



Manager
Not-for-profit and Industry Tax Concession Unit
Small Business Tax Concessions Unit
The Treasury
Langton Crescent
Parkes, ACT, 2600

31st March 2014

Sent by email: ExplorationIncentive@treasury.gov.au

Dear Sir / Madam,

Submission regarding the draft policy design for the Exploration Development Incentive

Centrex Metals Limited ("Centrex") is a junior explorer with exploration tenements in South Australia and New South Wales. This submission has been prepared in the knowledge that our local industry body (SACOME) will be preparing a more comprehensive response. As such this response is targeted at a few key areas that are of concern.

At the outset Centrex acknowledges that a fundamental goal of the scheme is to encourage new investment in greenfields exploration. At a high level the design of the scheme appears to meet the goal of targeting junior explorers however both the quantum of the incentive and the operation of the cap on the incentive will mean its impact on enticing investors into the sector is likely to be minor.

The Australian Bureau of Statistics publishes quarterly statistics on exploration expenditure. Over the past two calendar years expenditure on "new deposits" (which could be taken as a reasonable surrogate for greenfields exploration) has averaged just over \$1.0b a year. Compare this to the first year cap of \$25m which grossed up at the potential company tax rate at the time equates to just under \$88m. In the first year of operation less than 10% of all exploration conducted on projects that could reasonably be classified as greenfields would receive the credits.

While the quantum of EDI credits could be an issue depending on the total amount of eligible expenditure, the imposition of the cap will have a greater impact of the ability of the scheme to incentivise investors. For investors EDI credits will only be available at least two years after the year in which the exploration is conducted. Putting aside the lack of certainty that modulation will dictate in terms of the quantum each investor receives the timing will heavily discount the value of the EDI credits in investors' eyes.

How to target junior minerals explorers?

The contemplation of a 'no mining activities test' should be better defined so as not to preclude junior explorers whom either sell a tenement from time to time or some samples (even for a nominal amount) but continue to have no taxable income and are not genuinely in the business of carrying on a mining operation.

The no taxable income test should practically exclude all of the large mineral producers. The 'no mining activities' test should be amended to a 'no carrying on a business of a mining operation' test.



Which investors will be able to receive exploration credits?

Centrex prefers that EDI's be able to be distributed to all shareholders. In practical terms, targeting new shareholders only would present a significant administrative and compliance burden on a number of fronts:

- New shareholders would potentially be entitled to EDI credits whereas pre-existing shareholders wouldn't. This would likely mean the creation of new classes of securities on the ASX and the share registry for every new issue of shares. The ASX, share registry and legal costs associated with this are likely to be significant; and
- In order to maximise the benefits all exploration companies will be forced to try and raise the new capital at the beginning of each year to align their exploration expenditure with their available cash reserves. This will mean a glut of offerings all at the same time on the market and is likely to be dilutive in terms of the total amount raised by the industry.

For administrative purposes the most sensible approach would be to offer the incentive to all shareholders.

What is exploration expenditure?

Centrex notes that the proposed definition of eligible exploration expenses will exclude technical analysis. During the discovery process it is important that companies be allowed to assess the technical qualities of the mineralisation. Even at a greenfields stage of exploration some technical analysis on the quality and nature of the mineralisation must be undertaken to justify further greenfields exploration funding prior to a deposit being discovered or defined.

Centrex suggests allowing technical testing that assess the quality and nature of the mineralisation but stopping at the point where that testing is for the primary purpose of determining the estimated costs of extraction or mineral processing.

If you have any questions or comments please do not hesitate to contact me.

Yours sincerely

Mr. Gavin Bosch
Chief Financial Officer
Centrex Metals Limited