AMEC SURVEY 2020
IMPACTS OF COVID-19 ON AUSTRALIAN MINERAL EXPLORATION
EXECUTIVE SUMMARY

AMEC surveyed exploration company members on 7 April 2020 AMEC, less than a month after COVID-19 restrictions were put in place across Australia, to assess the impacts on the industry. The survey was closed on 17 April with 63 AMEC members having responded. The survey focussed on three areas; the companies and their operations, the financial impacts and capital raising, and the impacts on the organisation and their employees.

The survey found that:

- 74% of exploration companies had ceased all or most exploration operations.
  - 47% had ceased all exploration
  - 27% had ceased most exploration
- 74% do not think their cash reserves will last the year
  - 10% less than 3 months
  - 27% between 3 – 6 months
  - 37% between 6-12 months
- Nearly half of these companies had actual or planned redundancies
  - Of those, 97% had actual or planned redundancies of between 1-10 employees
- 75% have already reduced wages or adjusted salaries down for employees.
- 69% did not believe it would be possible to capital raise in the next 6 months.

Cutting exploration programs and standing down staff are the primary two cost cutting option companies have within their control, putting a considerable number of jobs in the exploration industry at immediate risk.

The majority of mineral exploration companies surveyed employ somewhere between 2 and 10 people, and there are some 346 Australian focused mineral exploration companies listed on the ASX.

Some 500 - 600 jobs across our industry are now at serious risk.

Without assistance from Government, these impacts are having dire consequences for the exploration industry in Australia, and for the ability of Australia’s mining industry to find and develop new major projects ready for investment to support Australia’s economic recovery.

About AMEC

The Association of Mining and Exploration Companies (AMEC) in a national industry body representing over 275 member companies active in the mining and mineral exploration sector across Australia.
INTRODUCTION

Mineral exploration companies are the heart of the minerals industry. These agile companies find 60-70% of the discoveries that provide the pipeline of new projects for development.

The mining and exploration industry make a critical contribution to the Australian economy, employing over 255,000 people. In 2017/18, these companies collectively paid over $31 billion in royalties and taxation, invested $36.1 billion in new capital and generated more than $250 billion in mineral exports.

In 2017/18 Australian mining and exploration companies invested $1.97 billion to discover future mines.

COVID-19 has essentially re-written the rule book for work in Australia, having an immense impact on all aspects of Australian life. Governments around Australia have put in place a wide range of restrictive measures to slow the progress of the virus and to protect the safety of all Australians. Together these are having a profound and powerful impact across our society, our economy, and our mining and exploration industry.

While partially exempt from travel restrictions, our industry is not immune from other impacts of COVID-19 which has all but killed investment appetite for exploration, meaning that companies are unable to attract private investment to continue exploration and fund their operations.

AMEC surveyed a number of our exploration companies to better understand the ways COVID-19 is affecting exploration, and what this will mean for our industry and those that work in it.

AMEC EXPLORATION SURVEY

AMEC surveyed exploration company members on 7 April 2020, less than a month after COVID-19 restrictions were put in place across Australia, to assess the impacts on the industry. 63 AMEC members responded. The survey focussed on three areas, the companies and their operations, the financial impacts and capital raising, and the impacts on the organisation and their employees.

Companies and Operations

Of the responses, three quarters (75%) of these had operations in Western Australia, 11% in Queensland, Northern Territory, and South Australia respectively. 10% in New South Wales, and 3% percent in Victoria and Tasmania. Many companies explore in multiple jurisdictions.
Number of ASX Listed Mineral Resources Companies

<table>
<thead>
<tr>
<th>Total Number of ASX Mineral Resources Companies</th>
<th>692</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies with Head Office Overseas</td>
<td>14</td>
</tr>
<tr>
<td>Australian Based Companies exploring Overseas Only</td>
<td>205</td>
</tr>
<tr>
<td>Australian Based Companies with Mining Interests</td>
<td>117</td>
</tr>
<tr>
<td>Australian Based Companies that Solely Explore</td>
<td>246</td>
</tr>
</tbody>
</table>

* Based on AMEC review of ASX Data

Australian Focused Mineral Exploration Companies listed on the ASX – By Location

AMEC has also collected data based on where each listed Exploration Only Company has tenure or exploration participation.

<table>
<thead>
<tr>
<th>State / Territory (head office is location)</th>
<th>Exploration Companies (Head Office Location)</th>
<th>Exploration Companies (Where exploring *)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>36</td>
<td>68</td>
</tr>
<tr>
<td>Queensland</td>
<td>22</td>
<td>93</td>
</tr>
<tr>
<td>Victoria</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Western Australia</td>
<td>242</td>
<td>265</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>-</td>
<td>70</td>
</tr>
<tr>
<td>South Australia</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Tasmania</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>TOTAL Companies</td>
<td>346</td>
<td></td>
</tr>
</tbody>
</table>

* Many companies operate and explore in multiple jurisdictions
**Exploration operations activity**

During the past month nearly half (47%) of the companies that responded had ceased all exploration operations. Another 27% had ceased most exploration, with only 7% experiencing no change.

![Fig. 1](image1)

**Access to operations**

Access to exploration operations varied, with 32% having unchanged access. Nearly half were allowed access with modifications, and one quarter having no access at all.

![Fig. 2](image2)

**Impact of access**

Of the 26% that had no access, we asked if they were allowed access, would they be able to continue their operation, 74% responded that they would.

![Fig. 3](image3)
Cash Reserves

Over a quarter (26%) reported having cash reserves of less than $1M, and 15% having less than $500k.

Over half of the companies surveyed had cash reserves of under $2M.

The BDO Explorer Quarterly Cash Update: December 2019 reported on the quarterly cash position of ASX listed mineral exploration companies. The BDO report stated that 40% of ASX listed mineral exploration companies reported less than $1 million cash at bank in the December 2019 Appendix 5B reports\(^1\). In the AMEC Survey (with a smaller sample size) 25% of companies had less than $1M in cash reserve.

Research conducted by AMEC of publicly listed information ASX disclosures showed that the average mineral exploration company in Australia spends approximately $1.5m a year on holding costs / overheads (fees, rates & staff) before undertaking any exploration.

This means that for 40% of the market (and 25% of AMEC survey respondents) now has less in cash reserve, than will be required to meet their upcoming costs.

Expiration of Reserves

Without the ability to raise capital, almost three quarters (74%) of respondents thought their cash reserves would last less than a year. Only a quarter (25%) considered they had cash reserves to last beyond a year.

Capital Raising

Companies were also asked when they thought it will be possible to do a raising/issue which would provide more than a year of working capital. Of the responses, over half (51%) thought it would at least be between 7 – 12 months before this could happen. A further 18% thought it would be over a year away.

These responses mirror the recent lack of listings of mineral exploration companies on the Australian Securities Exchange (ASX), a common pathway for raising investment capital. So far in 2020, there has been only a single mineral exploration company listed on the ASX². Last year there were five, and in 2018, 35 listed. While 2018 now sounds comparatively large, in 2011, 71 listed and in the halcyon days of 2006, 126 companies listed.

Share prices

As expected, share prices and values for exploration companies have mostly decreased, with over half of respondents reporting a value decrease of more than 20%.

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Not all companies have been equally impacted. The market has favoured gold explorers, and rewarded companies with good drilling results with increases in share prices.

**Staff and employment**

Members were also surveyed about the impacts of COVID-19 on their employees and organisation.

Company sizes ranged from small operations consisting of a few people to larger companies of 21+ employees.

The majority of Mineral exploration companies surveyed employ somewhere between 2 and 10 people. They will also have a Board, usually comprised of 3 Directors, and an often-part-time Company Secretary.

A typical organisational chart:

- Managing Director / Chief Executive Officer
- Technical Director / Exploration
- Exploration Manager / Geologist (Exploration, Resource, Field)
- Office Manager / Administration

All of these roles are under imminent threat, depending on the cash reserves held by the company. Continuing to pay all employees’ salaries will no longer be an option for most exploration companies. In many cases, only one employee will remain to keep the business running.
Actual and planned redundancies

When asked about actual and expected redundancies due to COVID-19, over half had reported already laying off staff or were planning to in the coming 3 months.

Of those, 89% were planning on or had made 1 to 5 staff redundant.

Salaries

Three quarters of members surveyed also reported they had or were planning to adjust salaries in the next 3 months. This included deferred payments, script in lieu, or other non-cash adjustments.

A typical example now taking place in industry, is a salary reduction of 20% and a hour’s reduction of 20% - meaning those still employed are taking home 40% less each week.

With 346 Australian focused mineral exploration companies listed on the ASX, and 1-3 jobs likely to be lost in each of these companies, some 500 - 600 jobs are now at risk.

When including private companies, a further 50 – 100 jobs are potentially at risk.
CONCLUSION

Small Australian mineral exploration companies were already facing increasingly difficult financial markets. Many companies were last able to raise funds in late 2017 and early 2018 when the investment market was very receptive. The last 18-24 months has seen a very flat investment environment and companies have been expending / exhausting their reserves on exploration programs through this period, needing to return to market this year to raise further capital. But with the COVID-19 crisis, these companies will have little to no opportunity for capital raising for at least the next six months.

Mineral exploration companies are now entering a critical period, from which they may not emerge without cost and financial assistance from government. These companies need cost relief and/or financial assistance to get through this period.

While it may appear from the outside that these companies can wait for assistance, this is not the case. Decision to cut costs, cut salaries and stand down staff are already being made, as it becomes apparent that many companies will not be able to continue exploration programs, due to lack of access from new restrictions and a lack of capital to fund these activities.

Without such support, many jobs will be lost across our industry in key positions, and these people will end up requiring other financial assistance from Government.

We also cannot ignore the obvious downstream impacts for the drilling industry and mining service providers that rely on exploration. There are hundreds of small companies that service and support our industry that will also feel the flow on effects.

The results of the AMEC Exploration Survey clearly demonstrate the significant impact that COVID-19 is having on exploration companies and exploration.

Our industry will play a central part in helping Australia recover from the financial costs of COVID-19 through royalties and taxation, as well as jobs for the regions and communities. While the health, safety and wellbeing of Australians must remain the focus through COVID-19, we also need to think about supporting industries that will be critical in helping Australia to get back on track.
<table>
<thead>
<tr>
<th>Chart</th>
<th>Survey Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fig. 1</td>
<td>Have you ceased or cut-down your exploration during the past month?</td>
</tr>
<tr>
<td>Fig. 2</td>
<td>Are you allowed access to any of your areas of exploration / operation?</td>
</tr>
<tr>
<td>Fig. 3</td>
<td>If No, would you be able to operate / explore if access was granted?</td>
</tr>
<tr>
<td>Fig. 4</td>
<td>What are your cash reserves?</td>
</tr>
<tr>
<td>Fig. 5</td>
<td>Without any capital raising how long do you think your cash reserves will last?</td>
</tr>
<tr>
<td>Fig. 6</td>
<td>When do you think it will be possible to do a raising / issue which would provide greater than 1 year of working capital?</td>
</tr>
<tr>
<td>Fig. 7</td>
<td>Since March 1 has your share price / market cap increased or decreased. If so, by how much?</td>
</tr>
<tr>
<td>Fig. 8</td>
<td>Number of employees</td>
</tr>
<tr>
<td>Fig. 9</td>
<td>Have you already or will you lay off / retrench staff in the next 3 months, if so, how many?</td>
</tr>
<tr>
<td>Fig. 10</td>
<td>Have you already, or will you, adjust salaries in the next 3 months? This includes deferred payments, script in lieu, or other non-cash adjustment?</td>
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</tbody>
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