



31 March 2020

The Hon Josh Frydenberg MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

JobKeeper package must include small mineral exploration companies

The Association of Mining and Exploration Companies (AMEC) is a national Industry body for hundreds of mining and mineral exploration companies throughout Australia.

Australia's mineral exploration companies are primarily small ASX listed that use the capital they raise on the market exploring for future mines

The \$130 billion JobKeeper wage subsidy announced today is a desperately needed injection to sustain employers and their employees through the COVID19 pandemic.

The JobKeeper announcement is particularly important for our small mineral exploration members. Many are facing constraints on their operations with interstate travel bans and Government Directions restricting their ability to access mineral exploration tenements.

However, under the announced package, employers (including non-for-profits) will only be eligible for the subsidy if:

- their business has a turnover of less than \$1 billion and their turnover will be reduced by more than 30 per cent relative to a comparable period a year ago (of at least a month); or
- their business has a turnover of \$1 billion or more and their turnover will be reduced by more than 50 per cent relative to a comparable period a year ago (of at least a month); and
- the business is not subject to the Major Bank Levy.

Mineral exploration companies do not have any form of revenue. As a result, they do not have a turnover to reduce by 30%, meaning that they do not fit a key test to qualify for needed support under the JobKeeper initiative – despite clearly needing the support.

Mineral exploration companies fit the definition of small businesses. The Australian Taxation Office defines a small business entity as having less than \$10 million aggregated turnover. For employment purposes, Fair Work Australia defines a small business as one that has less than 15 employees. The Australian Bureau of Statistics defines it as a business that employs fewer than 20 people.¹

The BDO *Explorer Quarterly Cash Update: December 2019* reported on the quarterly cash position of 651 ASX listed mineral exploration companies². The amount of cash a mineral exploration company

¹ <https://asic.gov.au/for-business/small-business/>

² <https://www.bdo.com.au/en-au/insights/natural-resources/publications/explorer-quarterly-cash-update-december-2019>

has available allows it to keep the lights on, pay staff, pay the bills and with the remainder, explore and hopefully make a discovery.

The BDO report reinforces the recent lack of listings of mineral exploration companies on the Australian Securities Exchange (ASX). So far in 2020, there has been a single mineral exploration company listed on the ASX³. Last year there were 5, and in 2018, 35 listed. While 2018 now sounds comparatively large, in 2011, 71 listed and in the halcyon days of 2006, 126 companies listed.

Small Australian mineral exploration companies are increasingly faced by difficult financial markets, and now with COVID-19 the investment environment is essentially dead, with it anticipated that there will be no ability for these companies to raise funds in the next 6 months.

As COVID19 weighs on the market, AMEC is growing increasingly alarmed for the future of smaller mineral exploration companies that need to raise funds to survive. The BDO report stated that 40% of ASX listed mineral exploration companies reported less than \$1 million cash at bank in the December 2019 Appendix 5B reports, 15% had less than \$500,000⁴. These companies are faced by very difficult circumstances in the coming months.

Over 70% of mineral discoveries in the last fifty years have been made by these small mineral exploration companies. While doing so they create needed jobs, opportunities and economic stimulus in remote and regional parts of Australia.

On behalf of Australia's small mineral exploration companies, we ask that when drafting the associated legislation to implement the JobKeeper initiative that Government adjusting the definition so a small business, such as a mineral exploration companies will be included.

If your staff or the Department would like to contact me directly I am available on 0477 399 130 or alternatively, Neil van Drunen, Manager Industry Policy on 0407 057 443.

Yours sincerely



Warren Pearce

Chief Executive Officer

cc. Hon Keith Pitt MP, Minister for Resources; Water and Northern Australia
Senator Hon Mathias Cormann, Minister for Finance

³ Castile Resources listed on 12 February 2020:

<https://www.asx.com.au/asxpdf/20200212/pdf/44f12cs3p45bk5.pdf>

⁴ <https://www.bdo.com.au/en-au/insights/natural-resources/publications/explorer-quarterly-cash-update-december-2019>

To: Treasurer, Hon Josh Frydenberg MP

cc: Minister for Resources, Hon Keith Pitt MP

RE: FINANCIAL ASSISTANCE FOR MINERAL EXPLORERS

Date submitted: 16 April 2020

About AMEC

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

Recommendation:

That mineral exploration companies be granted needed financial assistance offered by the Federal Government through the Jobkeeper Initiative by broadening the definition of eligibility or specifically excluding the turnover requirement via a deeming provision.

Introduction

Mineral exploration companies are being excluded from the Jobkeeper Initiative, because of the definition used in the eligibility criteria.

Mineral exploration companies have no revenue and in most cases no turnover and so are currently excluded from this program. They exist by raising capital from investors, from which they fund exploration and pay their employees. The eligibility criteria for the Federal Government's Jobkeeper Initiative require businesses to have turnover. Consequently, mineral exploration companies are excluded.

The programs have been designed broadly to provide badly needed support for business across all industries to keep employees in work. Yet, despite needing this financial support every bit as much, mineral explorers are unfairly being shut out. Companies are currently being forced to cut salaries and stand down staff to reduce costs.

Some 500 - 600 jobs across our industry are now at serious risk.

This will have dire consequences for the exploration industry in Australia, and for the ability of Australia's mining industry to find and develop new major projects ready for investment to support Australia's economic recovery.

Mining and mineral exploration are considered 'essential services' by Federal, State and Territory Governments and mineral exploration companies must survive to continue searching for the mines of the future.

Mineral exploration companies discover the mines of the future

Mineral exploration companies are the heart of the minerals industry. These agile companies find 60-70% of the discoveries that provide the pipeline of new projects for development.

The mining and exploration industry make a critical contribution to the Australian economy, employing over 255,000 people. In 2017/18, these companies collectively payed 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 future mines.

Number of ASX Listed Mineral Resources Companies

Total Number of ASX Mineral Resources Companies	692
Companies with Head Office Overseas	14
Australian Based Companies exploring Overseas Only	205
Australian Based Companies with Mining Interests	117
Australian Based Companies that Solely Explore	246

** Based on AMEC review of ASX Data*

Australian Focused Mineral Exploration Companies listed on the ASX – By Location

AMEC has also collected data based on where each listed Exploration Only Company has tenure or exploration participation.

State / Territory (head office is location)	Exploration Companies (Head Office Location)	Exploration Companies (Where exploring *)
New South Wales	36	68
Queensland	22	93
Victoria	28	17
Western Australia	242	265

Northern Territory	-	70
South Australia	18	60
Tasmania	-	17
TOTAL Companies	346	

** Many companies operate and explore in multiple jurisdictions*

There are 346 Australian focused ASX listed mineral exploration companies that AMEC currently tracks as well as several hundred more private exploration companies that are not listed. However, public information about many of these companies is not easily available.

Employment & types of job roles under threat

Mineral exploration companies usually employ somewhere between 2 and 10 people, with the majority directly employing only 2-5 people. They will also have Board, usually comprised of 3 Directors, and an often part-time Company Secretary.

A typical organisational chart:

- Managing Director / Chief Executive Officer
- Technical Director / Exploration
- Exploration Manager / Geologist (Exploration, Resource, Field)
- Office Manager / Administration

All of these roles are under imminent threat, depending on the cash reserves held by the company. Continuing to pay all employees salaries will no longer be an option for most exploration companies. In many cases, only one employee will remain to keep the business running.

Minerals exploration companies rely on the support of external consultants, contractors and drilling companies to undertake large parts of their work. And although all of these businesses will see a flow on loss of work, these businesses and their employees will be eligible for financial support under the Jobkeeper initiative, whereas mineral exploration companies and their employees are not.

With 346 Australian focused mineral exploration companies listed on the ASX, and potentially 1-3 jobs to be lost in each of these companies, some 500 - 600 jobs are now at risk. When including private companies, a further 50 – 100 jobs are potentially at risk.

These companies need to be able to access support programs so they can afford to keep their employees. This aligns perfectly with the Government's Jobkeeper initiative, keeping employees in work and not needing to access unemployment entitlements.

AMEC Member Survey of Mineral Exploration Companies – April 2020 (Partially Complete)

AMEC has this month commenced a survey of our mineral explorers on the impact of COVID-19, with 114 member companies invited to participate. So far about a quarter of companies have provided responses, reporting:

- 62.5% have ceased all exploration, with only 16% reporting no change
- 74% have no or modified access to their exploration sites / projects
- 33% will not be able to go back, even if access was granted
- Cash reserves:
 - 62.5% have less than \$2m cash reserves
 - 12.5% from \$500k to \$1m
 - 21% below \$500k
- How long will cash reserves last?
 - 69.5% have less 12 months of cash reserves
 - 21% 4 to 6 months
 - 12.5% within 3 months
- 75% have experienced a major drop in market cap
- 83% do not expect a fund raising can be done until at least 6 months from now
- 27% do not believe they will raise enough funds in the next 12 months to survive
- 55% have or will lay off staff within the next three months.
 - 93% have between 1 and 5 staff
 - Only 7% have over 5 staff
- 77% have already organised / instigated pay cuts for their employees

These are preliminary results, but these responses tell a predictable story.

More than a quarter (27%) of respondents don't believe they will be able to survive the next 12 months, even with significant staff cuts.

Over half (55%) of companies have or will lay off staff in the next three months.

Full survey results will be available shortly and will be published by AMEC.

ASX Announcement from Mineral Explorers since COVID-19

*Austex Resource Opportunities*¹ has been tracking public disclosures / announcements by mineral explorers on the ASX, that identified COVID-19 as impacting their operations, and provided a report for AMEC, summarised below.

- 34% of companies had deferred or delayed work – 25 mentions

¹ *Summary of Announcements up until 6 April 2020 on the impact of COVID-19 on ASX listed exploration companies*, 7 April 2020, Rob Murdoch, Austex Resource Opportunities

- 10% acknowledged / anticipated financing difficulties – 7 mentions
- 34% reported salary cut / cost reductions – 25 mentions
- 7% reported that they had shifted geographic focus – 5 mentions
- 15% reported working from home / unaffected – 11 mentions

78% of all ASX announcements which addressed the impact of COVID-19 by mineral explorers, reported salary and cost reductions, deferred or delayed work and financing difficulties, which clearly indicates the impact on employment in these companies and the industry.

State of the Exploration Industry in Australia

The BDO *Explorer Quarterly Cash Update: December 2019* reported on the quarterly cash position of ASX listed mineral exploration companies.

The BDO report stated that 40% of ASX listed mineral exploration companies reported less than \$1 million cash at bank in the December 2019 Appendix 5B reports².

Research conducted by AMEC of publicly listed information ASX disclosures showed that the average mineral exploration company in Australia spends approximately \$1.5m a year on holding costs / overheads (fees, rates & staff) before undertaking any exploration.

This means that for 40% of the market now has less in cash reserve, than will be required to meet their upcoming costs. Without an ability to raise further funds, or significantly reduce costs, this will lead to company failure.

The BDO report reinforces the recent lack of listings of mineral exploration companies on the Australian Securities Exchange (ASX), a common pathway for raising investment capital. So far in 2020, there has been only a single mineral exploration company listed on the ASX³. Last year there were five, and in 2018, 35 listed. While 2018 now sounds comparatively large, in 2011, 71 listed and in the halcyon days of 2006, 126 companies listed.

Small Australian mineral exploration companies were already facing increasingly difficult financial markets. Many companies were last able to raise funds in late 2017 and early 2018 when the investment market was very receptive. The last 18 -24 months has seen a very flat investment environment and companies have been expending / exhausting their reserves on exploration programs through this period, needing to return to market this year to raise further capital. But with the COVID-19 crisis, these companies will have little to no opportunity for capital raising for at least the next six months.

Member companies are advising AMEC that they are reducing / cutting staff or moving to payment in shares in lieu of cash to maintain liquidity, in an effort to endure the next 6 - 12month period.

Recommendation in detail:

² <https://www.bdo.com.au/en-au/insights/natural-resources/publications/explorer-quarterly-cash-update-december-2019>

³ Castile Resources listed on 12 February 2020:
<https://www.asx.com.au/asxpdf/20200212/pdf/44f12cs3p45bk5.pdf>

Under the announced package, employers will only be eligible for the subsidy if:

- their business has a turnover of less than \$1 billion and their turnover will be reduced by more than 30 per cent relative to a comparable period a year ago (of at least a month); or
- their business has a turnover of \$1 billion or more and their turnover will be reduced by more than 50 per cent relative to a comparable period a year ago (of at least a month); and
- the business is not subject to the Major Bank Levy.

Mineral exploration companies fit the Commonwealth Government agencies definition of small business:

- The Australian Taxation Office defines a small business entity as having less than \$10 million aggregated turnover.
- For employment purposes, Fair Work Australia defines a small business as one that has less than 15 employees.
- The Australian Bureau of Statistics defines it as a business that employs fewer than 20 people.⁴

AMEC recommends that mineral exploration companies be granted needed financial assistance offered by the Federal Government through the Jobkeeper Initiative by broadening the definition of eligibility:

- **This could be achieved by amending the definition to include or reference the Australian Tax Office definition of a having less than \$10million aggregate turnover.**

Or

AMEC recommends that the Tax Commissioner includes a deeming provision that excludes mineral exploration companies from the turnover requirement.

Conclusion

Mineral exploration companies are now entering a critical period, from which they may not emerge without cost and financial assistance from government.

While it may appear from the outside that these companies can wait for assistance, this is not the case. Decision to cut costs, cut salaries and stand down staff are already being made, as it becomes apparent that many companies will not be able to continue exploration programs, due to lack of access from recent new restrictions, or lack of capital to fund these activities.

Standing down staff and cutting exploration programs are the primary two cost cutting option companies have within their control. Jobs are being lost now.

AMEC is not seeking special treatment for our members. We are simply asking to receive the same financial support being offered to all other business and industries.

The intent of these assistance programs has been to keep people in jobs. Without this support, many jobs will be lost across our industry in key positions. And these people will end up requiring other financial assistance from Government.

⁴ <https://asic.gov.au/for-business/small-business/>

AMEC strongly believes that mineral exploration companies meet the intent and the principles of the Jobkeeper program, and these companies and their employees should be able to access the program.

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