



Comments from the Fund Manager

Proposed New Super Tax on Miners

6 May 2010

Firstly the facts as we know them so far:

1. The Super Profits Resources Tax will charge a 40% tax sweep on profits from mining companies
2. This take will be on profits over and above a base rate, currently defined on the bank base rate (4.5%).
3. This will be introduced in the **FY2012/13**.
4. It is proposed that existing state royalty payments will be 'refundable' (credited) to negate concerns of 'double taxation.'
5. Reduction of corporate tax rate for large companies (to be defined) from 30% to 28% but not until 2015.
6. Capital and exploration expenditure from FY09 can be carried forward and deducted over the life of the asset (RSPT allowance) which lowers the profit base subject to RSPT.
7. The "white paper" has to go through the upper house first.

General commentary from OAM is that the market response to re-value Aussie domiciled miners has been overdone this week as the Super Tax is not law yet and is also 2 years away, so the fund has been picking up some of the major producers/diversified miners on severe weakness. Implications are though that the highly profitable companies that have high margins (low cost producers) could be the worst affected if the Tax goes through, so mid-cap producers who offer the most exposure to high margin could be hit the hardest.

Further into the future, again if this tax goes through, the larger firms who are looking at high Capex expenditure projects will have to review as the hurdle rates will be higher, this could result in deferral/shelving of projects. Several midcap companies have already indicated a review of projects, some larger, i.e. Santos/Origin with large LNG projects earmarked for expenditure through 2012-2016 have expressed "major concern" with the new Tax proposition.

The equation for explorers is still a little uncertain as there is no Canadian style “flow through” deductible tax scheme but more of an acceleration of amortization of expenditures.

The RSPT is far from *fait accompli*. It is purely policy at this stage and given the current political landscape (2010 is an election year), it is unclear what the ultimate implications for the mining industry will be. As such, the potential for slippage and material changes to the current policy is high. RSPT or not, Australia’s sovereign risk profile has changed and a change of Government would be required to reverse this view, in this regard the opposition party has had long meetings with the Chief Executives of BHP, Rio etc and are putting their weight behind the miners, this could prove to unseat the current Government in the next six months!

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