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31 March 2003

The Tenement Management Officer
(Therese Taylor)
Mineral Resources Tasmania
PO Box 56
ROSNY PARK TAS 7018

Dear Ms Taylor,

**RETENTION LICENSE 3/1997 – WILLIAMS CREEK
REPORT FOR EXPENDITURE YEAR ENDED 30/6/02**

You wrote to me on 17 October 2002. When I was about to reply there was a phone call from the Registrar of Mines, Mr Burgess, in which a number of matters were discussed, including expenditure, and our hesitancy about renewing the Retention License because of the large amount of time, money and paperwork involved, and the hesitancy or slowness of rock users to go into a new venture. In that conversation I thought, wrongly as it turns out, that the “estimation of expenditure return” for the year ended 30/6/02 was resolved and ended, and therefore I did not reply formally to your letter of 17 October. Please accept my apology.

The estimation and apportionment of expenditure for annual reports has always been difficult, as was stated in early returns, because salaries paid to me as a highly-qualified and experienced geologist, and to my wife, have been ‘nominal’, which means, as stated in earlier reports, that the company does not pay us real money. That is because it is our money and we would have to pay taxes and on-costs after giving it to the company and then paying it back to ourselves. That it was permissible to handle it that way was decided in discussion early in the exploration period. The amount allowed for nominal salaries is reasonable given my qualifications. I have had a lifetime in coal and iron ore exploration and mining, Geological Surveys, dam sites, consultancies with BHP and other companies, publications, and University professorships, and I have Fellowships in AusIMM and other institutes. My wife has a BSc and a Diploma. So the nominal payment of \$50,000 for salaries is possibly too low in industry terms (see box).

The problem is where to enter the salary component in the 'Expenditure Statement' form. In earlier years and for 2002 I included it in 'Geology', because we are geologists. We recognise that in the Retention License phase there is no need for more geology. The Retention License was granted because geological work had demonstrated a workable resource. The next need was not more geology but the tough business that includes 'marketing'. In that phase the geology that is known is essential and has to be communicated to non-geologists who are specialists in engineering, shipping, buying and other activities. The primary market target has been Japan because of its size, but success has been delayed because Japan's economy has been stagnant for years. The event of 11 September 2001, and the Iraq war, have caused an American company to go into 'recess' at a point where it seemed that we would be successful. On the way there have been unexpected experiences. For example, when I told a Board table of BT executives that capital expenditure for the project would be \$20 million the people looked alarmed. The Chairman said words to the effect that "I'm sorry, but we are only interested in projects of \$1 billion or more. We thought your project for a superquarry fell in that ball-park but it is actually far too small for us".

I have written to you at length to try to say that the project is basically dependent on geology (which is superb) but in 2002, and currently, was and is dependent on marketing and financial, shipping, and wharf and transport problems at the buyer's end. These matters are being handled patiently. How to apportion the efforts and costs between geology and other things so as to make an entry on the expenditure form has been a problem. In the 2002 return, I entered \$50,000 under Geology, because we are geologists. The amount does not seem to fit in 'Feasibility Studies' or 'Administration' but if it is important could you please move it to one or both of them?

Yours sincerely,

H.J. HARRINGTON
DIRECTOR