29 August 2011

The Executive Officer
Economic Development and Infrastructure Committee
Parliament House
Spring Street
East Melbourne, Vic 3002

Dear Sir/Madam,

Castlemaine Goldfields Limited – Inquiry into Greenfields Mineral Exploration
And Project Development in Victoria

BACKGROUND
Castlemaine Goldfields Limited (CGT) was floated on the Australian Stock Exchange in 2005 under the name of Alexander Resources Limited, with its stated objective of exploring its key assets – a portfolio of major Central Victorian goldfields - Castlemaine, Tarnagulla and Sebastian. The company name was changed in 2006. Aged mining and exploration licences were part of the portfolio at the time of the initial public listing which itself took a number of years to come into fruition.

Up until the acquisition of the Ballarat Gold Project in 2010, the company had raised some $17m in equity and had spent $13m directly on exploration. $9m of this total exploration spend was focused on the Castlemaine goldfield where in 2008, a JORC Inferred Resource of over 600,000 ounces of gold (18.6 tonnes) was released to the market.

MINERALS COUNCIL OF AUSTRALIA (MCA) SUBMISSION
CGT is a member of the MCA and supports the submission by the Victorian Division dated 19 August 2011. In particular, we emphasize the following points raised in that submission:-

- Significantly streamlining regulations will improve the attractiveness of Victoria within which to explore and invest,
- Policy and regulatory environment – seeking greater efficiency, effectiveness and consistency. We support a whole-of-government approach to project approvals – a one stop shop,
- A well resourced and business and success focused Geoscience Victoria is critical to enhancing the prospectivity opportunities of the state, and promoting the state as a good place to invest, and
- Many of the features relating to the Stage 1 reforms to the Mineral Resources (Sustainable Development) Act (MRSDA) were opposed, and remain so.

We wish to make comment on the terms of reference that have specific relevance to CGT.
CGT SUBMISSION

We applaud the stated objective of the Department of Primary Industries – Earth Resources in “improving security of tenure for industry proponents that have a demonstrated intent to develop Victoria’s resources”. However we see conflict with this objective and the legislative changes being introduced to force reductions in licence holdings, usually occurring due to the failure of previous licencee’s meeting their spend obligations.

Factors outside of the control of the current licencee could also affect their spend obligations; these include the investment climate at the time limiting funding (e.g. downturn in commodity prices, the GFC). Some of the proposed prescriptive Stage 1 reforms are not helpful in this regard.

Furthermore, while the company broadly supports the introduction of Retention licences contained in the MRSDA amendments, we have serious concerns regarding the changes to many aspects relating to existing exploration and mining licences.

We cannot explore unless we can raise equity from shareholders. We need the State Government to openly promote and support the mining industry in Victoria to change the mindset of many investors.

Capital is mobile – money will go where it is welcomed. Streamlining regulations and reducing onerous prescriptive requirements whilst remaining within accepted but flexible guidelines is key to being able to promote the prospectivity and opportunity in Victoria. Given the long timeframe (> 5 to over 10 years) required to explore and bring any successful exploration find into production, and the significant capital investment required over this time (>$50m), security of tenure is critical. The industry is very concerned about sovereign risk associated with changing land tenure, in particular the forced relinquishment requirements.

It is self evident that the introduction of a gold royalty regime will be another tax on a gold industry already struggling to maintain let alone attract significant investment (e.g. Unity Mining’s closure of Bendigo, Gold Field’s exit and Northgate’s reducing greenfields exploration footprint).

The funds raised by CGT for exploration on the Castlemaine, Sebastian and Tarnagulla goldfields were limited to relatively small amounts of capital due to little investor appetite for Victoria. The fact that CGT held virtually all the historical Castlemaine goldfield (the third largest in Victoria, and fifteenth largest in Australia) was pivotal to the ability to achieve the capital raisings. The attraction for our company and new investors was that we could evaluate the geological structure of the entire goldfield and not just pockets of it.

The success of previous owners of the Ballarat goldfield, and now CGT, also lie in the fact that for the first time this historically prolific goldfield (the second largest in Victoria and fifth largest in Australia) has been amalgamated and explored as one geological and investment entity – the sum of the parts are indeed much greater than the whole. This licence consolidation came at appreciable cost to preceding companies and their shareholders but done in recognition of the compelling business case to do so.

The forced breakup of strategic ground positions due to narrow prescriptive relinquishment requirements by companies that have a proven track record for active exploration programs will not encourage further exploration activity.

For example, CGT allowed the Fryerstown EL (produced over 3.5 tonnes of gold) within the Castlemaine goldfield to expire in January 2011 as was required (ten year anniversary). This has
now created a hole within the goldfield that would be unattractive to an investor in its own right, and remains vacant to this day.

We need security of licence tenure to continue to invest exploration dollars. In this regard we have been frustrated over the years by being threatened with licence termination because of the non-compliance with regulations by previous licensees. Such pressures can also lead to disjointed and ineffective exploration done merely to meet minimum spend requirements.

The age of a licence and the history of expenditure, or lack thereof, should not be used to place unreasonable demands on a new licensee who is well credentialed and financially capable of meaningful exploration.

The strict enforcement of overall licence terms where ownership has changed will result in aging licences having no commercial appeal and hence a discouragement to exploration. Consideration should be given to the “re-setting” of the licence conditions on transfer.

Concerns over “nuggetty gold” have also been raised by this company with DPI in the context of changes to the MRSDA. Nuggetty gold mineralisation does not readily fit into JORC considerations in the legislation, and therefore is problematic as a requirement in justifying licence retention / extension.

What is more, nuggetty gold can readily result in the need for extended periods of exploration, possibly more than that allowed for in the new requirements to reduce ground positions in a preordained schedule (greater than the 5 + 5 year anniversaries stipulated). This also impacts on the tests for Retention and Mining licences in the amending legislation.

We do not advocate that anyone should be able to hold ground without an active, relevant and meaningful exploration effort. However we believe there is no evidence that gold exploration is being held back due to the inability of new explorers gaining ground positions. To the contrary, we drop ground in accordance with requirements to see it lay unclaimed and idle (EL4372, EL4542, EL5166, parts of EL4536 over time).

It would be incorrect to believe that the new Stage 1 reforms will see licence turn-over resulting in new players entering Victoria to invest. CGT have five major tenement packages which underpin our strategic business plan and appeal to investors. We hold in excess of 700 sqkms of combined MINs and ELs, some of which have had major mining houses explore on and leave the state (WMC, Newmont, CRA/RioTinto, Aberfoyle). Tenement “churn” is not the answer to attracting exploration and mining companies to invest in Victoria.

Having acquired the Ballarat Gold Project in 2010 and successfully raising $55m in the last two years, we now have an expanded portfolio with an increase in the number of ageing mining and exploration licences that nonetheless cover highly prospective and very strategic ground positions in the Central Victorian goldfields. We need the certainty that we can conduct well thought through exploration programs where new and improving technologies can be applied, knowledge is gained and then more broadly applied to these entire goldfield tenement packages without the unnecessarily tightly prescriptive “use it or lose it” licence legislation driving exploration investigations and licence relinquishment.

We hold the strategic package of licences at Ballarat, most of which are mining licences (MINs), each which contain gold resources although not to JORC Code publishable standards. We are about to return Ballarat East into gold production, and are re-evaluating the economic viability on adjacent licences. Holding the existing package of licences together, complimented by the potential from the Castlemaine, Berringa and Tarnagulla goldfields, will be the best way to optimise the infrastructure and tenement potential for all stakeholders.
CONCLUSION

The Company hopes that the Inquiry will identify measures to simplify and improve regulatory and approvals processes as well as introduce initiatives that will remove the delays that currently plague the approval process for both exploration and mining.

The company hopes that the prescriptive tenement licencing arrangements, proposed by the previous state government, and covered in the Stage 1 reforms to the MRSDA, are critically reviewed in light of the practical and negative impacts these will have on the industry.

Yours sincerely,

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