

PROPOSED ACTION PLAN

National Government Gives [March 2009]:

1. National Govt's 76.4 million shares will be given in a trust for Bougainvilleans. Trust to be supervised by UN, World Bank or some such eminent body.
2. The tax from mining will be shared equally between ABG and the National Govt until such time as the autonomy referendum takes place in 2015. First three years after signing of New BCA tax free.

ABG Gives [March 2009] and Forgives:

1. Peace, good law and order and favorable investment climate and tax regime that includes exemption from dividend withholding tax and interest withholding tax
2. All Guns to be surrendered: Bougainville to be a Gun Free Zone. Combatants to be paid two rates: one rate for each home made gun surrendered already (the records of this exist already) another rate for automatic guns. Negotiations with Me'ekamui; removal of road blocks.
3. Opening of Arawa port and Aropa airport

Landowners Give [April 2009] and Forgive:

1. Support for New BCA unanimously endorsed in a Mining forum meeting
2. Unrestricted and free access to BCL without any fear

New BCA signed [April 2009]:

Jointly signed [ABG, National Govt, Landowners and BCL] New Bougainville Copper Agreement [BCA] that includes lifting of moratorium on leases and permission to mine New BCA to be signed as a Supplemental Agreement appended with the Old BCA preferred time frame April 2009.

BCL Gives [April/May 2009] after signing of the New BCA:

1. K11 million plus interest to landowners at signing of New BCA
2. Agreement to give royalty of 3.5% of sales to landowners; cash flow to commence when ore ready for milling is processed [commencing early to mid 2010]
3. Debt raising by RIO against future copper and gold production maybe by issuing copper bonds to Chinalco
4. Training facilities for Bougainville youth, support for Radio Bougainville

SUMMARY OF SALIENT POINTS FOR SUPPLEMENTAL BCA AGREEMENT February 27, 2009

Gold USD 942.60 per troy ounce, Copper USD 1.58 per pound; K1=USD 0.3785
K1=AUD 0.5667 AUD1= 0.66 USD. Interest rate 7.5%

Three streams of ongoing sustainable cash flow from BCL and their proposed beneficiaries:

1. Taxes: Approx K 458 million per annum split 50:50 between ABG and National Govt about K 229 million per annum to each.

2. Dividends on 76.4 Million shares: Beneficiaries to be split 50:50 between 50% for all adult Bougainvilleans, and the remaining 50% for Landowners. Quarterly dividend payments to them to be managed jointly by the National Govt and ABG. The ownership of shares to be held in trust by the ABG and BCL. The dividend stream is K 133 million per annum.
3. Royalties: 3.5% of revenue attributable to mining area to be mapped and paid out to individual title holders on a monthly basis. Annual royalties of K100 million per annum; this is about K 19,937 per annum per adult landowner or K 1,661 per adult landowner per month. No dividend withholding tax will be applicable on dividends paid on BCL shares.

Non Recurring one-off payment: At the time of signing of the New BCA BCL will pay Landowners payable to them since 1990 of K1.4 million per annum plus interest plus expenses incurred.

THE OPPORTUNITY PRESENTED BY BCL AS A GOING CONCERN

I. Root Cause of the Problem

The root cause of the problem was the unfair distribution of income amongst the three main interest groups viz Landowners, North Solomon Provincial Government and the National Government. During its 17 years of life from 1972 to 1989, 58.4% of benefits received from the mine went to the National Government, and only 4.8% to the Provincial Government with merely 0.2% going to Landowners. The remaining 36.6% went to Non Government shareholders for their risk capital, technology and management; that was quite fair.

II. 1987 Production and Prices

In 1987 when there was no Additional Profits Tax, when average **copper price was US 81 cents per pound and gold price was USD 446.7 per troy ounce**, the Earnings per share were 24.83 USc (Earnings of USD 99.55 Million). Total concentrate produced was 585,500 Tons grading 30.4% Copper, and 25.1 grams per ton of gold. This corresponds to 177,992 Tons of copper or 392 Million pounds worth USD 318 Million at US 81 c per pound plus $585,500 \times 25.8/31.1 = 485,720$ troy ounces worth USD 217 Million. Total sales of USD535 million per annum and net profit of about USD100 million per annum.

III. Valuation of Shares, Taxation & Royalty as a going concern

If we assume the same level of production as in 1987 and the current price of copper at USD 1.58 per pound and gold at USD 942.60 per troy ounce the extra sales will be

$392 \text{ Million pounds} \times [1.58 - 0.81] = \text{USD } 302 \text{ Million}$

$485,720 \times [942.60 - 446.7] = \text{USD } 241 \text{ Million}$

Incremental Sales = USD 302 + 241 = USD 543 Million

Total Sales per annum = 535 + 543 = USD 1078 Million

Royalty

It is proposed to pay a royalty of 3.5% of sales to landowners

This will be USD 37.73 Million or **K 99.7 Million per annum**

If we assume there are 5000 adult descendents of the original 510 titleholders, this corresponds to K 19,937 per annum or K 1,661 gross per adult landowner per month. Royalties must be 3.5% Special Mining Lease Title landowners only; no sharing with ABG who are separately getting generous revenue from taxation (not available to Landowners). These shall be split 70% to individual title holders and 30% to a Future Generation Fund or Non Renewable Resources Fund. Should this split occur monthly payment to individual landowners will be $0.7 \times 1,661 = \text{K } 1,163$ net per month.

Income Tax

Income Tax in 1987 = USD 55.7 Million

Interest Cost in Year 1 = USD 113 Million 7.5% interest rate on US\$1.5 Billion

Incremental Tax = $0.3 \times [543 - 113 - 38] = \text{USD } 118$ Million

Tax per annum = $55.7 + 118 = \text{USD } 173$ Million = **K 458 Million**

Earnings per share

Incremental Profit After Tax = $0.7 \times [543 - 113 - 38] = \text{USD } 274.4$ Million

Total Profit After Tax = $100 + 274.4 = \text{USD } 374.4$ Million

Incremental Eps = USD 0.68

Total Earnings per share = USD 0.93 per share

Dividends per share

The loan of US\$1.5 Billion will be fully repaid in 7 years. Let us assume a dividend payout ratio of 70%.

Dividends per share in first 6 years while loan is being repaid = USD 0.651 or \$A 0.99 or K 1.74

Dividends on 76.43 Million shares = **K 133 Million per annum**

Valuation of shares Copper prices have increased from 81 US cents a pound in 1988 to about US 1.58 cents a pound and if the mine were running at the pre-89 capacity, earnings per share would be about 3.7 times the then eps of 25 US cents a share. In the late eighties the shares hit a high of \$A7.20; on a similar valuation basis the shares could hit a high of \$7.20 times 9.6 or \$A 26.78 .

On a more conservative P/E multiple of 12, the shares should be valued at USD 11.16 or AUD 16.90 provided no new shares are issued. This corresponds to K 29.84 per share

The 76.43 Million shares would be valued at **K 2,280 Million**. Hard facts requiring negotiation and distribution predominantly for Bougainvilleans:

Shares with an intrinsic value K2.3 billion plus Annual Income available to

Bougainvilleans/PNG of $\text{K } 458 + 133 + 100 = 691$ Million per annum or about K 2.7 million per working day comprising:

- Annual Tax of some K 458 Million; shared equally between ABG and PNG Govt
- Annual Dividends worth K 133 Million to Bougainvilleans
- Annual Royalty to landowners worth K 100 Million

If we assume there are 70,000 adult Bougainvilleans and the dividends are distributed equally amongst them, each adult Bougainvillean will receive about K 1,428 per year.

Kina Values 1988 figures are actual, NEW BCA 2008

If taxes are shared 50:50 between National Govt and ABG/Bougainvilleans
And if dividends from shares are paid equally among all distributed in the ratio of 1/2:1/2
for Bougainvilleans: Landowners

The mine life based on proven reserves is 14 years. But if the moratorium on exploration is lifted, the mine life will extend to about 30 years. Also, that will provide greater benefits of royalty to the new landowners in whose leases those areas exist.

There is a big quantum leap in benefits for Bougainville:

- New BCA provides ABG/Bougainville income from dividends and taxation of about K229 Million p. a., from 2012; this is a whopping increase from merely K5.5 Million received per annum in the pre 1988 era.
- New BCA provides for Landowners to receive about K 100 million per annum from Royalty and half of K 133 Million per annum from dividends or total of K 166.5 Million from about 2011 compared with about K0.2 Million p.a. in the pre 1988 era
- New BCA provides equity ownership by Bougainvilleans and Landowners each of some K1.15 Billion worth of shares in BCL compared with zero shares earlier.

It is obvious that this will be the biggest step forward for Bougainville in their history and all Bougainvilleans need to be united in the pursuit of this goal. The Supplemental Bougainville Copper Agreement (2008) needs to be agreed by the initiators viz Landowners together with the ABG, the National Govt and BCL. This bottom up approach will help in fast tracking development which will deliver K5 million per day of benefits from the mine.

IV. Stock of Ore & Waste Removed

If we add the 18-year data of the two rows from the Table in the last two pages of the Annual Report we find that:

- Ore and Waste Removed in the 18 years was 1248 M Tons
- Ore Milled was 675 M Tons
- On average the company mined about 69.3 Million tons per year [or 1248/18] and milled about 37.5 Million tons per year [or 675/18]. The difference between these two figures is 573 M Tons. The company has not stated what percent of the mined ore was waste. But it is believed the ore stockpile is enough for 2 to 3 years of milling. So the mining equipment can come after 2 years of start-up. The mining equipment costs more. It is also believed a phased expansion is possible. This means maybe a few hundred million dollars of investment at start will be enough; later a billion dollar worth of investment would be required. That will be easier to raise once a profitable operation has commenced at Panguna. That is a big plus for speedy cash flows: tax revenue for ABG, royalties and dividends for landowners and Bougainvilleans.

V Mine life

Panguna has a mine life left of more than twenty years based on known proven reserves, on top of the 17 years in the period 1972-89. If the moratorium on exploration is lifted

over the 7 other leases held by BCL there is a high probability that another Panguna sized deposit will be found with a further mine life of 37 years. That is twenty years proven reserves plus 37 years likely reserves.

VI. Why should Bougainvilleans sell the copper and gold for developing their economy and human resources?

In the book “Stocks for the Long-Term” Jeremy Siegel has compared the relative performance of US stocks vs gold, inflation and bank deposits. The Wharton research he headed revealed that a dollar invested 200 years ago was worth \$7.2 million if invested in U.S. stocks, about \$11,500 if invested in bank deposits but merely \$13 if invested in gold. Given that copper price has risen only six fold in the last 100 years it is best that Bougainvilleans sell this and use the proceeds for development of their most precious resources viz their human resources; also tourism, cocoa and fisheries. Sell mining resources to build human resources over the three next generations. America sold their copper and gold in the nineteenth century so they could invest the profits from underground deposits to what was above ground including its people.

VII. Assumptions

- 1) Current price of copper at USD 1.58 per pound and gold at USD 942.60 per troy ounce.
- 2) A capital investment of USD 1,500 Million which will be made wholly via non-recourse loans or non-voting preference shares by BCL at an interest rate of 7.5% per annum, with loan repayment in about 7 years of USD 273 Million per annum. In Year 1 the interest cost would be USD150 Million. The loan of USD 1500 Million would be fully repaid in seven years from profits.
- 3) **No new ordinary voting shares will be issued by BCL.** (This will help in maximizing the value of shares as well as Dividends received by the National Government, ABG and Landowners).
- 4) To allow for carried forward tax losses to be used fully and to encourage BCL to speedily invest a larger amount of capital (which will help Landowners to earn more royalty and the ABG/National Government to earn more from dividends and taxes) offer BCL a tax free status for first two years of full production viz 2010 2011. There shall be no dividend withholding tax.
- 5) A tax rate of 30% will apply from 2012. (It will take BCL at least 2 years to get into production so this tax concession will be available for only 3 years during which time they would anyway utilize their carried forward tax losses). This tax will be split equally and paid directly by BCL to the ABG and the National Government
- 6) Current exchange rate of K1 equals US 37.85 c and Aus 56.67 cents.
- 7) Landowners will get royalty at 3.5% of sales per annum. This is higher than the rate of 2% provided in the Mining Act. As a quid pro quo there shall be **no dividend withholding tax paid on shares of Bougainville Copper**, which will also be beneficial to landowners as shareholders of BOC. The dividend withholding tax rate is currently 10%
- 8) No credits are assumed for Molybdenum