



INDEPENDENT STATE OF PAPUA NEW GUINEA

SPC-EU EDF10 DEEP SEA MINERALS (DSM) PROJECT

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DEPARTMENT OF MINERAL POLICY & GEOHAZARDS MANAGEMENT

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OVERVIEW

- Government Policy on Equity Participation for Mining Projects
- Project Definition
- Extent of Equity Participation
- Timeframe for participation
- Value State is buying into
- State Participation in the Solwara 1 Project



NATIONAL GOVERNMENT'S POLICY ON EQUITY

- Section 17 (c) of Mining Act 1992, provides for the acquisition by the State either directly or indirectly of a participating interest in a mining development.
- "PNG's Mineral Policy" – The State may elect to acquire up to 30% participating interest in mining projects on a fully contributing basis with no financial carry. To date this has only been exercised on SML projects only. The decision on whether or not to participate is made at the grant of the Mining Lease (ML).
- Landowners in SML projects areas are entitled to 5% equity in the project to come from the State's share of equity. The cost of equity will be negotiated on a case by case basis.
- The State's nominee, Petromin PNG Holdings Limited, who exercises the State's right (not obligated to) take up the State's 30% equity option in the Solwara1 project.
- Petromin was established by State to manage State's interest in mining, oil and gas projects.
- Under the Benefit Sharing Agreement and/or Memorandum of Agreement (MOA) for the mining projects, Equity distribution is specified. Example; Solwara Project Equity distribution.



MINING PROJECT DEFINITION

- A project that is granted under a mining development license, i.e; Mining Lease (ML) or Special Mining Lease (SML)
- The Project definition is fundamental to cost considerations and value for equity participation.
- For example, the Solwara1 project – it is the project granted under ML 154.



EXTENT OF STATE PARTICIPATION

- The State will exercise its 30% equity option in the “**full value chain**” of the *project*.
- In the Solwara1 case, the *project* refers to ML 154.
- That means the State will have an undivided beneficial interest (expressed as a percentage) as a tenant in common in all *Project* properties and assets.



TIME FRAME FOR EQUITY PARTICIPATION

- **The decision on whether or not to participate is made at the grant of the development license (ML or SML).**
- **The Solwara 1 Project was a special case where the State exercised its option after the ML was granted.**
- **Prior to grant of ML there were still unknowns and undefined risks to the project. Hence, the State was not in a privilege position to make an immediate investment decision prior to grant of license. However, the State has made a decision in principle to take up equity in the project soon whenever it is ready to do so.**
- **State's participation signals confidence in the future prospects of the projects and as a responsible government provide a sense of security for the offshore tenement and sharing the risks of a pioneering project in the hope of better returns.**
- **The project was being financed purely by equity partners up to the point of grant and fund raising was required to raise capital to build and integrate the technology. The development license and title to the tenement was necessary to secure debt financing.**
- **Petromin and Nautilus have signed a State Equity Option Agreement on 29th March 2011 which detailed the timeframe of State's participation.**



Mineral Project cycle Covered under current legal framework.



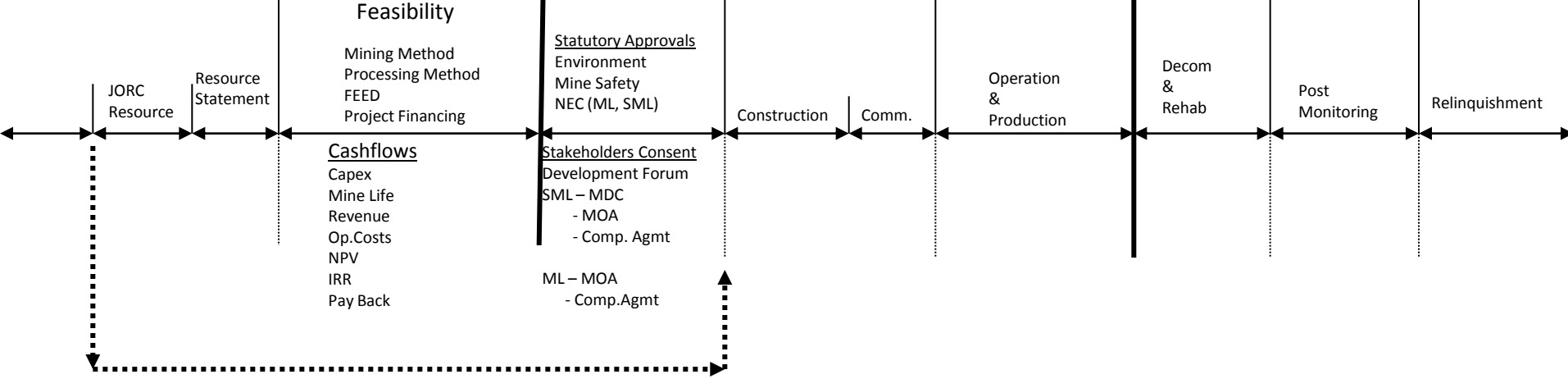
LICENCING PHASES



DEVELOPMENT PHASES



DEVELOPMENT DETAILS



Solwara 1 Project Approach

Note: some aspects between exploration and construction are yet to be addressed.



VALUE STATE IS BUYING INTO

- ❑ The State is really buying into the Sunk Cost of the Project to date.
- ❑ The Sunk Cost refers to all Allowable Capital Expenditures (ACE) and Allowable Exploration Expenditures (AEE) spent on a Specific Tenement. Such expenditures are normally ring-fenced to the specific tenement.
- ❑ For the Solwara1 project, the sunk cost refers to ACE and AEE before the grant of ML and ACE only after the grant.



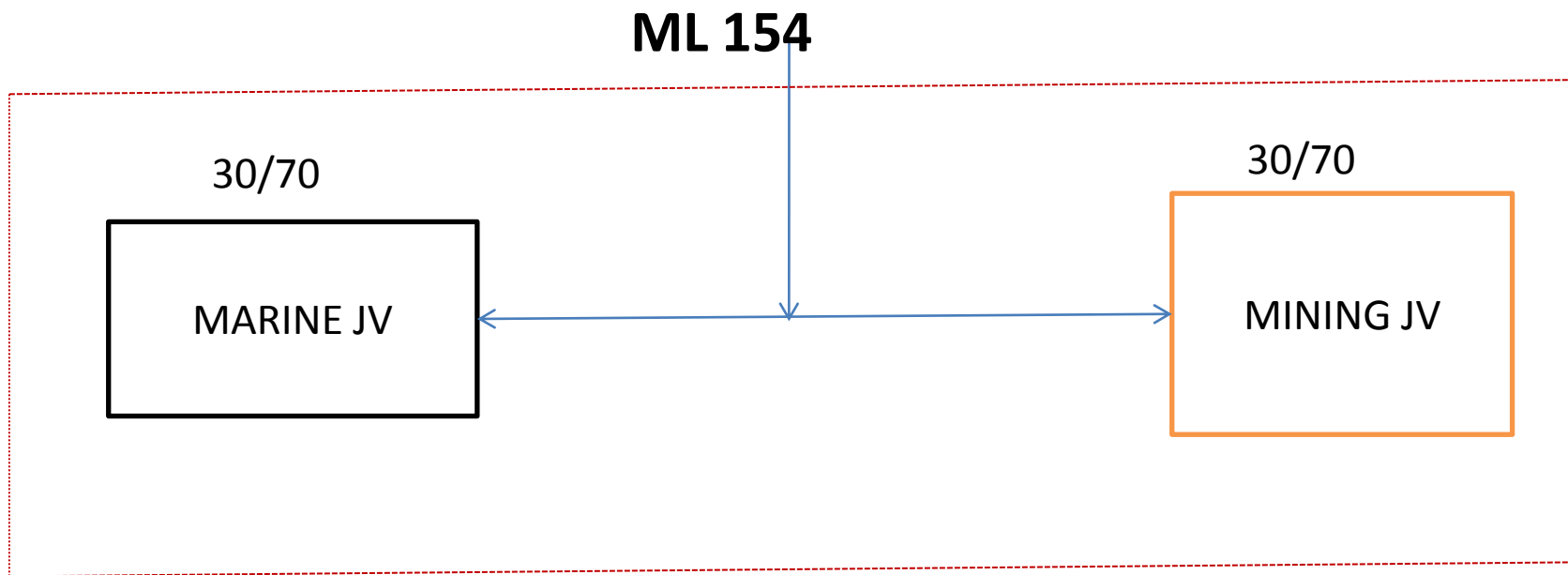


FULL VALUE CHAIN PARTICIPATION IN THE SOLWARA1 PROJECT

- The mining arrangement for the Solwara1 project consist of two Joint Venture (JV) Arrangements. The Mining JV and the Marine JV.
- The State has negotiated its rights to take up 30% equity in the both JV.
- For the Mining JV, the State will take up the full 30% upfront. For the Marine JV, the State will take up an initial 5% and progressively take up the balance in future.



SOLWARA PROJECT OPERATIONAL ARRANGEMENT



FULL VALUE CHAIN PARTICIPATION



CONCLUSION

- ❑ All mining activities in Papua New Guinea is governed by the Mining Act 1992, Mining Safety Act 1977 and the Mineral Policy.
- ❑ The decision whether to partake in a mining project or not is based on economical considerations at that material time in relation to the extraction and development of the mining project. In PNG is exercised per the Mineral Policy and Section 17 of the Mining Act 1992.
- ❑ We believe we will achieve and prosper PNG in the mineral sector through effective mineral policy and legislation.



THANK YOU ALL AND GOD BLESS