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Results pending

Why Rocworth exists

The two words

Results pending. Arguably the hardest working two words in the junior exploration sector's vocabulary. Their intent is plain enough. They whisper to the retail investor buy now before the assays land and the share price runs. The pitch trades on the fear of missing out. Don't be the one reading the announcement after the share price has doubled.

Does it work? It must, or the sector wouldn't keep hanging so much weight off two little words. Did I lean on them myself during my years as managing director of ASX-listed explorers? I did. I have written the announcements, run the roadshows, and felt a raise come together because the market wanted to be set before the results. So, the following isn't a lecture, it is a confession with a proposal attached.

The rub

For every dollar the global exploration sector spent between 2012 and 2021, it generated an estimated 69 cents of discovered value *(Schodde, MinEx Consulting, 2023)*. Strip away the geology and the adventure, and our pitch to investors reduces to a simple offer. Give us a dollar and we will convert it into 69 cents for you. A poker machine in an Australian pub is required by law to return between 85 and 92 cents in the dollar, depending on the state. Yet money into the pokies is called gambling, and money into exploration is called investing. I find that ordering strange. Fortunately, unlike poker machines, we can improve these odds.

The sector routinely rolls out the Lassonde Curve. It is the famous life-cycle chart in which a discovery re-rates, the "orphan period" then grinds shareholder value down for years, and patience is finally rewarded at development. The curve is offered as an explanation. To me it reads as an admission. If the curve is accurate, why would any rational investor buy during the orphan period, knowingly signing up for years of decline in the hope of catching the re-rating at the far end? A business worth backing should create value along the journey, not just at two points on it. An industry that wheels out a chart of its own value destruction as a marketing aid has stopped noticing what the chart says.

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I love this game, but it is still a business

I want to be clear about where this is coming from because it isn't cynicism. I love exploration. I love the game of hide-and-seek with nature. The ore body sits silent under cover, and the craft is in finding it. Thirty years in, with a number of discoveries to my name, including one that is now a multi-million-ounce deposit, I still feel it every time a rig turns. But exploration companies are not funded to play hide-and-seek. They are funded to create wealth for the shareholders whose money pays for the drilling, and to create value along the whole journey, not only at the moment of discovery. The love of the game and the discipline of the business are not in tension. The first is why I am here. The second is what this essay is about.

The bottleneck has moved

Machine learning and AI have arrived in greenfields exploration, and their headline gift is target generation. From my own experience I can tell you what they deliver. More targets than any junior explorer could ever test. The models will rank these targets, yes. But a typical junior has less than $2 million a year to spend and at least four projects demanding the board's attention. The bottleneck is no longer finding targets. It is choosing between them. The task is to allocate limited capital for the maximum return on shareholders' funds, so that the next raise can be done at a higher price, and the one after that too. After all, you can hold the best exploration projects in the country, but if you cannot fund them, what exactly is the point?

Why nothing will change on its own

Here is the uncomfortable part. Most companies drill because, well, what else can you do? You have an encouraging intersection, so you keep drilling. You keep drilling until something better turns up, or the commodity falls out of favour, or the money runs out, or a new board arrives and changes direction. That is not a capital-allocation strategy. It is momentum dressed up as one.

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I don't expect it to fix itself, because people are creatures of habit. We run the approach we know until we are forced to change. My honest prediction is that most companies will keep operating exactly as they do now until the money dries up completely, and will then blame the investors, the brokers, the market, anything other than the way the cheques were written. I say this without claiming much moral high ground. The companies I ran could not have answered the questions below at the time, and very few juniors today can. The problem isn't the people per se. It is a missing discipline, with no pressure yet to adopt one. The pressure is coming, from the one direction that always works. Capital that declines to show up.

Which points to where the change will actually start. Not with boards, but with the people who fund them. Investors and brokers have every reason to ask one question before every raise. What do you expect my money to become once the program is run? The question costs nothing to ask and is very hard to face unprepared.

The tools already exist

The frustrating part is that none of this needs inventing. The oil and gas sector has priced its prospects since the 1960s. No serious operator commits an oil rig without a probability of success, a risked value, and an expected return that has to beat the alternatives. Venture capital sizes every cheque against a distribution of outcomes in which most investments fail, a profile uncannily like greenfields exploration. Private equity won't hold an asset without an exit thesis stated in advance.
The toolkit of expected value analysis, real options and Bayesian updating is unglamorous, decades old, and proven in industries facing uncertainty entirely comparable to ours. Mining never imported it. We don't need to reinvent the wheel. We need to use the one sitting in the shed.

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What Rocworth is for

Rocworth exists to do four things.

FIRST: to make capital allocation visible. It should sit on the agenda of CEOs, boards and investors as a discipline in its own right, not as a by-product of geology.

SECOND: to show that the tools already exist. Nothing here requires new theory, only the application to exploration of methods that have priced oil and gas prospects and venture cheques for sixty years.

THIRD: to do the work. Many company executives do not write their own ASX announcements. They hand them to consultants who do it well and hand them back. Capital allocation analysis can work exactly the same way. Rocworth runs the numbers, builds the models, and delivers the board paper that carries them, so the discipline arrives without anyone in the building needing to become a decision theorist first. The real pain point is not that the analysis is impossible. It is that nobody wants to do it, and everyone would rather be doing the job they signed up for. Fair enough. Rocworth will do it for them.

FOURTH: and this is the essence, the reason Rocworth exists. To put a board in a position to say, ***"Your $500,000 funds Prospect A. The program is expected to return $1.80 in value for every dollar spent, and we have already agreed the result that would stop us at half the spend."*** And to say it with confidence, because the numbers behind it are written down and owned, with stated assumptions, reasonable grounds, and no guarantee attached.

Almost no junior explorer can currently say that sentence. Everything else Rocworth does is in service of making it sayable.

I should also be blunt about why a board would bother, because the reason is not virtue. It is fundability. The sentence above is a fundraising asset. A board that can say it walks into a raise holding something almost no competitor for the same capital can offer, a stated expected return and a pre-agreed discipline for protecting the money. As investors learn to ask the question, the boards that can answer it will find the next raise easier and the price better. The boards that cannot will find the market politely elsewhere. That, not sector reform, is the reason to pick up the phone. The reform is simply what happens once enough boards do.

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Three questions before the rig

Strip the discipline down to what a board actually needs, and it reduces to three questions. Each should be answerable, in numbers, in the board paper, before any exploration program is approved.

Question one. If we spend $500,000 on this program, how much shareholder value do we expect to create?

Question two. With four projects and $1 million to spend, what allocation produces the best return on shareholders' capital?

Question three. If we ask new investors for $1 million, what return should they expect once the program is run?

If these can't be answered, the program isn't a plan. It is a position. The full six-check version of that test lives at rocworth.com.au, on a single page designed to sit on top of a board paper, alongside the longer essay on where the 69 cents goes and how the arithmetic works.

Results, no longer pending

The sector doesn't need two new words or two new letters like AI. It needs the old two to mean something. To be clear, this is not an argument for putting expected value forecasts into ASX announcements. That is not where the discipline lives. It lives in the board paper that approved the program, and in what a board can say to the shareholders who ask what their money is expected to become. Imagine a sector where every "results pending" had that work sitting quietly behind it. A written probability. A value on success, set before the rig arrived. An agreed result that stops the spend. That is a sector investors could back through the whole journey, orphan period and all, because the value being created would no longer depend on catching the one moment the curve turns. The tools are sixty years old and proven next door. Rocworth exists to help the junior exploration sector, and the people who fund it, apply them with confidence.

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Benjamin Bell is an exploration geologist of thirty years whose record includes the discovery of the 2.44 Moz Katanning Gold Deposit and managing-director roles at two ASX-listed explorers. He writes on exploration economics at Rocworth (rocworth.com.au). Figures in worked examples are illustrative and are not a valuation of, or reference to, any actual project or company. Exploration performance data: R. Schodde, MinEx Consulting, IMARC Sydney, 31 October 2023, slides 22 & 30. ROCWORTH is a registered trading name of Custom Rock Pty Ltd. All content is general information about decision methods. It is not financial product advice, takes no account of any person's objectives, financial situation or needs, and is not a recommendation concerning any security. Companies and investors should obtain their own professional advice.