

17 March 2014

Manager
Not-for-profit and Industry Tax Concessions Unit
Small Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By Email: Explorationincentive@treasury.gov.au

Dear Sir

Lion Selection Group is an ASX-listed investment company focussed on the junior resources sector. Lion is seeing the headwinds facing many junior mining companies first hand, and we believe the Exploration Development Incentive (“EDI”) potentially provides a boost for Australia where exploration is often challenging due to lack of surface expression and high costs. We generally believe the proposed methodology is good and should be simple to apply. There are two components in our view that warrant attention.

Greenfields Definition

We note the objective of the EDI appears to be to stimulate exploration leading to the discovery and development of new mines that would not otherwise be discovered. This is not intended to apply to projects where the deposit is well understood, and note the policy definition of Greenfields exploration includes two categories:

- Unexplored areas; and
- Incompletely explored areas.

When has an area been “completely explored”? The draft policy design assumes defining an Inferred Resource equates to a thorough understanding of the deposit. An inferred resource represents a lower level of confidence with respect to grade and continuity, of which there are reasonable prospects that further exploration will upgrade the resource to a higher level and for eventual economic extraction. Many deposits with Inferred Resources are uneconomic requiring extension, higher grades or more favourable commodity prices to be taken further. As an illustration of the lack of certainty surrounding an Inferred Resource, ASIC now prevents companies from releasing Scoping Study information based on Inferred Resources due to the perceived low level of confidence.

Lion Selection Group Limited ABN 26 077 729 572
Level 4, 15 Queen Street, Melbourne 3000 Vic Australia

T +61 3 9614 8008
F +61 3 9614 8009
E info@lsg.com.au
W www.lsg.com.au

An Inferred Resource is often established at an early stage to get an expert to assess how the mineralisation is looking, and establish the strategy for how to approach further drilling (eg. drill spacing and method, and where there are gaps). This kind of approach is a sensible step to review progress, and isn't intended to provide any definition of the project. In this case, companies may be dis-incentivised from releasing an Inferred Resource as it would undermine their ability qualify for the EDI.

In some cases projects Inferred Resources become stranded assets, not quite reaching economic status and often unable to attract financing for further drilling. There are numerous examples where an incoming management team with a new set of eyes have re-invigorated a deposit by changing the interpretation of mineralisation. From a policy perspective it would be preferable that the EDI capture these inconclusive situations, as without it these project risk continuing being unfunded.

We submit that the better threshold for Greenfields exploration is the definition of a Mineral Reserve, where it has been proven that the mineral can be economically extracted.

Modulation

We note that some new discoveries are clearly economic from an early stage, attracting finance and enabling an aggressive and expensive drill out. In such cases, the company rapidly re-rate into the mid-tier and have no issues financing their work despite the relatively early stage of the project. Given the need to modulate, it would be equitable if there was some kind of individual company limit to avoid one company absorbing the available credits. This represents an alternative modulation mechanism for the Government, establishing a conservative company limit which could be increased or decreased in later years depending on take-up. This would provide Treasury slightly less certainty on a year-by-year basis, however the overall program cost can still be managed and would provide investor certainty and be equitable. Such a limit would also be relatively more appealing for junior explorers as compared with larger companies, due to the relative materiality of the EDI to the junior company

Please feel free to contact me if you have any questions in relation to this submission.

Yours faithfully



Craig Smyth
Chief Executive Officer

Lion Selection Group Limited ABN 26 077 729 572
Level 4, 15 Queen Street, Melbourne 3000 Vic Australia

T +61 3 9614 8008
F +61 3 9614 8009
E info@lsg.com.au
W www.lsg.com.au