SUMMARY OF SALIENT POINTS FOR SUPPLEMENTAL BCA AGREEMENT
May 9, 2008

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

1. **Taxes: Approx K1,217 million per annum split 50:50 between ABG and National Govt about K609 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 K367 million per annum or K184 million to all adult Bougainvilleans and K184 million to Landowners.**
3. **Royalties: 3.5% of revenue attributable to mining area to be mapped and paid out to individual title holders on a monthly basis. Royalties payable of K 37,400 per annum. 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
(Updated on May 7, 2008)
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 Tonnes grading 30.4% Copper, and 25.1 grams per tonne of gold. This corresponds to 177,992 Tonnes of copper or 392 Million pounds worth USD 318 Million at US 81 c per pound plus 585,500 x 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. Assumptions

1) **Current price of copper at USD3.88 per pound and gold at USD 878 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 277 Million per annum. In Year 1 the interest cost would be USD 112.5 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 and 2011. There shall be no dividend withholding tax.
5) A tax rate of 30% will apply from 2011. (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 35 c and Aus 37 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%

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 3.88 per pound and gold at USD 878 per troy ounce the extra sales will be
392 Million pounds x [3.88-0.81] = USD 1203 Million
485,720 x [878 – 446.7] = USD 210 Million
Incremental Sales = USD 1203 + 210 = USD 1413 Million
Total Sales per annum = 535 + 1413 = **USD 1,948 Million**

Royalty
It is proposed to pay a royalty of 3.5% of sales to landowners
This will be USD 65.5 Million or **K 187 Million per annum**
If we assume there are 5000 adult descendents of the original 510 titleholders, this corresponds to K 37,400 per annum or K 3,117 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 x 3,117 = K2,182 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 x [1413 – 113- 66] = USD 370 Million
Tax per annum = 55.7 + 370.2 = USD 425.9 Million = **K1217 Million**

Earnings per share
Incremental Profit After Tax = 0.7 x [1413-113-66] = USD 864 Million
Total Profit After Tax = 100 + 864 = **USD 964 Million**
Incremental Eps = USD 2.15
Total Earnings per share = USD 2.40 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 1.68 or $A 1.81 or K 4.80
Dividends on 76.43 Million shares = **K 366.9 Million per annum**

Valuation of shares Copper prices have increased from 81 US cents a pound in 1988 to about US 3.88 a pound and if the mine were running at the pre-89 capacity, earnings per share would be about 9.6 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 $A69.12.
On a more conservative P/E multiple of 12, the shares should be valued at USD 28.80 or AUD 30.97 provided no new shares are issued. This corresponds to K 82.57 per share The 76.43 Million shares would be valued at **K6,311 Million.** Hard facts requiring negotiation and distribution predominantly for Bougainvilleans:
Shares with an intrinsic value K6.3 billion plus Annual Income available to Bougainvilleans of K 1,771 Million (K1.7 Billion) per annum or about K 5 million per day comprising:
- Annual Tax of some K1,217 Million
- Annual Dividends worth K367 Million
- Annual Royalty to landowners worth K187 Million

If we assume there are 80,000 adult Bougainvilleans and the dividends are distributed equally amongst them , each adult Bougainvillean will receive about K2,293 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 K609 Million p.a, from 2011 (and an equal amount of K609 million p.a. to the National Govt) ; 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 K187 million per annum from Royalty and K184 Million per annum from dividends or total of K371 from about 2011 compared with about K0.2 Million p.a. in the pre 1988 era
- New BCA provides equity ownership by ABG and Landowners each of some K3.15 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.

Proposed Action Plan:
1.Landowners to have reconciliation followed by a unanimous representation. All of them to agree on this Supplemental Agreement, endorsed later in a Mining Forum Meeting. Preferred time frame May/June 2008.

2.Approval from majority of 4 MPs from Bougainville of 36 Members of ABG, preferred time frame end of June 2008 prior to meeting of ABG with National Govt.

3.Access to mine to be restored : unrestricted and without any fear.
- All Guns to be surrendered: Bougainville to be a GunFree 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 Meekamui; removal of road blocks so more prosperity can enter.
Youth Training Colleges to be established
- Aropa airport to be opened
- Arawa port to be opened

4.NEC Decision on broad issues:
- equity transfer so 50:50 sharing can take place between Bougainvilleans and Landowners of 76.4 Million shares
- tax 50:50 sharing between National Govt and ABG
- royalties to landowners 3.5% no dividend withholding tax
- fully delegated departmental tasks of Mining (MRA) and Environment

5. New BCA to be signed as a Supplemental Agreement appended with the Old BCA preferred time frame August 2008 to coincide with pre-feasibility Order of Magnitude study report of BCL