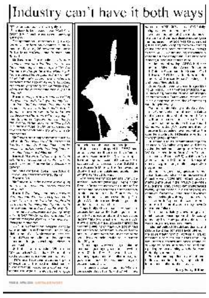
MEDIA MONITORS


Industry can't have it both ways

Paydirt
April, 2010
Page: 4
General News
Region: National
Circulation: 4325
Type: Australian Magazines Trade
Size: 452.40 sq.cms
Monthly

Industry can't have it both ways

The rumpus about a new royalty rate potentially to be imposed upon West Australian gold miners raises some interesting questions.

The speculation – and that's all it is – appears to stem from this exchange in Parliament on February 25 between the Labor Party's Mark McGowan and Premier Colin Barnett.

McGowan put four questions to Barnett: *To which minerals other than iron ore will the minister apply such a royalty lift? Will the minister change the way in which royalties are calculated on gold; and, if so, how? Given that many current royalty rates are protected within state agreements, how does the minister propose to change these rates? When will the minister announce any such change?*

Barnett: *Yes, the government is looking at royalties as part of this year's budget deliberations, but I can advise the member that no decision at all has been made on that. Sometime between now and the budget we will decide whether there will be any adjustment to royalties. A government can change the royalties as laid down in the Mining Act; it is more difficult to change concessional royalties that have been laid down in state agreements.*

McGowan put a supplementary question to Barnett: *The minister said that no decision has been made. What consultation has the minister undertaken with the mining industry in relation to current deliberations?*

Barnett: *We are not about to go out and ask the mining companies whether we can adjust royalties. That will be a decision of cabinet.*

McGowan: *Not even consulting with them? Not even asking them what they think?*

Barnett: *No.*

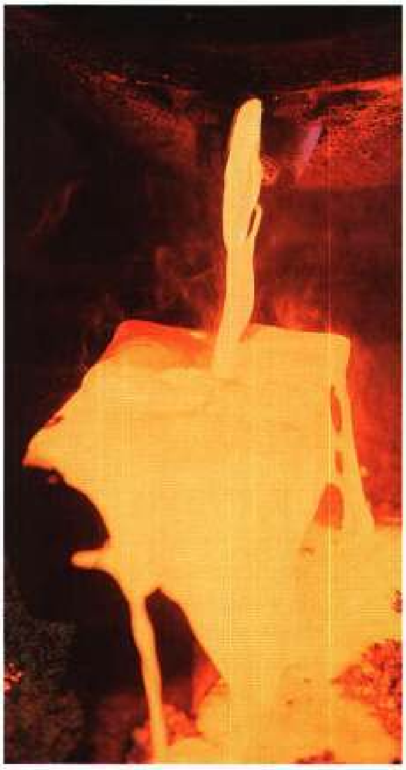
McGowan: *Just the biggest employer in Australia – that's all – and you wouldn't even ask them?*

Barnett: *The mining companies are aware of it, and some of them have expressed their views. I have to say that a few people who work around the mining industry came up to me over summer and said, 'by the way, Colin, the mining companies are getting away with murder; they're not paying enough'. A number of people working in the mining industry have said that.*

No figures of what the increase might be were mentioned in Parliament. But at **Paydirt's** recent Gold Conference in Perth, the figure of 5% came up time and time again as concerned delegates exchanged views on the subject.

So that is the first question: Where does "5%" come from? Was it leaked to one of the gold producers from a source in treasury?

There must have been a very solid piece of evidence for the rapid establishment of "Gold Royalties Response Group" (GRRG). Miners are, after all, a stoic bunch of guys and seldom do things on the knee-jerk.



Established at high speed, the GRRG most certainly was and it could not have found a better spokesman in Les Davis who, apart from running the successful Silver Lake Resources Ltd – which recently won **Gold Mining Journal's** Miner of the Year award for 2009 – is highly articulate and forceful in the arguments he puts forward.

At a press briefing at **Paydirt's** Gold Conference, Davis had this to say: "We've invited Premier Barnett to meet with us, and to first understand the gold sector's already considerable contribution to the State's treasury and to the socio-economic well-being of regional WA, before arbitrarily singling out gold producers for increased tax.

"Importantly, Government's proposed increased taxation on the State's gold miners will risk hundreds of jobs in this sector, the largest majority of which are in regional WA. It would seriously and adversely affect the economic viability of many WA gold miners and undermine investment in WA gold companies at a time when the junior end of the sector is experiencing its first revival in more than 20 years.

"Depending on who we talk to, the planned increase in gold royalty taxation is anywhere from 80% to 100%. This would have far-reaching implications for smaller or marginal gold mines, and on the communities they operate in," said Davis.

This raises a second question: Who are the people Davis has "talked to" who have warned of an "80-100%" increase? Officially, no figures have been mentioned.

On the same day that Davis made this utterance – and perhaps disingenuously gave the impression that gold was being singled out as a royalty whipping boy when nothing of the sort has been confirmed – Barnett told the ABC: "We are looking at royalties in general but any change would be very, very modest, if there is a change at all."

At the time of writing, GRRG had nine members: Silver Lake, Avoca Resources Ltd, Catalpa Resources Ltd, Crescent Gold Ltd, Norton Gold Fields Ltd, Ramelius Resources Ltd, Saracen Mineral Holdings Ltd and Focus Minerals Ltd.

When **Paydirt** went to press, Integra Mining Ltd was still not a member of GRRG. This is interesting, because its eloquent managing director Chris Cairns was quite forthright in his disapproval of the idea of tampering with the gold royalty.

Even more interestingly, at the Gold Conference's concluding panel session Cairns spoke passionately about the need for a flow-through share scheme to help Australian junior explorers. So, on the one hand Cairns wants the (WA) Government not to intervene by adjusting royalties, yet on the other he is calling for Federal intervention in the form of flow-through.

(It should also be remembered that the industry in WA called long and loud for an exploration scheme – and got one from the WA Government in the form of the Exploration Incentive Scheme (EIS), which over five years will pump $80 million in taxpayers' money into grants for greenfields exploration programmes.)

So the third (and final) question is rhetorical: Does the industry – in this case gold miners – want State and Federal governments to intervene in the industry only when it suits them? They do not want an increased royalty regime for gold, but are happy to ardently call for what will amount to a tax-payer funded subsidy (flow-through shares) which (in this reporter's personal view) is, at best, open to rort – and at worst, simply rewards exploration failure.

Cairns' contradictory views on government interventionism appeared to be clearly shared by his fellow panel members – he was simply airing a common view.

Indignant bellows of outraged dismay and passionate pleas for assistance uttered in the same breath tend to produce a garbled message sure to get lost in translation. The simultaneous bellows and pleas should be subjugated, rather, to a measured and principled approach to dealing with the State and Federal governments.

Principle and expedience are not good bedfellows and the industry, in opting for the latter, does itself a great disservice.

– Barry Avery, Editor

Ref: 67674022

MEDIA MONITORS

Mining Chronicle
April, 2010
Page: 66
General News
Region: National
Circulation: 6000
Type: Australian Magazines Trade
Size: 413.40 sq.cms
Monthly

Gold mine praises quick contractor

A Western Australian engineering contractor has been praised by one of its clients for bringing a new gold mine ahead of schedule.

Gold producer Catalpa Resources, said the construction of its second mine, the Edna May Gold Project is one month ahead of schedule.

First gold pour is now expected in May 2010 and the project remains within budget.

Catalpa managing director Bruce McFadzean said practical completion is now scheduled for the second week of April 2010 when the final ore commissioning phase will commence.

"It is extremely pleasing that GR Engineering Services has been able to safely accelerate process plant construction giving us the opportunity to pour gold early," said Mr McFadzean.

"Power is scheduled to be switched on at the process plant this week allowing the systematic commissioning phases of the plant to commence in the weeks following.

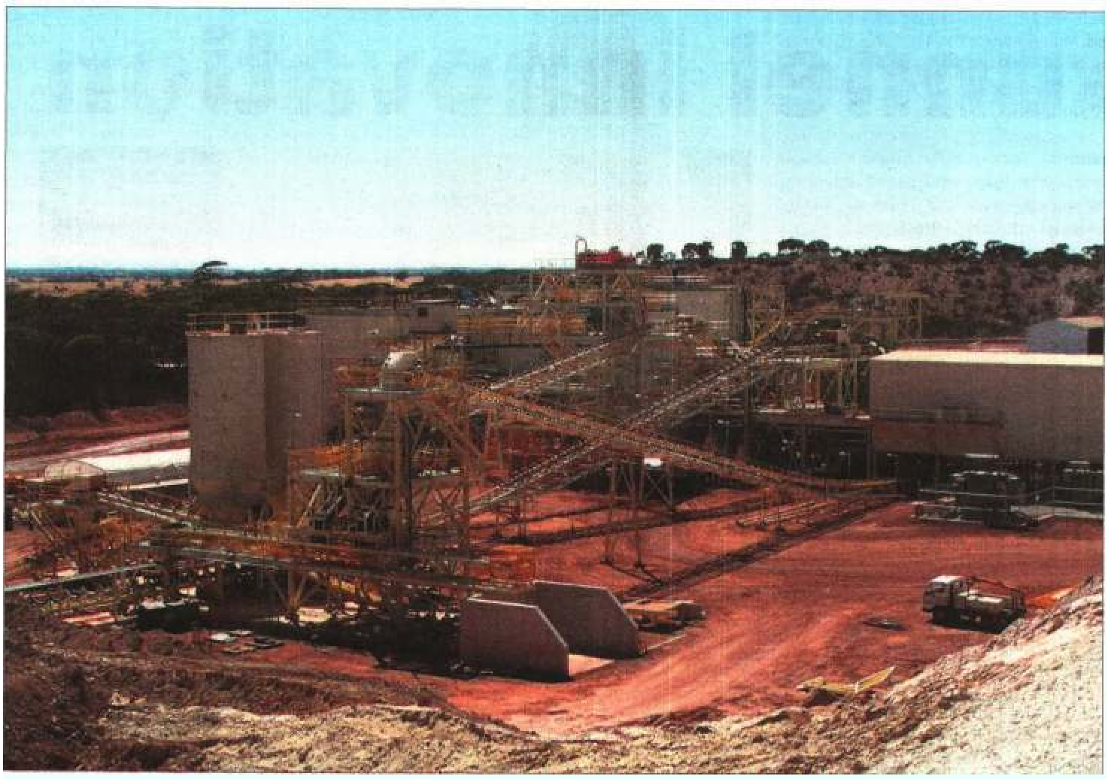
"While we are mindful of the commissioning goals ahead the team has made excellent progress and should be congratulated on their achievements to date at Edna May."

In addition to the accelerated process plant construction, Catalpa has been able to expedite other key project areas central to achieving early gold production.

Mining continues on schedule with approximately 100,000 tonnes of ore on the ROM pad. The tails facility is also ahead of schedule providing for a 30 per cent improvement on the planned capacity.

Recruitment remains on schedule with all management and senior roles now filled, and process operating roles are on target to be filled in March. Catalpa now has 80 employees, many of whom have been employed locally.

"Early production at Edna May will allow Catalpa to take advantage of our significant hedge price of $1,557 per ounce and generate the cash flow to sensibly fund our own growth towards 250,000 ounces through exploration and acquisition," Mr McFadzean said. ■



Ahead: The Edna May process plant in the first week of February

Ref: 67680141

MEDIA MONITORS

Paydirt
April, 2010
Page: 5
General News
Region: National
Circulation: 4325
Type: Australian Magazines Trade
Size: 821.38 sq.cms
Monthly

Now is not the time

Gold Royalties Response Group members from left to right AMEC chief executive Simon Bennison, Catalpa managing director Bruce McFadzean, Ramelius chief executive Ian Gordon and Silver Lake managing director Les Davis front the media pack at Paydirt's Gold Conference

The tremor that rippled through **Paydirt's** Gold Conference in March was from speculation the West Australian State Government was plotting to raise mining royalties in May's State budget.

While WA Minister for Resources Norman Moore kept hush on the matter during his conference presentation, there was strong opposition to the supposed taxation hike, with delegates voicing strong disapproval of a potential 2.5% royalty increase.

It was not clear how the State Government would approach the possible royalty spike, and though no figures have been confirmed nor denied, one thing is for sure: Junior resource companies have crunched their numbers and are unhappy with what they throw up.

So much so that a band of junior gold producers in WA have formed the Gold Royalties Response Group (GRRG) to represent the interests of their sector in what could become a spat with the WA Government.

The GRRG comprises Avoca Resources Ltd, Catalpa Resources Ltd, Crescent Gold Ltd, Norton Gold Fields Ltd, Ramelius Resources Ltd, Saracen Minerals Ltd, Silver Lake Resources Ltd and Swan Gold Mining Ltd.

Silver Lake managing director Les Davis put the possible scenario into perspective for a keen media contingent at **Paydirt's** Gold Conference.

"I share the sentiment that this is certainly very disturbing news, that the Government would even consider an increase in royalties. We've heard the macro view – but the micro view if this royalty came in is that potentially 25% of the profit generated from a very small mining company last year would evaporate from the bottom line which, I think, is unfair to Silver Lake and its shareholders.

"This will certainly affect project generation and project longevity. To put that into context, for every 80,000oz produced out of the ground from small-end-of-town miners represents $100 million in revenue.

"We've currently paid $2.5 million royalties on that revenue. If, as speculated, the

To page 6

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From page 5

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Ultimately, extra royalty payments meant junior companies would be deprived of making valuable mine developments.

Davis estimated $2.5 million could be worth 25,000m worth of drilling or 70 vertical metres at 1,000oz gold per vertical metre development and production, which essentially equated to a calendar year's worth of production.

He predicted that at least 10 junior gold companies in WA could be squeezed out of the sector should State mining royalties be increased and the flow-on effect in terms of community benefits, employment and the like would be devastating.

Fuelling GRRG's debate against a higher royalty scheme is the contribution from WA's resource sector which has rocketed 137% in the past five years and delivered over $3 billion in State royalties in the 2008/9 financial year.

According to CME figures WA's resources sector contributed to about 90% of the State's export income, therefore greater protection was required to keep investment flowing in WA, Catalpa managing director Bruce McFadzean said.

McFadzean feared investment in WA could be diluted by the attraction of operating in cheaper, more profitable overseas destinations.

"People will say why don't you go and invest in Africa or somewhere else and why wouldn't we to be quite honest? The interesting thing is that if you're costs are $700/oz and you're lifting the royalty by 2.5% you're actually increasing it by about roughly $50 and I think the important message here is that the royalties are paid on the total revenue, not the margin between revenue and cost.

"It's a significant increase. It might be a 2.5% increase in royalty but it could be a 10 or 15% reduction in your profit and that's the fact of it," he said.

If an increase in mining royalties did eventuate, McFadzean said, closing the gates on its projects probably would not occur, however changes would be required and possibly jobs shed.

As the WA resources sector waits in limbo, another potential shake up of the industry may be on the horizon.

On the national front, many resources companies are awaiting the release of the Federal Government's Henry Tax Review which could bring royalties from mining and petroleum under a national umbrella.

There is no doubt WA Premier Colin Barnett is opposed to the idea and the Government's stance was reaffirmed by Minister Moore at **Paydirt's** Gold Conference.

"We have already been short changed by the new Commonwealth Grants Commission funding formula which is set up to plunder Western Australian royalties to prop up stalling eastern states economies.

"The Premier Colin Barnett has categorically stated that Western Australia will not give an inch on its sovereign ownership of resources and its rights to royalties from these," Moore said.

Chamber of Minerals and Energy WA chief executive Reg Howard-Smith was also on the front foot fending off Federal Government designs to wield a more significant influence on the State's resources sector.

"We are opposed to a Federal royalty regime. The Premier has been consistent in this view for many months that if the Federal Government moves to introduce a State-based/profit-based royalty on State activities then the State Government will maintain its royalty regime," said Howard-Smith.

"One of the arguments for a Federal regime is simplification. If there is a dual system, there is no doubt that the industry will be paying more but it's hardly simplification if we're dealing with two regimes in lieu of the existing one."

"Can you imagine going to Canberra for the approvals of your operation for wherever they might be in WA? That is a joke – it is seriously a joke – if that was to be the case."

Howard-Smith also defended mining companies' royalties commitments saying they also had additional payments such as company tax, payroll tax, profit-based taxes and other forms of payments to consider as well. Essentially, junior companies would find it harder to cope with an increased royalty regime as opposed to larger companies.

The issue is not confined to WA's gold sector, which contributed $190 million in gold royalties this year, with a number of countries around the world working to devise their royalty strategies, including South Africa which is looking to impose a gold royalty rate EBIT of between 2-5% this year.

Where companies in South Africa have been aware of the situation, WA miners have been fed information based on speculation.

Groups such as GRRG have the backing of organisations such as the CME and the Association of Mining and Exploration Companies (AMEC) and although much of the smoke generated from **Paydirt's** Gold Conference came from the junior end, it is believed larger companies such as Newmont Mining Ltd share similar sentiments.

There is not a lot of time before the WA State budget is presented in May, therefore time is running out for industry and the Government to consult on the royalty regime.

– Mark Andrews

CME chief executive Reg Howard-Smith urged the State Government to consult with the resources industry in regards to its royalty regime