MINING AND PETROLEUM
GROWING PNG'S FUTURE

Government Cash Flows from Mining Projects

FACT SHEET

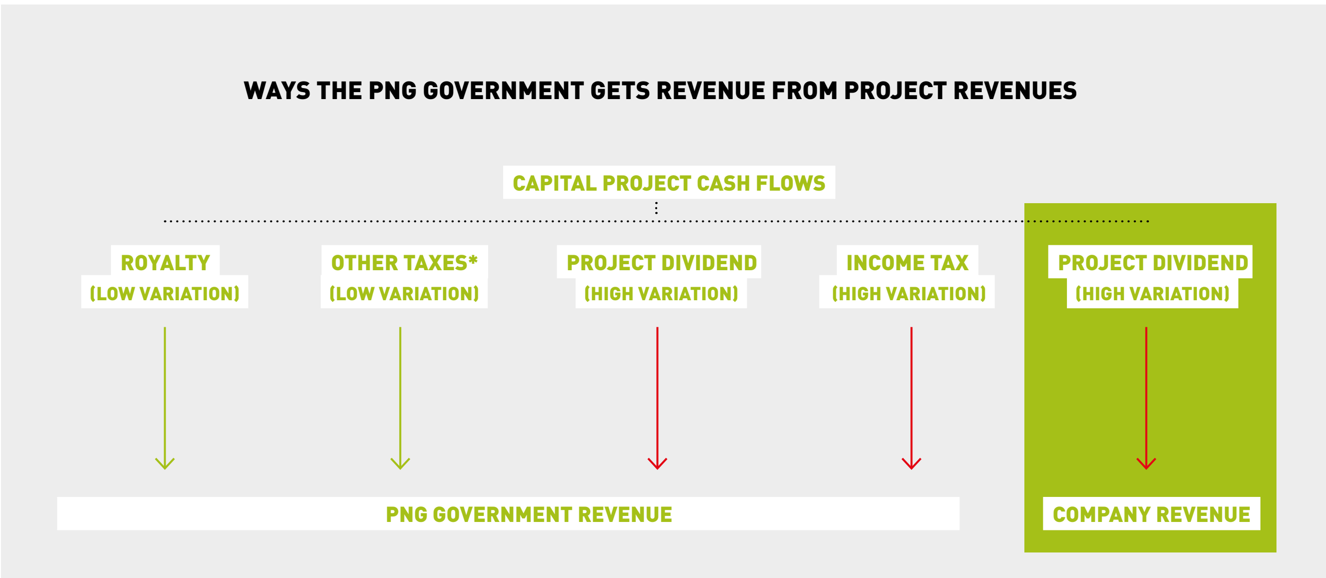
PNG is richly endowed with mineral resources and produces a wide range of primary commodities including oil and gas, gold, copper, silver, nickel, and cobalt. PNG's resource sectors have long played a vital role in the country's economic development.

PNG's mining and tax legislative and regulatory framework determines how the revenues from a mining project are distributed between the developer, the state, and local communities.

Under PNG law, there are a number of ways that the Government receives revenue from a mining project. This Fact Sheet outlines the government cash flows from mining projects in PNG and how these change throughout the life of a project.

MINING PROJECTS DELIVER REVENUE TO GOVERNMENT THROUGH MANY CHANNELS

- Mining projects deliver multiple streams of revenue to the PNG Government, including royalties; income tax and other taxes*; and dividends (if the state purchases equity in the project)
- Some of these income streams vary a lot, depending on global commodity prices, capital expenditure and the operation's profitability
- Other income streams are steadier, such as a royalty which is paid on all production regardless of profitability



*Other taxes include: Foreign Contractor Withholding Tax, Dividend Withholding Tax, Interest Withholding Tax, Salary and Wages Tax, Customs & Excise duties, Additional Profits Tax, and Goods and Services Tax. In addition to these taxes paid directly to the Government by the Developer, mining projects have a multiplier effect on taxation revenues; for example, employees at mining projects pay income tax on their wages, then GST when they spend the remainder. The shopkeeper pays income tax on his margin on sales, payroll tax to his staff (who all pay income tax) and GST on purchases. This positive multiplier cycle continues throughout the economy.

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MINING REVENUE FOR GOVERNMENT WILL GROW AND SHRINK OVER THE LIFE OF A PROJECT

Government revenue streams will vary over the life of the project.

- For example, royalties will result in revenue as soon as an operation reaches production; while company income tax only becomes payable much later, when the project starts to make a profit
- This means that government revenue from long-term resource projects will usually be low at the beginning of the project, and increase over time
- Salary and wages taxes also provide a steady flow of revenue, beginning at exploration and continuing throughout the life of the project

Companies must make large capital investments to bring a project into production

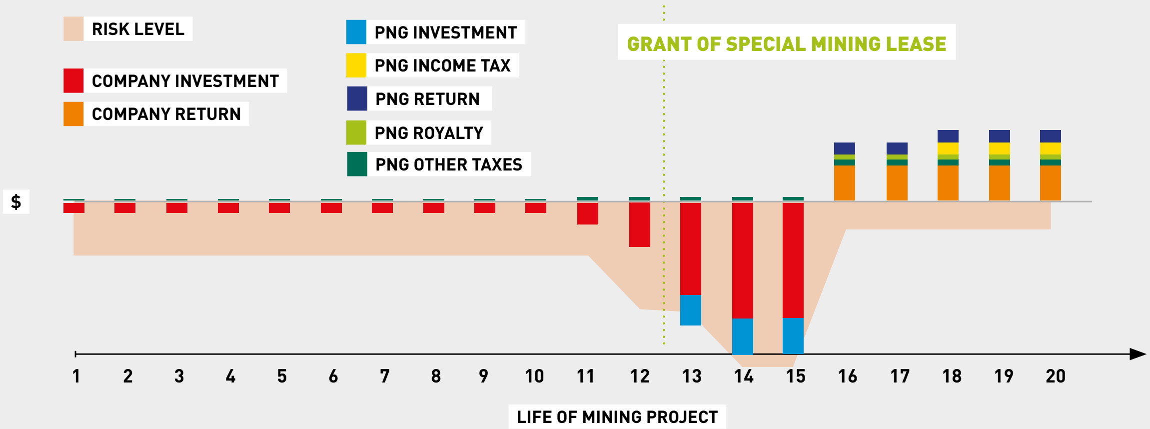
- Mining projects are often found in remote areas where government infrastructure and services do not exist
- Operations must therefore build considerable infrastructure including roads, bridges, airports,health facilities, electrification, telecommunications, ports, accommodation, and supporting businesses (agriculture, logistics, etc.)

Following the significant capital investment, it takes time before these operations start making a profit

- Under PNG tax law, income tax is paid to the Government only when the project begins to make a profit
- Companies continue to pay royalties and other taxes* throughout the life of the project

A MINING PROJECT IS A LONG-TERM INVESTMENT

It takes many years before the government or company begin to see returns on their investment.



MINING COMPANIES BEAR SIGNIFICANT RISKS AND COSTS TO BRING A MINING PROJECT TO PRODUCTION

To develop a mine, a company must independently invest money to explore and assess the feasibility of project over a number of years (usually decades) before receiving a Mining Licence.

This is a period of high uncertainty with a lot of unknowns as to whether a project will ever be economically viable. Only a very small proportion of projects get to the point of receiving a Mining Licence.

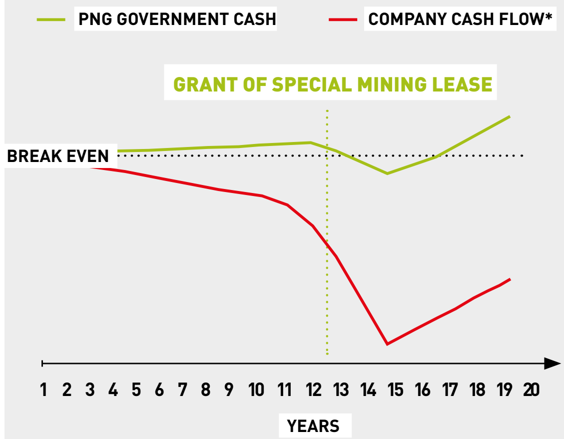
The PNG Government has the option to invest in projects once they move forward, but it is protected from many of these early risks:

- By the time the government decides to invest, the project has been defined well enough to make an economic return
- As the PNG Government invests in projects when they are much closer to production, the returns on capital investments have much higher confidence levels and much shorter payback periods

In contrast, companies must commit significant funds into a project from the beginning and throughout the entire project lifecycle:

- Companies must spend much more capital with no guarantee of return and longer payback periods

Companies must make large capital investments but do not profit until many years into the project.



* Indicative cash flow profile only, not based on a real mine.