some excellent floats," he said.

"But inflation's coming whether we like it or not, in leaps and bounds, so money's going to get tighter.

"So, when some of these companies come back to ... raise more money, unless they've found something then it could be difficult."

Costs rise

Overall, more than \$3 billion was poured into exploration activities during 2021, but not all that money was due to the volume of work.

Difficulties in securing drill rigs and mining equipment, labour shortages and travel restrictions all drove expenditure costs higher, much of it due to COVID-19.

Mr Andrawes said this was reflected in BDO data.

"One thing we saw over the year 2021 ... at the start of the year, companies were raising money quite successfully, but not spending too well," he said.

Exploration expenditure hit about \$549 million for the March quarter compared to \$973 million in the December quarter.

"The last two quarters in the second half of 2021, it increased substantially, so companies weren't able to spend the money," Mr Andrawes said.

"And the reasons behind that are clear.

"They're around the shortage of equipment, drill rigs, those sort of things, shortage of staff and also ability to travel."

Mr Andrawes said this made it harder for explorers – which were generally well funded with an average of \$11 million in the bank at the end of the December quarter – to spend their cash.

"Particularly for those WA explorers who have got projects that might be overseas or even some interstate ones," he said.

"Then over the back end of the year, restrictions were reduced, availability of equipment has increased – although still in short supply – but also there's an element of cost inflation as well."

Mr Murdoch also observed the impact of these inflationary pressures.

"Exploration's getting more expensive," he said.

"We're noticing that to get a successful series of drill holes is probably costing twice as much now as it did two years ago.

"You could put that down to COVID, staff shortages, pressure to find drill rigs etc.

"But also, a big component is people are drilling deeper."

Looking ahead

The sector's next challenge is dealing with an ever-growing Omicron outbreak, something juniors will have to consider in the coming months.

But Mr Andrawes said it was still too early to tell what open borders would mean for the sector.

"Does that mean we're going to have more exploration expenditure? Does that mean people are going to leave or come in? That's this aspect we don't know," he said.

Despite these likely hindrances, Mr Andrawes was optimistic.

"In terms of what we're seeing on the ground, and some of this is anecdotal, there are still IPOs in the pipeline in WA and there's lots of activity for WA companies, whether it's locally or overseas," he said.

"And that's very healthy."

Mr Murdoch said he had no issue with using the word 'boom' to describe what was happening in the resources sector.

"Oil is through the roof, coal is booming, iron ore is improving, lithium doesn't seem to stop," he said.

"We've had a boom and that boom is continuing."

“It has been busy in terms of the quarter but also for the year of 2021

- Sheriff Andrawes



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Sherif Andrewes says explorers
can spend more effectively as
COVID restrictions ease.

Photo: BDO



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COVID-19 posed challenges for explorers looking to source staff and equipment. Photo: Attila Csaszar