

COMMUNIQUÉ

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Release of report: Costs and benefits of flow through shares for Australian junior exploration companies

The Australian resources sector is supporting the introduction of a flow through shares (FTS) scheme to address structural impediments facing junior exploration companies in raising capital for new and increased levels of exploration investment.

With the resources sector operating in uncertain times and with significant job losses to date, exploration is bearing the brunt of the global downturn with a soon to be released Australian Institute of Geoscientists survey reporting that 53 per cent of Australia's geoscientists expect to be unemployed within the next 12 months.

Currently, junior exploration companies with little or no taxable income are unable to immediately deduct exploration expenses. Without such deductions, exploration costs are higher resulting in lower levels of activity – and as illustrated in Australia over recent decades – fewer substantive new discoveries and new mining projects.

The immediate deductibility of eligible expenses is a key parameter of Australia's company taxation system and recognises the longer term benefits of exploration and the associated risks of this activity.

The long-term benefits of a FTS scheme have already been recognised by the Australian Government. The development of a tailored FTS scheme was promised by the Australian Labor Party at the 2007 federal election.

Based on Australia's dividend imputation system, the resources sector is advocating a FTS scheme where junior Australian exploration companies exploring in Australia are able to pass 'unusable' tax deductions on to their Australian shareholders.

Exploration Tax Credits (ETC) would be available to shareholders at the Australian company tax rate of 30 per cent. Eligible shareholders would be entitled to use their ETCs to offset tax liabilities.

The changing macroeconomic environment over the past 6-12 months has demanded a dual focus on both longer term reforms along with those capable of providing an immediate stimulus to a substantially weaker Australian economy. The Australian Government has implemented a range of stimulatory policy measures and is considering additional measures in the 2009-10 Budget.

Within this context, a major report released today provides strong evidence that the immediate implementation of a FTS scheme for Australian junior exploration companies would result in increased exploration expenditure of 10 to 30 per cent.

Coupled with high labour intensities, few impediments and significant spare capacity in exploration and supporting industries, the report concludes that an Australian FTS would deliver a significant short term boost to the domestic economy.

Synergies Economic Consulting and the Centre of Policy Studies were commissioned to estimate the costs of a FTS scheme (measured as foregone revenue to the Australian Government), and to quantify the short term stimulatory benefits of greater exploration expenditure over the four years 2009-10 to 2012-13.

The analysis concludes that the immediate implementation of a FTS scheme would be a very worthwhile stimulus measure, delivering significant short term socio-economic benefits across Australia at an estimated cost to government of approximately \$130m per year.



In summary, between 2009-10 and 2012-13, a FTS scheme could generate immediate socio-economic benefits across Australia through up to:

- **4,196 new jobs**
- **\$114.4m in additional Gross Domestic Product**
- **\$191.2m in additional real private consumption**
- **\$965.1m in additional real investment**

While important, the analysis did not attempt to quantify the substantial 'flow-on' of economic benefits beyond 2012-13 when more exploration is inevitably translated into more discoveries, and in turn, new mines and increased minerals and energy production.

Compared with other industries often promoted as vehicles for generating increased economic activity, 'mining exploration' ranks #1 in terms of value-adding and #3 behind 'residential construction' and 'financial services' in terms of employment generation.

A FTS has the advantages of delivering both significant long-term benefits and increasing net levels of demand in the economy at a time when it is most needed.

A FTS scheme introduced in Canada more than a decade ago is attributed with significantly increasing capital flows and net exploration and mining activity.

The demonstrated short and anticipated long-term benefits of a FTS demonstrated in this latest report should give impetus for the Australian Government to honour its 2007 election commitment, preferably in its 2009-10 Budget. If this cannot be met, the resources sector will seek a commitment for a FTS scheme's inclusion in the 2010-11 Budget, if not before.

Endorsed by all the listed organisations, the full report can be found at the web addresses below.

For detailed information on the proposed ETC scheme, please refer also to the report *Joint industry submission: A proposal to introduce 'flow through shares' (FTS) in Australia*.

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