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INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS

Submission by

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INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS

1. An assessment of Australia's resource endowment and the rates at which it is being drawn down.

There is no limit to Australia's potential mineral resources

It is a fallacy that Australia's mineral endowment (other than hydrocarbons) is a finite quantity.

The notion of a resources base, which is measurably or estimateably limited, does not allow for:

- a) The increase in price because of scarcity and the subsequent increased exploration and the shift to lower grade sources as the known high grade ores are used up;
- b) The development of new technologies for the discovery of new deposits;
- c) The development of new technologies for the extraction of the wanted materials from lower grade ores;
- d) The ever increasing amount of original material available for re-cycling;
- e) The substitution of cheaper materials if and when specific commodities become more expensive.

Deposits mined to date have had a minimal impact

The discovery and development (drawdown) of Australia's noble and base metals, has had a minuscule impact on the nation's overall potential resources.

Australia is vast and even the known mineral fields are still under-explored. Much of Australia, outside of the known mineral fields, is unexplored apart from remote sensing such as satellite imagery or airborne magnetic surveying. One of the principal reasons for this is the lack of surface water, which contributes in no small way to Australia's sparse population. It has been reported that 90% of all mines in Australia are within 10 miles of a pub. It could be that many of the pubs were built after discovery, but in many cases, once there is infrastructure in place, further discoveries are inevitably made.

Comparison of mine size to Australia's land mass

The landmass of Australia covers approximately 7,680,000 square kilometres. A very large orebody such as Olympic Dam, with over 100 years mine-life, covers approximately seven square kilometres.

An average small orebody such as in the very high grade mines in Tennant Creek in the Northern Territory, covers approximately 10 hectares, or 0.1 of a square kilometre.

All of the orebodies mined in Australia today would only cover approximately half of one percent of the landmass.



Mine-life of existing mines

The Golden Mile at Kalgoorlie was discovered in about 1896, and after over one hundred years of continuous mining, new discoveries are still being made in the area surrounding the original discovery. A similar situation exists in other mining areas in Australia such as Broken Hill.

This, combined with the fact that most of Australia has not yet been explored, suggests that if the same detailed exploration which has been applied to areas of continuous or near continuous mining, was applied to new unexplored areas, then, it would be reasonable to expect untold numbers of discoveries to be made in the vast unexplored landmass.

New exploration methods

In the past, most mines were found through some sort of surface indications such as cropping out rock, or by panning or loaming the creeks and gullies into which have washed, weathered surface material. Today, many discoveries are what are referred to as "blind" orebodies, which means that they have no surface expression and are found by drilling targets identified using some sort of geophysical or remote sensing technique.

Exploration techniques are evolving continuously and as computers become more sophisticated and powerful, more and more exciting methods of discovery will be made.

An example of this, is the invention of Airborne Gravity. In the past, all gravity surveys have been carried out on the ground, or suspended in some sort of capsule on the ocean floor. For years, tens of millions of dollars have been spent experimenting on an airborne gravity method. Recently, at the cost of something like \$40,000,000, BHP Billiton have invented a commercially viable method of carrying out airborne gravity surveys which will find anomalies never before seen.

An area which once would have taken years to survey, can now be covered in a matter of weeks, more accurately and effectively and over land or sea.

As minerals become more scarce, the price increases. As the price increases, so does the exploration activity for those commodities. This will inevitably result in success, but it is preferable to have a funding regime in place which provides for exploration on a continuing basis thereby promoting experimentation with even more innovative technology.

2. The structure of the industry and role of small companies in resource exploration in Australia.

In the past, most mines were discovered by individuals or small exploration companies, whose role was well recognised and because of this recognition, funds were reasonably easily available to them. This availability improved dramatically with the commencement of the nickel boom in the late sixties, which resulted in the industry being awash with funds.

With the crash which followed the nickel boom, speculative funds quickly dried up, and a perception developed in the psyche of government, investors (punters) and brokers, that only large



companies had the resources to fund modern exploration and that there was only a very limited role for the individual or small company. This perception was self-fulfilling and as a result, corporate controls and onerous legislation reflected this attitude and speculative funds for non-producing prospectors and small companies almost completely disappeared.

However, because of the exploration carried out with the previously readily available funds and the discoveries made from that exploration, there grew a reasonable number of profitable Australian owned mining companies, ranging in size from small to very large. The profitability of these companies enabled them to continue sustained and sizeable exploration programmes in their own right, using funds generated mainly from profits.

Then, particularly in the last decade or so, came the wave of takeovers which is continuing today. This has markedly reduced the number of mining companies in Australia and dramatically reduced the amount of money spent on exploration, resulting in fewer mines being discovered and those which are discovered being generally in areas near or adjacent to, existing mines.

Australian mining companies are low-cost, efficient mineral producers and are attractive takeover targets. Foreign companies with access to vast amounts of capital are aware of this, which is why there are now so few Australian owned mining companies. Another reason for the foreign acquisition of a large proportion of the Australian miners is our low sovereign risk. Notwithstanding Land Rights and Native Title legislation, Australia is still a safe place in which to explore, with a reliable, well-trained and competent work force.

Recently, some large companies, recognising that many junior companies are competent explorers, but under funded, are financing the junior's exploration, without taking majority equity in the explored tenure unless a significant discovery is made. This is a welcome move in the industry, and has helped in the survival of a number of small exploration companies including Giants Reef under its Subscription Agreement with Billiton Exploration. There is however, a limit to how far this support can go, as these agreements can only be funded from the major company's mining profits, which are not always robust, depending on metal prices and markets.

3. Impediments to accessing capital, particularly by small companies.

There was a time when, if one had a good exploration story, there were people and organisations prepared to have a go and put up risk capital to grubstake an individual, or support a small float. This has always been so and was the method of funding prospecting and exploration for the last couple of hundreds of years and led to many great mines being discovered and developed.

Backing such ventures or adventurers, provided a unique opportunity for wealth, by the possible discovery of a bonanza deposit and thereby making a fortune from a modest investment. That is not the case now. Now, there are so few incentives and so many impediments to exploration and to developing any discoveries made, that even if a bonanza was found, these impediments, including the lead-time for development and thus realising the potential fortune, are great disincentives. The people, who would at one time take a gamble and back an explorer, are now putting their risk money on punts which will not lead to development, such as gambling on derivatives or indices



instead of investing in the actual companies. For example, but on a large scale, HIH had many tens, perhaps a hundred million dollars gambled on weather derivatives.

Action needs to be taken urgently, to reverse this trend. Consideration needs to be given to tax deductibility for investments in new shares issued for mineral exploration in Australia. By new shares I mean new floats or shares issued through entitlement issues to shareholders of existing companies or placements of new shares in existing companies. If the shares are on-sold, the next owner does not participate in their tax benefit.

4. Contributions to regional development.

Life as we know it in Australia's outback is disappearing, not only because of the downturn in the farming and pastoral industries, but also to no small extent, because of the downturn in exploration and mining.

The solutions for the farmers and pastoralists' problems are achievable but difficult and expensive. Some of their problems are weather related, but the main problem in almost every case is the banks and lending institutions and the stress put on the farmers and pastoralists through the threat of foreclosure. The Commonwealth Bank was established for situations such as those that now exist, to provide low cost funds for struggling farmers and battlers. That bank, thanks to those in Federal Parliament who de-regulated the banks, has abandoned the very people for whom it was created. The Commonwealth Bank in particular should be re-regulated to ensure that it performs in accordance with its original constitution.

The problem with the exploration and mining industry is much more easily resolved. Money would become available very quickly and Australia-wide exploration would be rejuvenated, if an attractive incentive scheme such as tax exemption on windfall profits made from new investments, was in place. This, as you will see, could also help the previously referred to farmers and pastoralists.

An example:

Assume Blue Sky Mining N.L. raised \$5,000,000 in a new float or a placement @ 20 cents per share to fund an Australian based exploration programme. The company subsequently achieved some encouragement from its drilling and the shares went to 40 cents. Assume that half of the shareholders sold their shares and achieved a \$2,500,000 tax-exempt windfall. The Government has lost nothing, but the initial \$5,000,000 created numerous jobs in the bush, hardware and food suppliers, drillers, assay laboratories surveyors and geoscientists did well and they all paid taxes on services, goods and salaries.

In this scenario, work would be available for the farmers and pastoralists in the district, with the supply of labour, goods and services to Blue Sky Mining N.L.

Had the initial money not been invested, (and without the tax incentive it would not have been), those jobs in the bush would not have existed, hardware and food suppliers, drillers, assay labs, surveyors and geoscientists would not have benefited, there would have been no



taxes paid at all, and the people in the bush would continue on their economic and social free-fall.

Conclusions

The farming, pastoral and exploration industries are in dire straights.

A simple tax regime in which primary risk capital investments for mineral exploration in Australia were tax exempt, or were 150% deductible against income, would immediately stimulate employment in the bush and rural areas. This would, at the same time, provide potential employment for struggling farmers and pastoralists, as they could provide some of the labour, goods and services needed for the companies exploring in their areas.

This is the year of the outback. Here is an opportunity, as part of the year of the outback, for the Federal Government, without any cost to taxpayers, to move beyond rhetoric and introspective nostalgia and do something practical to launch the people of the Australian bush into a new era of prosperity.

I urge the Government to take the initiative and not to lose this opportunity to help an important industry and the people of Australia.

Nick Byrne
EXECUTIVE DIRECTOR