ASSUMPTIONS based on prices, exchange rates and YTM of RIO bonds as at January 7, 2010

Prices

Gold USD 1,129.5 per troy ounce; Copper USD 3.436 per pound; Silver at USD 18.458 per troy ounce

Exchange rates

K1=USD 0.35; K1=AUD 0.3826; AUD1= 0.9398 USD.

Financing of project cost, interest rate and repayment schedule

A project cost of USD3.5 Billion to be raised by BCL issuing bonds guaranteed by RIO and perhaps insured by EFIC after a bankabale feasibility study and after a New Bougainville Copper Agreement is signed by BCL, elected landowner representatives, the ABG and the National Govt.

Interest rate or coupon rate of 5.5% [refer snapshot from Bloomberg RIO bonds are currently trading at a yield to maturity of 4.919%].

The principal and interest amounts will be repaid over a 12-year period commencing at the time when full production levels are achieved. Monthly repayment will be USD33.5 Million. In Year 1 the interest bill will be USD187.2 Million and the principal repayment will be USD211.86 Million. It is possible the bonds may be issued as copper bonds and gold bonds based on “x” tonnes of and “y” ounces of gold sold forward.

Production

Because of improved technology methods production will be 30% higher and reserves 30% higher than 1987 levels.

In 1987 production was:

Concentrate 585,500 dry tonnes

Contained copper 178,200 tonnes

Concentrate grade was: Copper 30.4%; Gold 25.8 grams/tonne; Silver 86.4 grams/tonne

178,200 tonnes of copper equals 178.2 Million kgs or 392.5 Million pounds of copper

Gold production was 25.8 g times 585.5 thousand tonnes = 15,105,900 grams or 485,720 ounces [1 troy ounce = 31.1 grams]

Silver production was 86.4 grams times 585.5 thousand tonnes or 50,587,200 grams or 1,626,598 ounces

Projected annual revenue

It is believed that with new technology the production can be increased by 30% compared with 1987 production levels. The reserves will also be increased by 30% as a result of advances in technology. The mine life will be at least 14 years and there is a good potential for at least one more ore body to be found in the 7 leases owned by BCL on which the moratorium on exploration is expected to be lifted after production commences.

Copper: 392.5 Million pounds of copper times 1.3 or 510.25 M pounds. At the current price of USD3.436 per pound sales of copper would represent revenue of USD 1,753 Million

Gold: 485,720 ounces of gold times 1.3 or 631,436 ounces. At USD1,129.5 per troy ounce this will produce revenue of = USD 713.2 Million

Silver: production of 2,114,577 ounces at a price of USD 18.458 per troy ounce producing a revenue of USD39 million

Total Revenue from increased production and prices will be USD2,505 Million.

No revenue from Molybdenum has been assumed. The deposit contains Molybdenum but this is an unknown quantity.

Note: 1987 Revenue was 392 M pounds of Copper at USD0.81 per pound plus 485,720 ounces of gold at USD446.7 per ounce or USD318 Million plus 217 Million or USD 535 Million.

Projected Operating Costs

Operating and other expenses stood at 227.5 million or 250.25 million USD at the then exchange rate of K1= USD1.10. We will assume an average USD inflation rate of 5.5% per annum.

This would mean operating costs in 24 years (from 1987 to 2011) would multiply 3.6 times to USD901 million per annum

Projected Royalty payable to Landowners

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

This will be USD 87.68 Million or K 250.5 Million per annum

If we assume there are 5000 adult descendents of the original 510 titleholders, this corresponds to K 49,920 per annum or K 4,160 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). Royalties shall be split 70% to individual title holders and 30% to a Future Landowners Generation Fund. The Future Landowners Generation Fund will be wholly and solely for the rightful heirs and descendents of SML lease title holders. The ABG or National Govt will have no control over this Fund. The Future Landowners Generation Fund is not to be confused with the Non Renewable Resources Fund which might come from a separate cash flow stream from BCL's tax revenue belonging to the ABG.

Projected Earnings and Dividends per share

Revenue of USD2,505 M less operating cost of USD901 M less landowners royalty of USD88 M

Earnings Before Interest and Tax [EBIT] = 1516 M; Interest payable in Year 1on USD3.5 B = USD187.2 Million

Profit Before Tax [PBT] = 1516-187 = USD 1329 M,

Tax at 30% = USD398.7 M or K 1,139 M

Profit After Tax [PAT] = USD 930.3 M; EPS = USD2.32 per share

Loan repayment year 1 = USD212 M

Dividends = USD 718.3 M or USD 1.79 per share [or **K5.12** per share]

Share Price and Intrinsic Value

The attachment shows Volume Weighted Price [VWP] of Bougainville Copper shares. [Data Source: BuySellTips]. The Volume Weighted Price is the summation of turnover [or price at which shares were sold times the volume of shares] divided by the total volume and represents an average based on turnover of all transactions over the period. In 2009 the Volume Weighted Price was 63 A cents, down from 99 A cents in 2008 and 99 A cents in 2007. The 5-year VWP was A82.3 cents.

If the company was a going concern operating at full production with no uncertainty about start-up, BCA, financing the Market Capitalisation of the company would be USD12 x 930.3 M or USD 11,164 M on a P/E of 12 or USD 10,612 M on a Price/EBIT of 7. A market capitalization of USD10.6 Billion would imply an intrinsic value of USD26.46 [or **K75.6**] per share. This assumes the company will not issue any new shares and will finance the mine development wholly via bonds.

Value Add in Bougainville/PNG per annum

1. Operating cost of USD901 M or K2,574 M per annum: It is expected at least 39% of this value or K1,000 million value add will occur in Bougainville/PNG via employment and income generation for local businesses. In 1987 the BCL workforce was 3,025 PNG Nationals. If training is started now **at least 1,500 Bougainvilleans would find direct employment. As well, there will be indirect employment for about 10,000 Bougainvilleans.**

2. Royalty to landowners USD 87.68 Million or K 250.5 Million per annum: This will benefit about 5,000 adult landowners and their family members. This would imply royalties of **K 4,160 gross per adult landowner per month**. The landowners will also get dividends from the 25.466 million BCL shares they will own [this represents a third of the current National Govt's shareholding of 76.4 million shares]. **Each adult landowner will hold about 5093 shares valued at about 385,031 and producing annual dividends of some 26,076 in addition to the royalty stream**.

3. **Tax USD398.7 M or K1139 M per annum . The ABG should get 50% of this or K570 M and will share the remaining 50% or K570Million with the National Govt**. Instead of the ABG being dependent on the National Govt, it is the National Govt which will get revenues once again from Bougainville.

4. Dividends on 76.4 Million shares or K391 M: These should be held in trust to be shared one-third by the National Govt, one-third by the ABG and one-third by the Landowners. If we assume there are 45,000 adult Bougainvilleans [excluding landowners], each **adult Bougainvillean excluding landowners will own 566 BCL shares worth K42784 producing K2,896 dividend per annum**.

Milestones to be achieved before ABG Elections

1. Properly elected landowner body that will drive the BCA forward.

2. Unanimous resolution by the ABG Parliament that mining or no mining policy will be primarily determined by landowners.

3. Agreement with the National Govt that the 76.4 million shares currently owned by the National Govt will be part of a package deal stapled to the delegation of mining

powers. The National Govt got the shares in 1972 because they held the mining powers directly; now the ABG should get the shares. A unanimous resolution by ABG that as and when the National Govt gives the shares the ABG will hold them in trust with the **beneficiaries to be divided one-third National Govt, one-third ABG and one-third Landowners**. The trust will be supervised by Ausaid, the UN, World Bank or some such body. ABG and Landowners may even consider paying the last 5 year Volume Weighted Price to the National Govt funded by AUSAID/EFIC or World Bank, payable within 12 months of agreement in principle by the National Govt. **This point should be included in the forthcoming JSB.**

4. A formal invitation by the ABG Parliament to BCL for unrestricted and free access to BCL without any fear;
5. Opening of Arawa port and Aropa airport
6. Training facilities for Bougainvilleans funded by AUSAID.