

**To: Hon Michael Sukkar MP, Assistant Treasurer**

**Re: 2020-21 Pre-Budget submission**

**20 DECEMBER 2019**

## **INTRODUCTION**

Thank you for the opportunity to provide input to the Australian Government's 2020-21 Budget and Forward Estimates. In providing these comments we refer to our submission dated 11 December 2019 to Minister Cormann and Minister Canavan in relation to the critically important Junior Minerals Exploration Incentive (JMEI). In that submission we made the following recommendations which are repeated herein.

## **ABOUT AMEC**

The Association of Mining and Exploration Companies (AMEC) is the national industry body representing over 275 mining and mineral exploration companies across Australia.

The mining and exploration industry makes 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 the mines of the future.

## **RECOMMENDATIONS FOR THE 2020 – 21 BUDGET AND FORWARD ESTIMATES**

In order to attract critical investment in greenfields mineral exploration in Australia it is recommended that the Junior Minerals Exploration Incentive (JMEI) program:

- 1. Be extended with an increased allocation to \$50 million per annum (\$200 million over the Forward Estimates),**
- 2. Made a permanent initiative in the Commonwealth Budget, and**
- 3. Allow the carry forward of unused / returned JMEI exploration credits to future annual funding rounds making them available to eligible applicants.**

## **RATIONALE**

The recommendations are based on the:

- ✓ The advanced exploration activity and positive case studies to date, which could lead to significant economic multipliers, growth and new job opportunities,
- ✓ Critical need for investment in greenfields mineral exploration in Australia,

- ✓ Increasing demand to access JMEI exploration credits as the initiative becomes better understood and produces more successes,
- ✓ Global competitiveness for capital investment,
- ✓ Proactive action being taken by Canada to drive economic success, and
- ✓ The strong stakeholder endorsement.

In making these recommendations it should be acknowledged that the exploration to discovery cycle, and then to possible production, is a long-term investment. This is depicted on **Appendix 1** which shows a **simplistic diagrammatic explanation of the mine cycle** with emphasis on decision points.

In preparing this submission AMEC has undertaken extensive research on the progress of the JMEI to date. However, the immediate impact of the JMEI has been difficult to measure in view of the relatively short period that the initiative has been available.

- ❖ The first round of applications relating to the **2017/18 income year** did not allow companies sufficient time to fully understand, plan and then apply for access to the JMEI credits by the closing date of 15 May 2018. This was compounded by the fact that the legislation did not pass through Parliament until March 2018 which limited ability to promote the initiative. This was the main reason that the first round was under subscribed. The unused credits from the 2017/18 year were carried forward to the 2018/19 round.
- ❖ The second round of applications for the **2018/19 income year** closed one month later on 30 June 2018. Again, this provided prospective applicants and their advisors little time to have a full understanding of the design changes from the previous Exploration Development Incentive, and then plan their eligible exploration program/s. However, despite this the round was oversubscribed.
- ❖ The third round of applications for the **2019/20 income year** closed on 30 June 2019. This round was also oversubscribed. Successful applicants still have until 30 June 2020 to allocate their JMEI credits for this year.
- ❖ The final round of applications open on 1 June 2020 and will be available for the 2020/21 income year.

It is therefore evident that we have only had a comparatively short timeframe in which to measure the success of the JMEI against the long-term exploration to discovery cycle. The research has therefore involved the first two rounds, and an incomplete third round.

## **POSITIVE INVESTMENT AND MINERAL EXPLORATION CASE STUDIES**

AMEC has contacted recipient companies, where possible, and reviewed a significant number of relevant ASX announcements to identify the:

- ✓ details of capital raisings,
- ✓ subsequent exploration activity,
- ✓ location of project/s, and where possible,

- ✓ the outcome of the drilling activity.

An extract of the findings is detailed in the following case studies, which **clearly show that the JMEI is working as intended to generate investment in greenfields mineral exploration activity in Australia.**

Based on the market reaction, the Stavely Minerals western Victoria project is an excellent case study of the benefits of the JMEI.

### **Stavely Minerals – Victoria, Tasmania and Queensland projects**

In its June 2019 Quarterly report to the ASX the Company advised *that it had been successful in receiving a JMEI allocation of \$1.35million for the 2019/20 income year. It also reported that it had completed a capital raising of \$4.3 million for a strong exploration momentum across key East Coast projects, including Thursday's Gossan copper-gold prospect in Western Victoria.*<sup>1</sup>

In a subsequent announcement on 26 September 2019 the Company advised that it *had made a **significant shallow high-grade copper-gold discovery** and represents a major exploration breakthrough for the Company.* The market acknowledged the significance of the discovery with the share price experiencing a significant immediate increase of 287% to 93 cents.

On 14 October 2019 the Company announced a capital raising of \$19.6 million to fund its exploration activity in western Victoria, Tasmania and Queensland.

The Company made a further announcement on 4 November 2019 indicating that the western Victoria discovery continues to grow.

The market has continued to recognise the potential of the discovery with the share price increasing to \$0.94 at 11 December 2019 with a market valuation of \$206 million.

The Executive Chairman and CEO of Stavely Minerals has confirmed to AMEC that adoption of the JMEI by the Commonwealth Government has been of great assistance in raising new risk capital for mineral exploration in Australia, and very important in fostering future exploration success and development of the mines of tomorrow.

#### **AMEC comment:**

**This is an excellent case study which confirms the significant benefits that can be enjoyed by access to the JMEI which has led to accelerated exploration activity and discovery and enabled the Company to further advance through the mine cycle towards development.**

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<sup>1</sup> [https://57f74567-ce1b-45ab-a71b-954db2250d3b.filesusr.com/ugd/18fadc\\_04b07914adca47858346f62de7fac858.pdf](https://57f74567-ce1b-45ab-a71b-954db2250d3b.filesusr.com/ugd/18fadc_04b07914adca47858346f62de7fac858.pdf)

## **Alchemy Resources – Western Australia and New South Wales projects**

On 7 August 2019 the Company announced that:

*Alchemy has built a significant land package in the Karonie greenstone belt in the Eastern Goldfields region in Western Australia and plans to focus on this Project in the coming 12 months. The Karonie Project includes nine granted exploration licences and five exploration licence applications covering 829km<sup>2</sup> of highly prospective mineralised structures within Kurnalpi Terrain greenstones 100km east of Kalgoorlie. The tenements surround Silver Lake's Aldiss Mining Centre (total Mineral Resource estimate 593Koz @ 2.0g/t Au including a total Ore Reserve estimate of 201Koz @ 2.2g/t Au<sup>1</sup>). The tenements also cover 38km of strike of the under-explored, gold endowed Claypan Shear Zone commencing just 12km along strike to the south of Breaker Resources' Bombora deposit (Indicated and Inferred Mineral Resource estimate of 24.6Mt @ 1.4g/t Au for 1.1Moz)<sup>2</sup>.*

*Alchemy will also be focussing on the Overflow Gold-Base Metal Project in the Cobar Basin of NSW. The project forms part of a Farm-In and Joint Venture with Heron Resources Ltd (ASX: HRR) where Alchemy has earned a 51% interest in eight licences and can earn a further 29% interest by spending \$0.5M before 30 May 2021. Overflow is close to operating mines and emerging deposits in the Cobar Basin including Hera, Nymagee, Federation (Aurelia Metals Ltd - ASX: AMI), and Mallee Bull, Wagga Tank, Southern Nights (Peel Mining Ltd - ASX: PEX).<sup>2</sup>*

### **AMEC comment:**

**The Company subsequently announced on 12 September 2019 that an entitlement offer had been successfully completed raising \$1.3m utilising the JMEI to progress its exploration activities.**

## **Alligator Energy – Northern Territory project**

The Company undertook capital raisings in July and August 2018 and announced to the market on 23 August 2018 that a placement was completed to raise \$1.75 million to fund the drilling program at its advanced stage uranium prospect in the Northern Territory.<sup>3</sup>

### **AMEC comment:**

**The objective of the JMEI was achieved through the successful placement to fund drilling activity.**

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<sup>2</sup> <http://alchemyresources.com.au/alchemy/wp-content/uploads/2019/08/190807-Non-Renounceable-Rights-Issue-and-Appendix-3B.pdf>

<sup>3</sup> <https://www.asx.com.au/asxpdf/20180823/pdf/43xm28dxt9tcsg.pdf>

## **Alloy Resources – Western Australia project**

On 24 April 2019 the Company announced a Share Purchase Plan:

*Funds raised pursuant to the Offer will be used to increase the Company's 51% interest in the Horse Well Joint Venture to 60% resulting from continued exploration activities that aim to expand Mineral Resources, fund exploration programs at the Company's Ophara cobalt-gold project, and to provide working capital.*

*The Horse Well Joint Venture with Silver Lake Resources ('Silver Lake') is exploring the 550 square kilometre Horse Well Project. On 29 January 2018, the Company reached agreement with Silver Lake to purchase a majority interest and assume management control of the operation and sole fund further exploration until it reaches 60%. During 2018/2019 the Company completed extensive exploration for gold mineralisation at both greenfields and advanced prospects. This work has culminated in the estimation and announcement to the ASX on the 11 April of a 300% increase in project gold Mineral Resources to 237,800 ounces. The Mineral Resources include a number of shallow high-grade deposits in the Horse prospect area. The project contains over 10 prospects at various stages of advancement that offer opportunities to build on the current Mineral Resources.<sup>4</sup>*

### **AMEC comment:**

**The Company announced on 4 November 2019 that a 3,500 metre RC drill program had commenced in the target area, with the assistance of funding raised through the JMEI.**

## **Archer Exploration – South Australia and New South Wales projects**

On 2 October 2018, the Company confirmed:

*That following the lodgement of the Company's income tax return for the year ending 30 June 2018, that it will be issuing a total of \$133,601 JMEI credits to those shareholders who received new Archer shares on the exercise of their SPP Options during the period 23 April 2018 and 30 June 2018 (Eligible Shareholders).<sup>5</sup>*

### **AMEC comment:**

**The Company announced on 21 May 2019 that it has successfully completed a share placement, raising \$300,000, before costs, to fund ongoing investment in its growth opportunities.**

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<sup>4</sup> <https://www.alloyres.com/investors/asx-announcements>

<sup>5</sup> <https://archerx.com.au/reports/?category=corporate&year=w2019>

### **Bardoc Gold Limited – Western Australia projects**

In its June 2019 Quarterly Report the Company stated that an expanded +40,000m drilling program delivers outstanding results on multiple fronts, paving the way for Q3 resource upgrade at Bardoc.

It further stated that:

*"Our strategy is to grow the 2.6Moz Resource base at the consolidated Bardoc Gold Project as quickly as possible to establish the foundations for a sustainable and profitable long-term Australian gold business. To do that, we need to get to a size that can both attract the interest of bigger global investors and give us the operational scale and flexibility to deliver the financial and economic returns we are seeking over the longer term.*

*The resource expansion and exploration drilling program which commenced last quarter continued to deliver in spades during the June Quarter, with numerous outstanding results returned on multiple fronts.*

*The success and growing momentum of the campaign prompted us to significantly expand the ongoing drilling program from +10,000m to +40,000m, including a significant component of RAB and air-core drilling to target potential new discoveries along major regional structures such as the Black Flag Fault and Bulletin North West Trend.*

*The overall program has made outstanding progress with around 30,000m of drilling completed. The remaining 10,000m is being strategically targeted to new areas with a view to generating potential new discoveries. The updated Mineral Resource is on track to be finalised towards the end of Q3 and will provide the foundation for a Feasibility Study scheduled for release in Q4, 2019.*

#### **AMEC comment:**

**The Company made a further significant capital placement of \$12m in September 2019 and a follow on \$3m Share Purchase Plan in October 2019 to expand its exploration activities during 2019/20 and then issue credits to participating shareholders. This is an excellent case study of the JMEI.**

### **Black Cat Syndicate – Western Australia project**

The Company raised \$2.5m in May 2019<sup>6</sup> and a further \$5m in October 2019<sup>7</sup> to fund their exploration activities for gold – primarily drilling to identify a resource that may lead to mining opportunities.

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<sup>6</sup> [http://www.blackcatsyndicate.com.au/wp-content/uploads/2019/05/2019-05-02\\_ASX\\_BCSL\\_1926061.pdf](http://www.blackcatsyndicate.com.au/wp-content/uploads/2019/05/2019-05-02_ASX_BCSL_1926061.pdf)

<sup>7</sup> [http://www.blackcatsyndicate.com.au/wp-content/uploads/2019/10/2019-10-03\\_ASX\\_BCSL\\_1980668.pdf](http://www.blackcatsyndicate.com.au/wp-content/uploads/2019/10/2019-10-03_ASX_BCSL_1980668.pdf)

**AMEC comment:**

In a March 2018 ASX statement the Company confirmed that *the JMEI is a vital investment in Australia's future. It added that recent research indicates that as existing mines reach the end of their current lives, there will be significant reductions in mineral production and Government revenue streams.*<sup>8</sup>

**Carawine Resources – Victoria and Western Australia projects**

The Company announced on 31 October 2019 that:

*It had been successful in its application to access the JMEI exploration credits and it had received commitments to raise \$3m. The actual amount of credit per share will be determined after 30 June 2020 and is dependent on the total amount of capital raised and the amount of eligible exploration expenditure incurred between 1 July 2019 and 30 June 2020, and the Company's tax result for the 2020 income year.*

**AMEC comment:**

**As this is a recent announcement further advice is awaited on the resulting exploration activity.**

**DevEx Resources – Northern Territory, New South Wales and Western Australia projects**

Following an announcement that it had been successful in receiving a JMEI allocation the Company made a \$1.1M rights issue to fast-track drilling of Australian copper-gold-uranium and lithium projects in 2018.<sup>9</sup>

The Company released a Prospectus on 15 April 2019 for a non-renounceable share issue for \$1.05 million to fund the advancement of current and future exploration projects. The Company subsequently advised that the entitlement was oversubscribed indicating strong shareholder support.

The Quarterly Activity report dated 28 October 2019 states that:

*The Company successfully raised \$4.6 million (before costs and with \$3.0m subject to shareholder approval) to underpin an accelerated exploration program across its key copper-gold projects in the Lachlan Fold Belt of NSW. The Bogong and Junee Copper-Gold Projects represent a fresh opportunity for the Company, with no systematic exploration conducted at either project for decades. These projects jointly underpin DevEx's porphyry copper-gold exploration strategy in New South Wales and will remain a major focus for the quarter ahead.*

**AMEC comment:**

**The Company has been able to advance its exploration activities.**

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<sup>8</sup> [http://www.blackcatsyndicate.com.au/wp-content/uploads/2018/03/2018-03-29\\_ASX\\_BC8\\_JMEI.pdf](http://www.blackcatsyndicate.com.au/wp-content/uploads/2018/03/2018-03-29_ASX_BC8_JMEI.pdf)

<sup>9</sup> <https://www.devexresources.com.au/sites/default/files/asx-announcements/6883896.pdf>

## **Dreadnought Resources**

On 3 July 2019 the Company announced that it had been successful in accessing JMEI credits for the 2019/20 income year, which related to a recently announced Share Purchase Plan.<sup>10</sup>

It subsequently announced on 18 November 2019<sup>11</sup> that drilling is to commence at Illaara gold-vms project following a heavily oversubscribed placement. The Managing Director stated:

*“We are fully funded to continue our activities and expect to commence drilling at the Illaara Gold-VMS Project in November 2019. We also expect to have strong news flow over the balance of 2019 from our recently completed drilling campaign at the Tarraji-Yampi Project including: assays from Chianti and Grants; downhole EM surveys; fixed loop EM surveys from Chianti-Rufina and Grants; and surface geochemical and geophysical surveys from a number of current and conceptual prospects.”*

The Managing Director advised AMEC that *the funds were used to advance our Kimberley, Illaara and Rocky Dam projects. Over that time period we have put upwards of 70-80% of funds into the ground which has employed drilling, geophysics and logistics contractors, assay laboratories, and training and employment opportunities for the Dambimangari People as the local Traditional Owners for our project in the Kimberley.*

### **AMEC comment:**

**A positive case study using the JMEI to raise funds for exploration activity.**

## **Encounter Resources – Western Australia projects**

On 31 July 2018 the Company announced:

*It had undertaken a successful share placement to raise approximately \$2.75m<sup>12</sup>*

There was a further placement of \$1.8m in November 2018.

The Company utilised the JMEI to raise money to fund frontier exploration in the Paterson Province and the Tanami regions in WA. As a result of the early exploration successes Encounter is now advancing a highly prospective suite of projects in the Tanami and West Arunta regions via joint ventures with Australia's largest gold miner, Newcrest Mining Limited.

In addition, The Company is exploring for copper-cobalt deposits with highly successful mining and exploration company Independence Group NL (ASX:IGO) in the Paterson Province. And at the same time the company continues to explore its own 100% owned Lamil Copper-Gold project located 25km west of the major gold mine at Telfer in the Paterson Province.

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<sup>10</sup> [http://www.dreadnoughtresources.com.au/wp-content/uploads/2019/07/2019-07-03\\_ASX\\_DRE\\_1944661.pdf](http://www.dreadnoughtresources.com.au/wp-content/uploads/2019/07/2019-07-03_ASX_DRE_1944661.pdf)

<sup>11</sup> [http://www.dreadnoughtresources.com.au/wp-content/uploads/2019/11/45.-DRE\\_ASX\\_CapitalRaise\\_FINAL.pdf](http://www.dreadnoughtresources.com.au/wp-content/uploads/2019/11/45.-DRE_ASX_CapitalRaise_FINAL.pdf)

<sup>12</sup> [https://www.encounterresources.com.au/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd\\_category\\_id=5&wpfd\\_file\\_id=842&preview=1](https://www.encounterresources.com.au/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd_category_id=5&wpfd_file_id=842&preview=1)



**AMEC comment:**

**The Company has been able to significantly advance its exploration activities.**

**Kalamazoo Resources – Victoria and Western Australia projects**

On 4 July 2019 the Company announced that it had raised \$1.2 million via a strongly supported placement. It also stated:

*As announced on 28th June 2019 Kalamazoo has been successful in its application to participate in the Junior Minerals Exploration Incentive (“JMEI”) scheme for the 2020 financial year. Prior to the end of the 2020 financial year the Company will determine whether to create and issue JMEI credits to eligible investors<sup>13</sup>*

On 9 October 2019 the CEO advised that:

*Having identified a high priority soil gold anomaly in our initial program at Marble Bar along strike from Calidus’ Warrawoona Gold Project is very encouraging for our ongoing WA exploration program. Recent outstanding shallow drill intersections by Calidus (ASX: CAI 2 October 2019) supports our program to increase the sampling density this quarter to confirm the extent of the gold anomaly. Combining this activity with our Victorian Goldfields exploration work makes for a very busy upcoming quarter for Kalamazoo’s East and West teams and I look forward to reporting our findings as these programs progress.*

**AMEC comment:**

**The Company continues to advance its current exploration activities with a high priority gold anomaly defined at Marble Bar in Western Australia.**

**Marmota Limited – South Australia project**

On 16 April 2019 the Company announced a placement of \$1 million and that participants would be eligible to receive exploration tax credits courtesy of the JMEI. This has enabled the Company to continue its exploration program.

On 12 November 2019 the Company announced a Share Purchase Plan which is aimed to fund:

- *Phase 1 2019 AC drilling yielded outstanding gold 1m intersections of 120 g/t gold.*
- *Phase 2 2019 RC drilling is about to commence in two weeks-time.*

*It will be the Company’s largest ever RC Drilling program at Aurora Tank.*

**AMEC comment:**

**The SPP has been specially designed to provide an attractive way for existing shareholders who are interested in increasing their holding in the Company and fund the drilling program.**

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<sup>13</sup> [https://kzr.com.au/wp-content/uploads/austocks/kzr/2019\\_10\\_09\\_KZR\\_eba829ea97b155b7f832f23df45948e7.pdf](https://kzr.com.au/wp-content/uploads/austocks/kzr/2019_10_09_KZR_eba829ea97b155b7f832f23df45948e7.pdf)

### **Mithril Resources – Western Australia project**

The Company issued a total of \$226,664 worth of tax credits under the Junior Minerals Exploration Incentive scheme to those shareholders and investors who participated in the Company's Share Placement and Share Purchase Plan during the period 18 May 2018 to 29 June 2018. The funds raised were used to drill priority greenfield nickel targets at the Kurnalpi Nickel Project.<sup>14</sup>

The Company announced that:

*Two holes drilled into an electromagnetic conductor zone intersected a four - metre wide zone of barren stringer sulphides (pyrrhotite / pyrite) at the modelled conductor depth (thus explaining the conductor), and a third hole (18GDSRC007) drilled beneath the gossan intersected a four - metre wide zone of weakly disseminated nickel sulphides. No significant assays (i.e. > 0.25% nickel) were returned from either intercept.<sup>15</sup>*

#### **AMEC comment:**

**The results appear to continue to demonstrate the project's prospectivity and why Kurnalpi is a priority project for the Company.**

### **Navarre Minerals – Victoria project**

On 14 October the Company announced<sup>16</sup>:

*That a review is underway on Navarre's Stavely Arc mineral properties with a view to re-commencing exploration activities. Outstanding copper-gold discovery by JV partner, Stavely Minerals Limited at the Thursdays Gossan prospect on an adjacent exploration licence provides a strong catalyst to undertake a technical review.*

*Navarre's most recent activity in the Stavely Arc was in Q1 2019, following a 19 hole air-core program at the Glenlyle Project (approximately 25km NE of the Thursdays Gossan prospect), which delivered the highest grade gold and silver results delivered to date at the project.*

*Navarre believes the results provide evidence that the Company is vectoring in on a significant mineralised system at the Glenlyle Project.*

#### **AMEC comment:**

**The recent success by Stavely Minerals has encouraged another greenfield explorer to review its activities in the western Victoria region.**

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<sup>14</sup> [https://www.mithrilresources.com.au/wp-content/uploads/bsk-pdf-manager/2018/12/20181214-JMEI-Entitlement-Statements-for-the-17\\_18-FY-FINAL.pdf](https://www.mithrilresources.com.au/wp-content/uploads/bsk-pdf-manager/2018/12/20181214-JMEI-Entitlement-Statements-for-the-17_18-FY-FINAL.pdf)

<sup>15</sup> <https://www.mithrilresources.com.au/wp-content/uploads/bsk-pdf-manager/2018/09/20180910-Kurnalpi-Nickel-Project-Update-FINAL.pdf>

<sup>16</sup> [http://navarre.com.au/wp-content/uploads/2019/10/2019\\_10\\_14\\_Navarre-reviews-Stavely-Arc-properties\\_Final\\_1984126.pdf](http://navarre.com.au/wp-content/uploads/2019/10/2019_10_14_Navarre-reviews-Stavely-Arc-properties_Final_1984126.pdf)

### **Prodigy Gold – Northern Territory**

The Company announced a rights issue on 16 November 2018 and raised nearly \$3.7M.

The Managing Director said:

*“The Board was committed to offering our existing eligible shareholders an opportunity to purchase shares and receive the benefit of the JMEI credits allocated. This additional funding provides the flexibility to maintain our rate of exploration in the Tanami and to maintain our 30% interest in the exciting programs underway under our JV with Independence Group at Lake Mackay. The Company looks forward to providing further updates on operational progress in due course.”*<sup>17</sup>

The Company has also stated that *the funds raised have allowed the Company to accelerate our exploration programs and hopefully bringing forward discovery. This will also give us confidence to look at other projects and possibly make an acquisition.*

#### **AMEC comment:**

**The Company has been able to accelerate its exploration activities.**

### **Rimfire Pacific Mining NL – New South Wales project**

On 1 July 2019 the Company announced a Rights Issue to raise approximately \$1.1 million<sup>18</sup>

The Managing Director subsequently advised the ASX on 23 July 2019 that:

*“The Company has received applications for \$0.5m before costs in this Rights Issue capital raising process. All shareholders and participants are thanked for their ongoing active interest and support in the performance and operations of the company. The funding will allow work to commence at beginning of August on the Northern Gold prospect along with Northern and Southern areas.”*

#### **AMEC comment:**

**The JMEI will enable the company to progress its exploration activities.**

### **Sipa Resources – Western Australia project**

The Company received an allocation of \$550k for the 2018/19 income year and subsequently raised \$1.5 million through a Share Purchase plan in November 2018, and a further placement of \$1.518 million, taking total proceeds to just over \$3 million to underpin the next phase of copper-gold exploration.

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<sup>17</sup> <https://wcsecure.weblink.com.au/pdf/PRX/02059513.pdf>

<sup>18</sup> [https://www.rimfire.com.au/site/PDF/2547\\_0/TaxCreditsforShareholdersparticipatinginRightsIssue](https://www.rimfire.com.au/site/PDF/2547_0/TaxCreditsforShareholdersparticipatinginRightsIssue)

There were two subsequent private placements totalling nearly \$1.3 million with the Company stating that:

*It indicated a vote of confidence in the quality of the Company's assets and the potential of its high-impact exploration activities.*<sup>19</sup>

**AMEC comment:**

**The JMEI attracted additional funding for the Company to advance its exploration activities.**

**St George Mining – Western Australia project**

An ASX announcement was made on 20 June 2019 stating that:

*It had undertaken a placement to utilise the Junior Minerals Exploration Incentive benefits to raise \$4million. The proceeds are to fund Phase 2 of the Mt Alexander nickel – copper sulphide project.*<sup>20</sup>

On 12 November 2019 the Company advised the market that drilling has confirmed further significant extensions of high-grade mineralisation at the Mt Alexander Project, located in the north-eastern Goldfields.

**AMEC comment:**

**Significant extensions of high-grade mineralisation have been identified.**

**Traka Resources – Queensland project**

The Company announced to the market in June 2019 that an Entitlement Offer to shareholders had raised working capital of \$508k<sup>21</sup> The funds were used for a drill program on its Gorge Creek project in Queensland.

In September 2019 the Company further stated in the Quarterly Report<sup>22</sup>

*Drilling completed on Gorge Creek has intersected base metal mineralisation in MVT (Mississippi Valley Type) and stratabound targets. The results received are very encouraging and additional drilling and new work programs have been planned to follow-up.*

*Traka has consolidated to 100% holding of the Gorge Creek Project by issuing shares to our former joint venture partner Cobalt Qld Pty Ltd.*

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<sup>19</sup> [http://www.sipa.com.au/irm/PDF/2909\\_0/15MPlacementCompleted](http://www.sipa.com.au/irm/PDF/2909_0/15MPlacementCompleted)

<sup>20</sup> <https://stgm.com.au/page/2019-asx-announcements>

<sup>21</sup> <https://www.trakaresources.com.au/jun%202019%20-%20quarterly%20activities%20and%20cashflow%20report>

<sup>22</sup> <https://www.trakaresources.com.au/sep%202019%20-%20quarterly%20activities%20and%20cashflow%20report>

*Field work has ceased on the project due to the onset of the wet season. Exploration activity can recommence in April 2020.*

**AMEC comment:**

**The Company was able to raise working capital through the JMEI and continue with its exploration program.**

**Vimy Resources – Western Australia and Northern Territory projects**

Following its advice that it had been successful in being allocated \$715k for the 2019/20 income year the Company announced on 11 November 2019 a Share Purchase Plan (SPP) to receive a proportional allocation of JMEI credits.<sup>23</sup>

The SPP Booklet indicates that the funds raised from the Placement and the SPP will be used to strengthen Vimy Resources' balance sheet and bolster working capital, as well as provide funding for Vimy Resources' Alligator River Project exploration programs and for the review of the Mulga Rock Project Definitive Feasibility Study (DFS).

**AMEC comment:**

**The recent Share Purchase Plan meets the intent of the JMEI to raise capital for greenfield mineral exploration in Australia.**

**DEMAND FOR THE JMEI**

Following bi-partisan support, legislation to implement the JMEI passed through Parliament in March 2018. In the one month that was available to apply for the JMEI credits, 23 applicants were successful in accessing \$8.467m of exploration credits.

In the following year, 46 applicants were successful for the second round of applications for the 2018/19 income year. The 'first-come, first-served' principle of the JMEI was triggered as application requests exceeded the available funding.

The third round of funding for the 2019/20 income year was also over-subscribed, with another 43 applicants being successful.

This has resulted in a total of 112 applicants, representing around 70 individual companies being able to access \$70 million of exploration credits to date.

Based on research undertaken by AMEC from direct contact with successful applicants (where possible) and publicly available information, the following data has been identified:

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<sup>23</sup> <http://clients3.weblink.com.au/pdf/VMY/02171120.pdf>

- A minimum of 21 positive case studies have been identified and detailed in this submission
- A minimum of 12 companies did not use the credits due to:
  - *Changed strategic circumstances within the company,*
  - *The timeframe for the 2017/18 income year being too short to plan and implement a capital raising,*
  - *The proposed IPO did not proceed,*
  - *An administrative error (incorrect company named) when making the original application which rendered the credits ineffective,*
  - *At the time of being a successful JMEI applicant, we had just listed in the same year and raised funds. But the drilling was slower than we initially expected, hence the additional raise/ funding was delayed. As a result of that, the allocated JMEI tax credit has not been utilized. However, as soon as a new project has been identified, our drill rigs will be turning again, and the JMEI will be a great support for attracting much needed funding for exploration. We encourage the government to continue to support the junior explorer with similar support/ incentives going forward,*
  - *We did not use the credits as they would not benefit our predominantly non-resident shareholders,*
  - *We did not know what the actual value of the exploration credit would be per share was a drawback, so we did not progress.*
- At least 12 companies are still to allocate their exploration credits for the 2019/20 income year – noting that this does not need to be completed until 30 June 2020.
- 7 companies were uncontactable for various reasons.
- We await responses from other applicants on the status of their credits and proposed course of action.

### CRITICAL NEED FOR THE JMEI

The resources sector (including mining and mineral exploration activity) has underpinned Australia's economic growth, wealth creation and employment opportunities over several decades. The long-term health of the Australian mining industry remains crucial to the nation's future economic landscape.

While we continue to increase our overall mineral production volumes we are not replenishing the mines that are coming to their natural end with new discoveries. Contemporary research shows that **Australia's rate of mineral discovery is falling** despite the fact that there are incredible prospects for further mineral discovery across the continent. The Geoscience Australia Mineral Exploration Review 2017/18 clearly shows that there are still large areas of the Australian continent that have **never been explored or are under explored.**

Without new discovery, Australia's current production levels will begin to decrease, as existing mines exhaust their reserves and close. New mines are needed to sustain current production levels and Government revenue streams. New mine developments are needed to deliver increased employment and social dividends. Australia's natural resources potential is still enormous. However, much of our known resource reserves are deeper, under considerable cover and are not currently economic to exploit. This opportunity is also significantly constrained, because exploration in 'greenfields' areas struggles to attract private investment in a globally competitive environment.

Greenfields mineral exploration in Australia is mainly undertaken by small companies, which rely on raising investment capital to undertake this work, or in entering joint venture partnerships. 'Greenfields' exploration is largely unattractive for private investment because of the high-risk profile, with roughly only **1 in 100 'greenfields' exploration projects leading to a discovery**. These odds aside, few private investors seek such long-term returns, with the average mine taking **13 years to go from discovery to production in Australia**<sup>24</sup>. There can also be an additional **long lead time** during the initial land access, approval and exploration phases prior to any discovery.

The fact is that our rate of discovery and grades are dropping, and consequently the probability and our ability to develop economic new mines has significantly reduced.

The industry is also faced with a very tight and competitive investment environment.

This is reflected in the number of mineral related Initial Public Offerings (IPO's) over the past decade or more. A high of 126 in 2007 saw a sharp decline to the extent that there has only been 12, 8, 5 and 8 in the four years to 2016. This has been followed by 29 in 2017, 33 in 2018 and 6 in 2019.

These issues were all brought to the attention of the Resources 2030 Taskforce and highlighted in the National Resources Statement released by the Minister for Resources, the Hon Senator Matt Canavan in February 2019. The Statement received bi-partisan support from the Labor Party. It is now time to fully implement the 29 proactive recommendations made by the Taskforce, which were also brought to the attention of the COAG Energy Council in December 2018.

One of the recommendations by the Taskforce was that the '*Federal Government should expand the Exploring for the Future program to make it a national initiative, both onshore and offshore*'. In acknowledging the objective<sup>25</sup> of that program AMEC considers that the JMEI is complimentary as it assists in attracting the necessary investment into critical greenfield mineral exploration. This is achieved by utilising the new data provided by the Exploring the Future program as well as other pre competitive data investments by Geoscience Australia and the state / territory government geological surveys.

**We need to be investing now to discover new mines and generate Government revenue streams for future generations.**

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<sup>24</sup> <https://www.amec.org.au>

<sup>25</sup> To boosting investment in resource exploration in Australia by gathering new data and information about the potential mineral, energy and groundwater resources concealed beneath the surface.

The new pre-competitive data and information is then made publicly available and released over the next three years to support and de-risk resource decision making and investment.

## INCREASED ANNUAL ALLOCATION TO \$50 MILLION

The JMEI was proposed to apply for four years, providing a total of A\$100 million in tax credits for eligible exploration companies to pass onto their qualifying investors. Exploration credits of \$30 million remain for the 2020/21 income year, which is the final year of this successful incentive for investors.

The JMEI was previously **acknowledged by the Australian Parliament** as an extremely important initiative for mineral exploration and future mining in Australia. At a minimum, it should be rolled over for a period of at least another four years to 2024/25 to allow the success of the initiative to be measured and assessed over a longer time frame, and in accordance with the **long-term exploration and discovery cycle**.

Our preference, however, would be to have the **JMEI as a permanent program** within the Budget process.

The last two rounds of the JMEI have been oversubscribed with an unknown number of companies missing out on an allocation as a direct result of the '*first-come, first-served*' principle.

As companies and their advisers become more acquainted with the process and benefits of the JMEI to shareholders it is highly likely that the increasing demand to access the credits will continue to grow. A more concerted marketing and promotion effort by all stakeholders is also encouraged.

As detailed below one of our major global competitors, Canada has allocated US\$365 million over five years to its Mineral Exploration Tax Credit program – **representing US\$73 million per annum (equivalent to A\$107 million)**. This does not include the various provincial financial incentive programs.

There is clear justification to **increase the JMEI annual allocation to \$50 million** for investment in the future.

We further note that this is an indirect cost to the Commonwealth Budget as the JMEI credits are in fact exploration costs / shareholder losses sitting in a junior explorer's Balance Sheet waiting to be used as a tax deduction at some time in the future, if ever. Once the JMEI credits are allocated the company renounces its exploration expenditure deductions / losses.

## GLOBAL COMPETITIVENESS FOR CAPITAL INVESTMENT

The highly respected Fraser Institute's Annual Survey of Mining Companies provides a valuable insight into the market sentiment in relation to the global mining and mineral exploration sector.



An analysis of the 2018 survey published in March 2019<sup>26</sup> provides interesting international investment competitiveness information.

Western Australia, the Northern Territory, New South Wales and Victoria all rose in mineral investment attractiveness.

Western Australia reversed a three-year downward trend and rose from 5th place on the Investment Attractiveness Index to second overall. Western Australia's rise was driven by a jump of twelve places up the Policy Perception Index (PPI) from 17th in 2017 to 5th in 2018.

New South Wales rose to 46<sup>th</sup> from 42<sup>nd</sup> in 2018.

Victoria jumped from 71<sup>st</sup> in 2018 to 54<sup>th</sup> in 2019 and improved their Policy Perception Index score from 52<sup>nd</sup> to 43<sup>rd</sup>.

Over the last year, South Australia tumbled from 14th to 24th.

Queensland dropped one place from 12th, and Tasmania declined again to 55th in the world.

The Northern Territory rose four places to 23rd in the world, however had the largest decline in the PPI score and rank of any Australian jurisdiction, dropping eight places to 41st (of 83 jurisdictions) shifting to 33rd (of 91 jurisdictions) from 22nd (of 104) last year.

Victoria and Tasmania remain the worst performing Australian jurisdictions at 55 and 54 respectively on the Investment Attractiveness Index. However, New South Wales is Australia's lowest ranked jurisdiction when policy settings are the only consideration.

It was noted that the 2018 report had the smallest number of countries surveyed. The number fell from a high of 122 in 2014 to 83.

The survey does however highlight the large number of global jurisdictions seeking investment in order that they can improve their resources inventory.

We noted that a number of the rankings moved around substantially, probably reflecting a need for stability from Government in the setting of policy and treatment of industry.

In order to enhance Australian jurisdictional positions in future surveys AMEC continues to advocate for stable and predictable public policy settings, cost effective regulatory reform, funding of exploration incentive schemes and co-funded drilling programmes at State and Territory levels.

**There is a clear need to promote investment in greenfield mineral exploration in Australia through such programs as the JMEI.**

## **ACTION BEING TAKEN BY CANADA TO DRIVE EXPLORATION INVESTMENT**

Canada is acknowledged as a major international competitor to Australia for mineral exploration investment. This is reflected in the Fraser Institute Annual Survey of Mining Companies<sup>27</sup>, where

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<sup>26</sup> <https://www.fraserinstitute.org/studies/annual-survey-of-mining-companies-2018>

<sup>27</sup> <https://www.fraserinstitute.org/sites/default/files/annual-survey-of-mining-companies-2018.pdf>

Canadian provinces consistently feature in the top 10 Rankings within the Survey. In comparison, Western Australia was the only Australian jurisdiction to feature in the top 10 in the Investment Policy Index.

The Canadian Government announced its intention in the 2018 Fall Economic Statement<sup>28</sup> to extend their Mineral Exploration Tax Credit program for an **additional five years until March 2024**, at a cost of US\$365 million (equivalent to **A\$535 million**). This is the first time that the Government has gone beyond their annual renewal cycle since it introduced its Flow Through Shares model in 2000. It is understood that the Canadian Government recognised the existence of the competitive Australian four-year JMEI program in its deliberations.

Then in March 2019, the Canadian Government released a visionary plan aimed at making *Canada the Leading Mining Nation*. The Canadian Minerals and Metals Plan<sup>29</sup> makes a number of critically important statements:

- *Canada is a global mining powerhouse*
- *Canada is a top destination for exploration spending and offers unparalleled access to capital markets*
- *We have a robust junior mineral exploration sector*
- *Standing still is not an option as other economies are taking steps to attract investment and support their own mining industries*
- *Canada must take advantage of generational opportunities and improve its competitive position*

The Plan includes six strategic directions, which incorporates ‘*economic development and competitiveness*’<sup>30</sup>. An initiative within that direction is “*world leading financing and taxation systems that support exploration and other activities.*”

The Plan further states that:

***‘Canada has one of the lowest effective tax rates among international mining jurisdictions. Its Flow Through Shares mechanism, harmonised with the Mineral Exploration Tax Credit and some provincial measures, is recognised for its innovative approach to stimulating mineral exploration.....These exploration activities are key to discovering and establishing future mines’***<sup>31</sup> (Emphasis added).

AMEC further notes that some Canadian provinces have introduced new or enhanced existing fiscal incentives to encourage mineral exploration in Canada. These include:

- British Columbia made their two existing exploration tax incentive programs permanent<sup>32</sup>

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<sup>28</sup> <https://budget.gc.ca/fes-eea/2018/docs/statement-enonce/fes-eea-2018-eng.pdf> - Page 62

<sup>29</sup> <https://www.minescanada.ca/en>

<sup>30</sup> Economic Plan - page 5

<sup>31</sup> Ibid – page 10

<sup>32</sup> <https://www.northernminer.com/news/ame-roundup-bc-exploration-tax-credits-made-permanent/1003803635/>

- Saskatchewan introduced a new Targeted Mineral Exploration Incentive<sup>33</sup>
- Nova Scotia renewed its exploration grant<sup>34</sup>

AMEC considers that the Australian Government should be taking a similar pro-active and visionary approach through full implementation of the recommendations emanating from the National Resources 2030 Taskforce, the National Resources Statement, and the Junior Minerals Exploration Incentive.

## DESIGN FEEDBACK

When undertaking our research AMEC also approached a number of Accounting, Advisory and Legal firms and was provided the following feedback on the operation and design of the JMEI:

- *Most clients were initially positive towards the benefit of JMEI's as it allows for differentiating themselves from other juniors when attracting investors,*
- *The notice and application date timeframe around the first round for the 2017/18 income year was too short for clients to fully understand and plan their investment and exploration work program to take full advantage of it,*
- *Companies still have until 30 June 2020 to allocate their credits for the 2019/20 income year,*
- *Most juniors were hesitant to publicly make overly optimistic statements in relation to the benefit for shareholders given the uncertainty in ability or amount of credit which could be distributed to each shareholder,*
- *There was also hesitancy surrounding the risk of making 'false' statements (noting the ongoing interest of ASX and ASIC in relation to Forward Looking Statements to the market),*
- *We have noticed that by marketing the opportunities of JMEI credit allocations, it could reduce the hesitancy surrounding this.*

Some improvements could be made to the future design of the JMEI, such as:

- *While the design is a significant improvement over the EDI, there is still uncertainty for companies regarding how much they can ultimately distribute given time period between allocation and final distribution,*
- *We recommend the design be improved to enable companies to carry forward an allocation in the event they are unable to raise sufficient capital in the year. Currently the extent credits exceed amount equal to capital raised times the applicable tax rate, credits are effectively*

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<sup>33</sup> <http://www.mckercher.ca/resources/saskatchewan-introduces-new-targeted-mineral-exploration-incentive>

<sup>34</sup> [https://novascotia.ca/natr/meb/data/mrdp/docs\\_2019/2\\_SharedFunding/Shared\\_Funding\\_Terms\\_and\\_Conditions\\_2019-20.pdf](https://novascotia.ca/natr/meb/data/mrdp/docs_2019/2_SharedFunding/Shared_Funding_Terms_and_Conditions_2019-20.pdf)

*'forgone' and revert back to the JMEI pool. Unlike the situation where sufficient capital is raised but not spent in the year,*

- We recommend the design be amended so balancing adjustments on mining information and rights be excluded from 'tax loss' for the purposes of determining maximum JMEI credits distributable. This is to prevent a situation where the explorer is effectively penalised through generating value for shareholder through sale of its greenfield exploration projects,*
- We recommend the design be improved by enabling companies to allocate credits to particular capital raisings. Rather than whole of year pool approach. This would provide more certainty regarding entitlement for shareholders and subsequently, improve marketability of the scheme. This would also enable companies to take advantage of opportunities to source capital without diluting JMEI benefits for previous raises. E.g. strategic placement to offshore of take partner or investor etc,*
- We recommend the design of the scheme be simplified by specifying tax rate (e.g. either fixed 30% or 27.5%) given implications of BRE passive income rules which create complexities and again uncertainties regarding what rate will apply in determining JMEI credits. This also creates situations where shareholders in one company are effectively rewarded more compared to investors in other juniors due to effective tax rate applicable,*
- Leakage to non-residents is a real issue. Particularly, given these placements are usually opportunistic or after success of work post raise earlier in the year, which can materially dilute benefit for resident shareholders.*
- The JMEI credits should continue and, if anything, the caps should be significantly increased,*
- Any unused credits should be made available for future eligible applicants.*

## **SUPPORTING PARTIES**

The following parties have indicated their support for the recommendations contained in this submission:

- ✓ Chamber of Minerals and Energy WA
- ✓ Minerals Council of Australia
- ✓ Minerals Council of Australia – Northern Territory Division
- ✓ Minerals Council of Australia – Victorian Division
- ✓ NSW Mining
- ✓ Queensland Resources Council
- ✓ South Australian Chamber of Mines and Energy
- ✓ Tasmanian Minerals, Manufacturing and Energy Council

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**APPENDIX 1 – Mine Cycle diagram**