FACSIMILE COVER PAGE

To :	**Fred Cook**	**From :**	Rex Motton
Sent :	15/05/2003 at 11:56:24	**Pages :**	6 (including Cover)
Subject :	Mineral Exploration Enquiry		

Please find attached a submission for the Enquiry into Impediments affecting the Junior Mineral Exploration Industry. This submission only addresses the financial aspects of the enquiry and does not address the political, social or environmental aspects of the industry.

The diagram is not original and has been copied from a reference shown at the bottom of the page (The Victorian Gold Book, Published by Greenchip Management P/L, Melbourne, 1994). It serves as a useful comparison of the potential of our gold resources, and their importance in the past.

I have also forwarded a paper regarding the OTC market by a Mr Spain, as an example of and comparison for AIM and NASDAQ markets overseas. Some Australian mining and exploration companies are prefering to list on these boards or the Canadian boards, rather than the ASX for a variety of reasons, such as greater access to capital and less regulatory frameworks.

By not only setting up a tax incentive system as well as new flexible market, the potential to develop both small and large mineral deposits becomes exponentially greater, partly because far more smaller deposits (high grade) exist.

Sincerely

Rex Motton

Gold Explorer Investment Today

A submission into the Enquiry regarding Impediments to the Junior Mineral Exploration Industry by Neil Motton, B.Sc. (Hons), MAIG.

The new ABARE report on Tax incentive options for Junior Exploration Companies reads well and appears to have a large number of contributions from many people within the industry as well as considerable research data and yet it appears to be falling upon deaf ears. The April 2003 edition of the Gold Gazette, suggests that the Federal Minister for Resources Hon. Ian McFarlane doesn't believe there is a problem. His response, "If you're serious about change show me how, show me why, give me your facts, give me your figures and give me your arguments because (at the moment) it is just rhetorical argument..." It seems he hasn't read the report, because it's all there in black and white and colour.

Looking back at the potential of small gold mining companies in Victoria we can see the untapped potential of these high yielding companies. In 1897, during a gold boom period, 79 company mines produced 59% (456805 oz.) of the annual gold production in Victoria. This amounts to $246,674,565 in today's terms, whilst overall annual Victorian gold production was valued at $417,539,151. Of the 79 companies, 63 were publicly listed and these companies paid 34% of their gross income in dividends in that year. Because many of these mines merely 'scratched the surface', it is possible to have as many companies operating in Victoria today. Since the 1890s, mining companies are traditionally the largest contributor to mineral production, whether they are publicly listed or not, as opposed to individuals.

More recently, over the past 23 years, since the gold price was listed, and despite the cyclical nature of the industry, with each boom period there have been fewer and fewer public listings of junior explorers throughout Australia. Some of the reasons for this are:

- Overall Junior Explorers have been a very poor investment, due to the high-risk nature of exploration and the large number of companies that simply fail to find economic mineral deposits.
- even stockbrokers point to the poor performance of previously listed companies and therefore shy away from underwriting new vehicles.
- Floats require 500 or more shareholders, which is often difficult to get for junior exploration companies raising less than $10M. In 2002, 70% of all listed mining companies had less than $10M market capitalisation.□
- Banks and superannuation fund managers don't invest in companies smaller than $10M due to perceptions of risk.
- the cost of listing at $0.5-1M is prohibitively risky as this money is lost by the seed capital investors should the company fail to get subscribers for the listing.
- Tax benefits have been wiped out by successive governments (23PA).

Within the industry it is recognised the huge role that the junior sector contributes to the overall future of mining. Exploration IS research and development. Junior exploration companies have accounted for around 60% of discoveries and renewals since the 1960s.

Currently, geologists have one of the highest unemployment rates for tertiary educated people in Australia and have been estimated at around 20%, with 3% being the national average for tertiary qualified professionals. Many of these geologists operate private exploration companies that although efficient, have almost no access to even a modicum of significant capital. It is not possible to borrow money for exploration purposes, but some other form of access to capital is required. Only 2% of private equity financing in the period 1994-2002 was directed to minerals exploration.

Recent floats/IPOs (Initial Public Offering) have been companies, which have based themselves upon a particular deposit or mine that requires more capital for development, however these companies are not essentially junior explorers.

The industry needs to have encouragement from the government for investors to want to invest in what is a high risk - high return industry. This means that we must find more innovative ways of creating an investment environment suitable to all involved. Simple tax-deductible systems may not be the answer.

Minister Ian McFarlane's comment that previous schemes in the 1960s and early 1980s cost the government dearly, only illustrates the fact that the structures weren't right in the first place, but that the need remains.

In the 1960s, the gold price was not floated and therefore the tax incentive scheme that existed then may not be entirely relevant to today. We didn't have anywhere near the gold industry then that we have today, however in order to ensure that our gold industry continues to perform and function, fresh investment is necessary.

New innovations in industry are continually being developed in both the private and public sectors. For example, recent airborne surveys by various State governments have covered most of the country, which has illustrated a plethora of investment opportunities and yet we aren't necessarily seeing the flow on effects of this high technology data due to lack of investment.

Although the second tax scheme was terminated in 1985, the industry was riding high on the mid 1980s boom, which accompanied a high gold price. A second boom occurred in the early 1990s and exploration expenditure peaked in 1996. Since then the exploration industry has been in chronic recession, as opposed to the mining industry, which has been producing from already, established deposits, or developing deposits in and around their mines. Initial public offering financing for junior gold companies fell from an average of $115M per year in the period 1993-1997 to an average of $12M in the period 1997-2001.

In the late 1990s we saw a lot of juniors become Information Technology companies on the ASX. Partly because their future looked grim in the mining sector and the IT sector offered significant promise with the IT boom. This is despite the fact that the Australian dollar gold price was still very attractive at ~$15/gram, because the $AUD was so low. However stockbrokers were not interested in funding gold stocks, despite the solid returns of the miners.

In 1994 and within Victoria, approximately 20 companies (either listed or seeking listing) were operating in Victoria in the junior gold exploration sector (Victorian Gold Book, Greenchip). Only 3 of these companies remain in operation in Victoria today, whilst a further 4 have move interstate. The lack of participants at the forthcoming Victorian Gold Conference 2003 merely highlights the deficiencies in the Victorian industry.

Since the crash of the IT stocks and over the past eighteen months or so, we have seen a resurgence in the gold price (which has helped lift the Australian dollar, because we are the world's third largest producer), yet there remains a dearth of junior exploration company IPOs or even rights issues for existing listed juniors.

Therefore, within the last 5 years there has been ample opportunity to float junior gold stocks or raise capital and yet it isn't taking place. Since the gold price was floated, with each boom period the number of junior companies listing or the amount of capital raised for junior stocks has been ever decreasing. New ideas, new talent and new technology are being wasted as a result of indifference by various governments to the plight of the mining and exploration industry.

The ABARE report acknowledges that the junior exploration sector in some measure meets the requirements necessary to justify further policy intervention:

- it is a niche sector of the exploration industry because it specialises in activities that require rapid decision making, flexibility and a degree of innovation. There is an increasing reliance of larger companies upon juniors, which testifies to the value of this organisational form.
- they have suffered a disproportionately large downturn in the past five years.
- they face particular difficulties in raising external capital.
- other special factors include their ability to contribute to regional development, and the fact that heritage and native title issues place a particular burden upon junior companies.

The study suggests that consideration be given to policy that:

- enables junior companies to obtain the full benefit of immediate deductibility of exploration expenses and other related exploration expenses.
- provides support for the market that provides external capital for junior exploration companies (primarily the IPO market).

Two possible tax reform options for the exploration sector are proposed by the ABARE report. The first is tax rebates coupled with a flow through scheme, where companies will have the choice of either employing a tax scheme or a suitably designed flow through shares scheme if it is perceived to have a marketing advantage.

Secondly, ABARE suggested the Commonwealth support the establishment of a new fund that invests in the IPOs and other new issues of junior exploration companies, or in unlisted junior exploration companies as considered appropriate.

Certainly to be able to have access to external capital for either exploration as a private company or for the IPO market would have a huge effect upon many of the unlisted companies operating in the junior exploration industry today, but can we convince the government of the importance of the issue?

Mineral exploration (especially gold) is like no other industry because it is high risk, with potentially high return, and therefore it should satisfy the requirements of special tax concessions and other inducements for capital investments. Should a company be successful then that would be the time the government should recoup some of the investment "costs".

Within Victoria, its golden future lies in underground mines, which may or may not be appropriate for large company type operations, due to geological nature of the deposits. The average market capitalisation and corporate structure, in today's terms, for Victorian gold mining companies in the early 1900s was approximately $1M, of 40000 shares at $25 each. As such these companies would now be considered to be "small business enterprises" (SMEs), and would be inappropriate for an ASX listing. Many small unlisted exploration companies could create an abundance of advanced gold projects with access to similar levels of capital. They can do this because of the 'lean and mean' flexibility, as is the case for all SMEs. Many ASX listed junior exploration stocks spend as much as 33% of their raised capital on listing costs and annual fees/audits. An abundance of unlisted or OTC companies would underpin the industry and guarantee a greater security in employment to the many dedicated explorers.

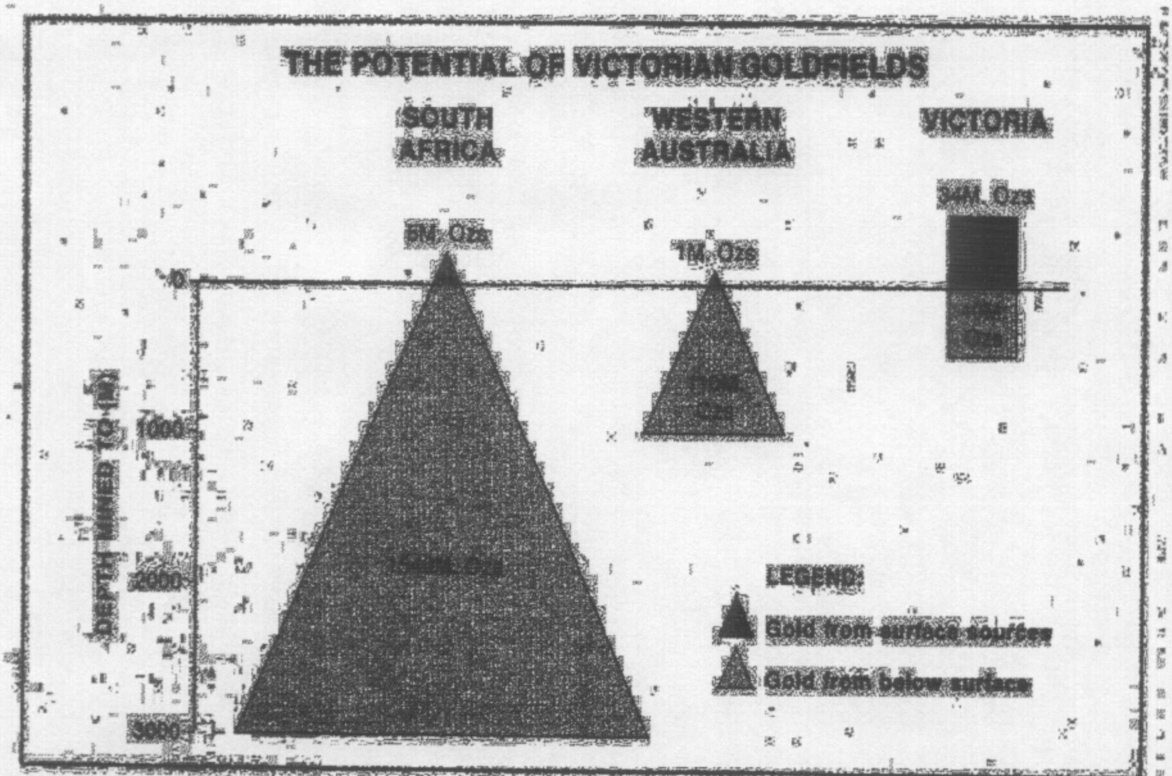
As the accompanying diagram indicates there is ample opportunity to explore deeper beneath the successful old mines where there mineralised rock is bound to occur (as well as near surface and under cover discoveries), but, of course, deeper means more expensive and greater risk. However within Victoria, most mines have not gone beyond the water table (the old adage "the water beat them"), and yet this is only 40 to 100m below the surface, which means that exploration of theses prospects is well within the means of many small companies. Modern and rapid drilling techniques can drill to 200 meters at relatively low cost.

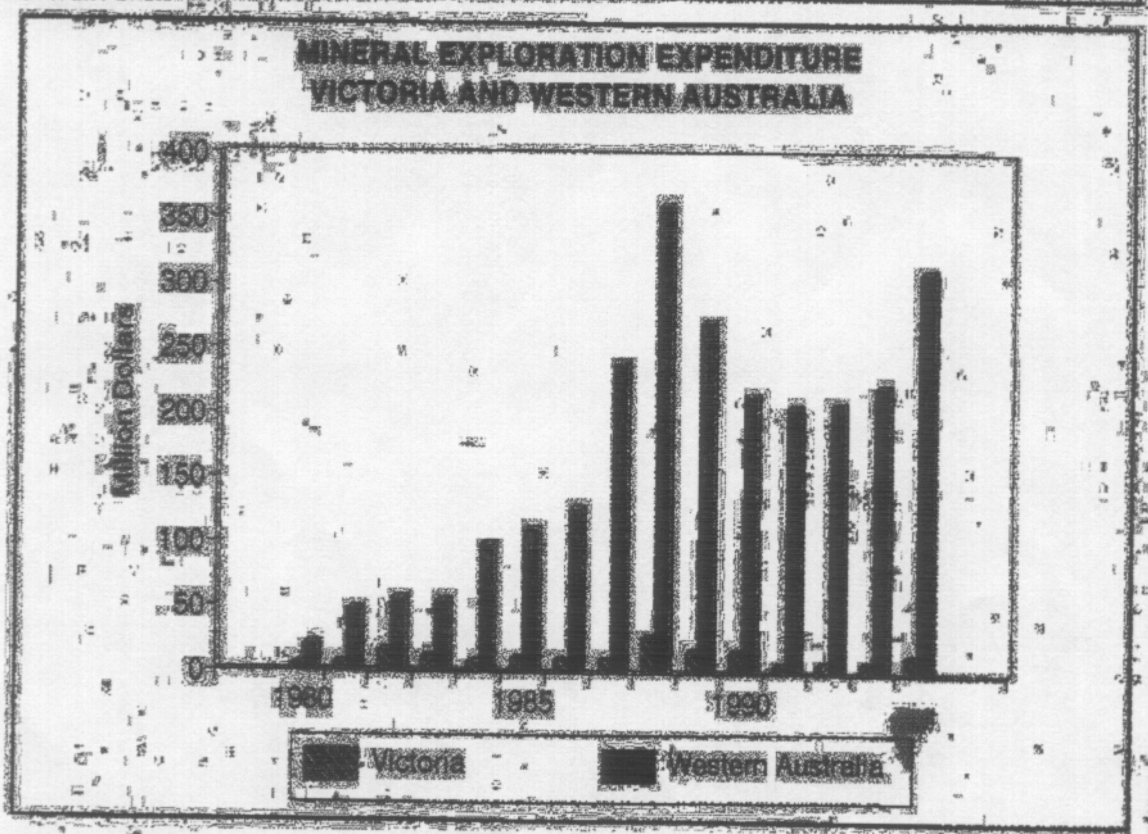
The more a prospect is explored then the more funds it requires, because each stage is exponentially more expensive, however due to the lack of access to capital many prospects simply do not get explored to sufficient levels to assess their true value.

A particular case in point is the Fosterville mine, near Axedale, owned by Perseverance Corp. Ltd, which has operated for about 10 years as a low cost low-grade open-cut heap-leach project. It has always been regarded as fairly short-term project with limited potential, until recently. In 2002, with extensive drilling down to 750m depth, the company announced a resource of ~5M tonnes at a grade of 5.7 g/t, which has a gross value of ~$400M. A feasibility study is underway and due to be announced later this year. Such a project could be expected to operate for another 10 to 20 years, and probably longer with additional resources being discovered. This is a major discovery for Victoria, and yet surface indications didn't necessarily suggest that a major ore body lay underneath the open cuts. How many of these deposits occur within Victoria is essentially unknown. Apart from Perseverance, practically no other company is exploring for more of these types of deposits.

Furthermore, to fund this deep drilling Perseverance has had to get equity investors from Great Britain, rather than locally. Without an equivalent in Australia to the LSE AIM and the NYSE NASDAQ boards, we can expect this trend to continue. Two years ago only 30% of major Australian gold mines were owned by foreign companies, whereas today 70% of the are. Nobody seems to be worried about selling, or giving away, the crown jewels!

Neil (Rex) Motton
B.Sc. (Hons), MAIG.
PO Box 347, Heathcote, VIC 3523
03 54333541 Ph/Fax





From "[illegible] History: The New Gold Rush, Victorian Gold Book" Published by [illegible], Melbourne, October [illegible]