



BOUGAINVILLE  
COPPER LIMITED

# **Bougainville Copper Limited ABG Revenue and Tax Summit**

## **Development of the New Panguna Project – Potential Revenue Streams**

**September 28, 2017**

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## Presentation Outline

- Introduction
- Project Funding Challenge
- Potential Project Timeline
- Key Project Assumptions
- Potential Government Revenues
- Conclusions

- New Panguna project status
  - BCL's four stage development plan accepted by ABG
  - Tenure – The process of renewing EL1 is delayed
  - SMLOLA leadership dispute stalling project progress
- Large mining projects need fiscal surety
  - Some project parameters are known - Bougainville Mining Act
  - Some areas of longer-term fiscal uncertainty – What will be the Tax regime, (PNG Government legislated taxes or a new ABG Tax Act)
- Impact of uncertainty
  - Project viability, decision making and funding at risk – assumptions being made
  - BCL and Financiers must have certainty of fiscal regime
  - Project funding not possible without certainty
  - 2019 Referendum creates fiscal uncertainty due to political uncertainty



BCL's needs to raise significant funds at two different stages of the project:

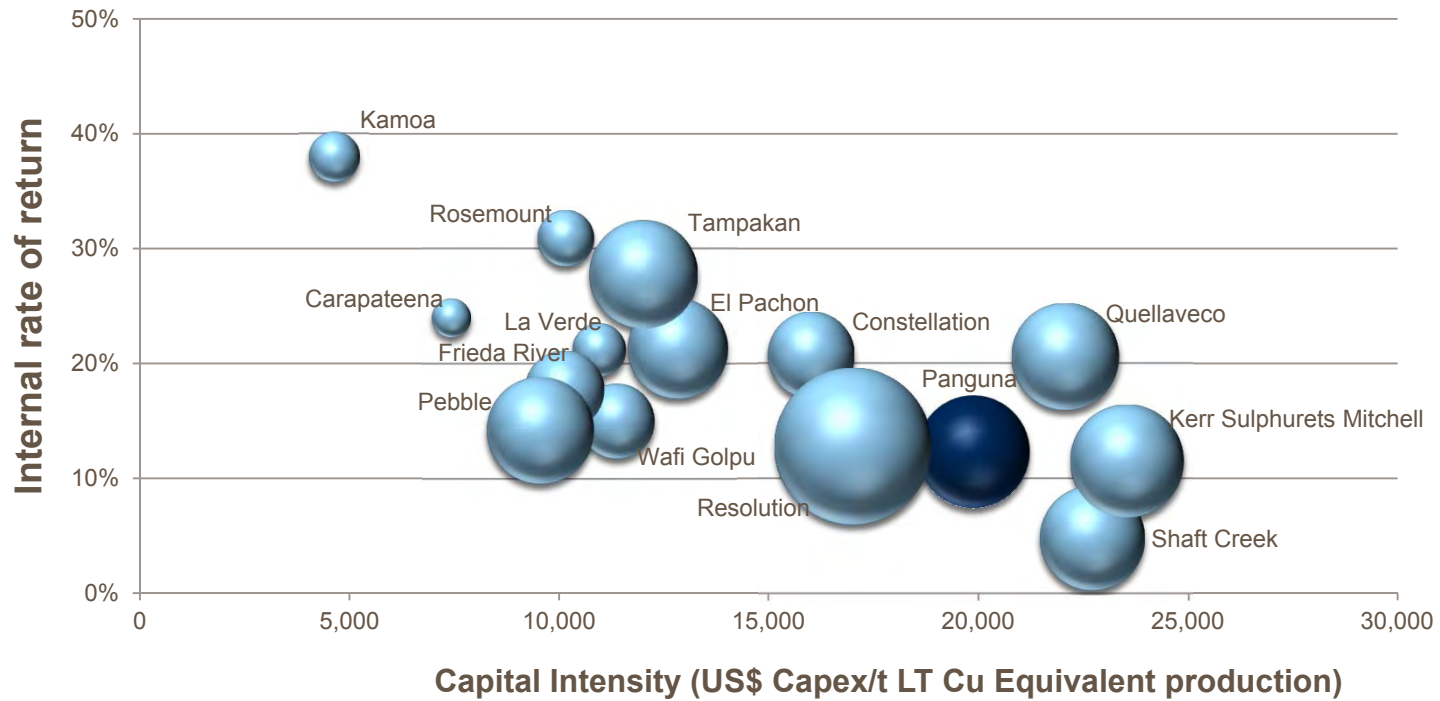
- Bankable Feasibility study >US\$100 million (funding estimated to be required by end 2019)
- Construction - US\$4 - 6 billion (funding estimated to be required by end 2021)

Construction Funding:

- Very large projects like Panguna have limited funding options, and therefore intrinsically must have:
  - Above average financial returns
  - Low sovereign risk, including social, political and fiscal regime risk
  - Be internationally competitive

## Panguna project competes with other projects Not all projects can proceed

### Copper Projects with Capital Spend >US\$1B

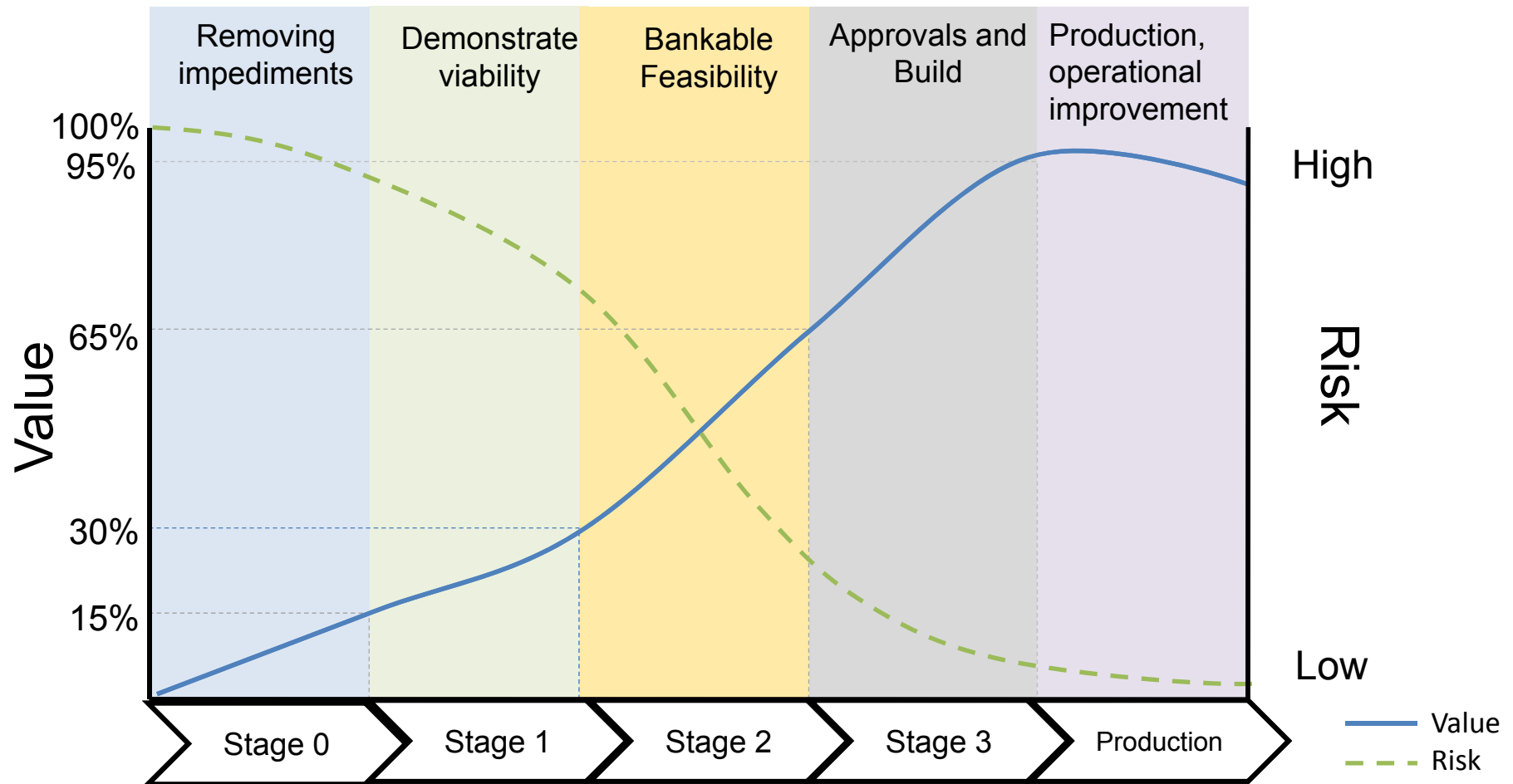


Bubble size denotes forecast capital cost

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# Staged Panguna Development - Value versus Risk



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# Potential Project Timeline

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
De-risking pre-feasibility work - incl. community engagement		→								
Bankable Feasibility Study - incl. raising FS financing				→						
Project Financing						→				
Construction							→			
Production									▲ →	

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## Major project operating and pricing assumptions

### Commodity Prices

Long term copper price – US\$3.00/lb.

Long term gold price - US\$1,300/oz

### At the Base Case annual 60 mtpa milling rate:

Contained copper production: 178,000 tonnes pa

Contained gold production: 570,000 ounces pa

Operating mine life: 25 + years

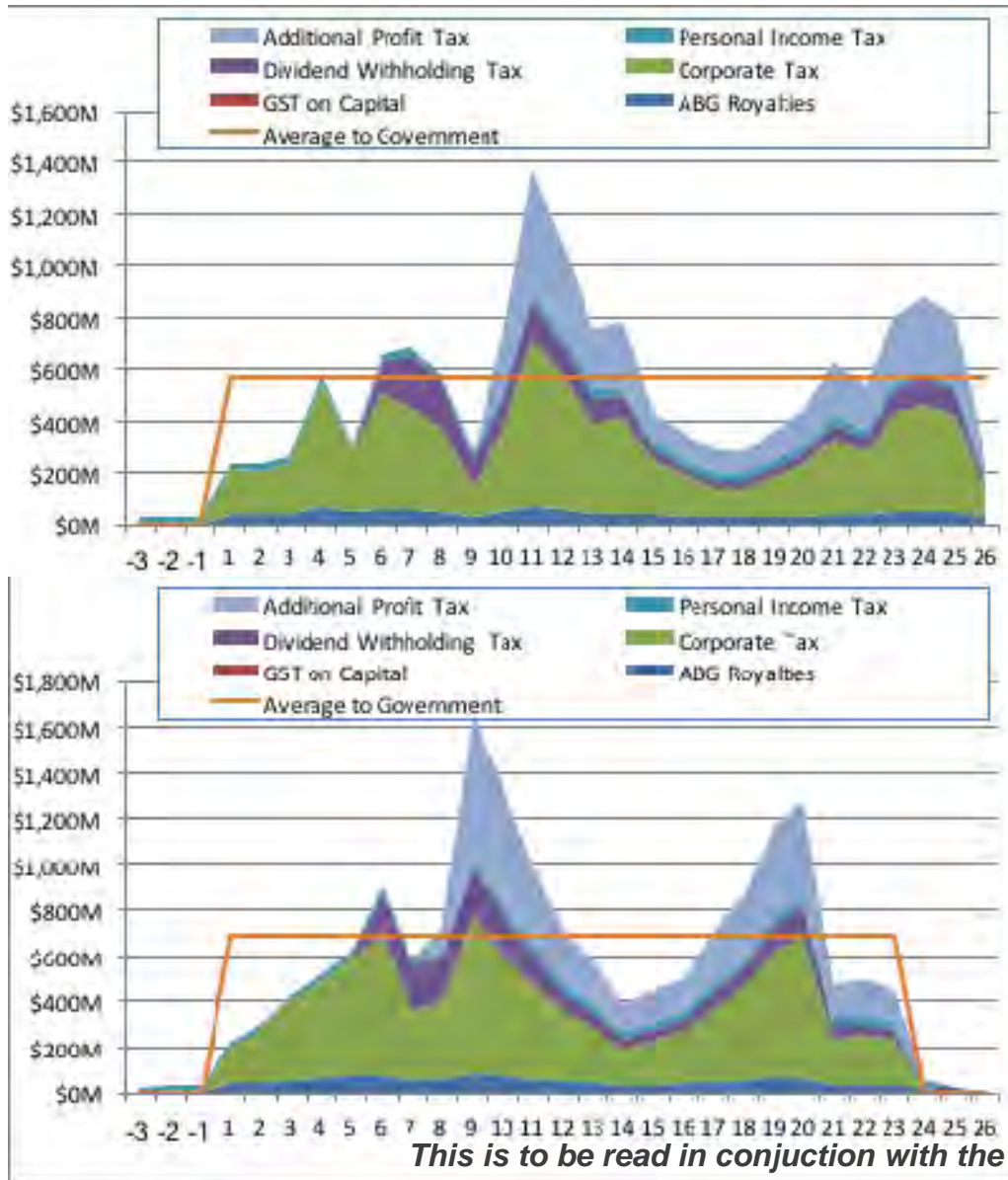
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## Project Fiscal Assumptions

	Rate	Basis
<b>Landowners</b>		
ABG Regulated Compensation Payments		During project development and mine operations
Free Carry Equity in BCL	5%	Project capital & dividend earnings
Royalty	1.5%	Net Revenue
<b>ABG</b>		
Royalty	2.25%	Net Revenue
<b>PNG Government</b>		
Corporate Tax	30%	
Additional Profits Tax	30%	After corporate tax surplus earnings
Dividend Withholding Tax	15%	Dividend earnings
GST	10%	On motor vehicles
Personal Income Tax	Various	

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# Potential payments to Government



	60Mt US\$M p/a	90Mt US\$M p/a
ABG Royalties	44	53
Corporate Tax	286	345
GST on Vehicles	0.2	0.2
Dividend Withholding Tax	70	82
Additional Profit Tax	133	178
Personal Income Tax	30	33
<b>Total</b>	<b>563</b>	<b>691</b>

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## Comparison of International Tax Regimes for CU/AU

	PNG/ABG	Chile	Indonesia	Australia	Sth Africa	Mongolia
Company tax rate	30%	17%	25%	30%	28%	25%
Other Mining Taxes	No	14%	No	No	No	No
Additional Profits Tax	Yes  30%	No	No	No	No	No  “Windfall profits tax” repealed in 2006
Free Carry of Equity	5%	No	No	No	No	No
Royalties	3.75% - (combined ABG and landowner)	4.5%	Cu: 4.0% Au: 3.75%	Cu: 3.5% Au: 2.5%	Up to 5%	Up to 5%
Dividend Withholding Tax	15%	35%	20%	30%	10%	20%

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## Major project operating and pricing assumptions

- The New Panguna mine , when developed and operational, could generate significant tax revenue (+US\$560 million p/a)
- The Bougainville Economy must also develop other formal sectors – Fisheries, agriculture and tourism
- The mine will also have a wider multiplier stimulus to the economy
- The Mine will be inclusive of local business involvement. Tax compliance will be a preequisit .
- Project currently stalled due to SMLOLA leadership dispute
- An excessive tax burden, like PNG’s “Additional Profits Tax”, reduces project value and probability prevents the Panguna mine from ever being redeveloped
- Developers and financiers require fiscal certainty
- At the end of Stage 1, BCL will not be able to secure required US\$100 million funding for its Feasibility Study (end 2019) unless the ABG and National Government can provide assurances as to what taxes will apply in the long term
- A potential pathway is a joint agreement between the ABG and the National Government regarding applicable taxes, specific to the Panguna project