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Evidence of Edward Miller

This evidence has been prepared by Edward Miller, Researcher at the Centre for International Corporate Tax Accountability and Research (CICTAR)

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This evidence cites figures from the financial statements of the NZ Oceanagold reporting entity, Oceana Gold Holdings New Zealand Limited (OGHNZL). These documents are publicly-available on the NZ Companies Register here:

> https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1470884/documents?backurl=H4sIAAAAAAAAAC2MwQrCMBBEv6a55FDoSQ9Bggm1EFOhBcHb0ixasEIMtkL%2F3IC8DDOP4dURnpjrKSwR%2FFxaRkjT67QEhyITeAfJMdoiCvQ0U7mwj%2BjPWIrJ294ofinR2XbgVXOw%2Bs4fWhppVdUcuemu3agVA%2FcFP6G7gce3oLQi22XbWLxZSGP%2BeyCgNbcprHHHP5JDVjqeAAAA

Introduction

1. My name is Edward Miller. I am a Researcher at the Centre for International Corporate Tax Accountability and Research (CICTAR). I hold a LLM from the University of Auckland, with a research focus on international economic regulation.

2. My core work for CICTAR involves the analysis of company financial statements, monitoring company data including profits, tax expenses and tax payments, and investigating transactions that can have the effect of reducing taxable income.

Scope of Evidence

3. This evidence reviews the corporate tax projections accompanying the Fast Track application for Canadian mining giant Oceanagold's Waihi North Project. It argues:

    a. That the proposed net corporate tax revenue of $725 million over the project's 18-year lifecycle are well out of step with the margins enjoyed by Oceanagold's NZ subsidiary in recent years, and that applying these recent margins to the figures outlined in the report yields much more modest net tax revenue estimates of between $67.1 million and $182.1 million; and

    b. That Oceanagold's current financial statements show some existing evidence of revenue shifting – including $139.1 million in "management fees" paid to a Singaporean subsidiary that could have reduced corporate tax revenue by $39.1 million – as well as other potential related party transactions that could also be available to Oceanagold to reduce its taxable income.

    On this basis I conclude that limited weight should be placed on the corporate tax projections supporting the Waihi North Project application.

4. I have not reviewed the proposed consent conditions in respect of the Waihi North Project. These are unlikely to be relevant to my assessment.

Context

5. The Fast Track application for Oceanagold's Waihi North Project includes an assessment of the project's economic effects, undertaken by economist Shamubeel Eaqub (hereinafter 'the Eaqub report').[1] That report suggests, inter alia, that the project will result in corporate tax revenue of $725 million years over its 18-year cycle.

6. A review of that paper by economist Geoff Bertram (hereinafter 'the review') notes that while the term "economic effects" refers to net benefits - i.e. benefits less costs – the Eaqub report fails to consider any form of costs, such that it cannot be considered a cost-benefit analysis in any sense. The review notes that no discount

[1] Shamubeel Eaqub "Economic effects of the Waihi North Project" (21 February 2024) *Eaqub & Eaqub*. https://www.fasttrack.govt.nz/__data/assets/pdf_file/0017/4139/B.51-Eaqub-Economic-Effects.pdf

rate has been applied to projected tax revenues, and argues that applying a 5 percent discuount rate would have the effect of substantially reducing the net present value of the corporate tax revenue to $355m. Finally, the review notes that

> the projection of high corporate tax payments in years 9-16 need to be heavily qualified, both because of uncertainty surrounding the success or failure of the project itself, and because of the extensive opportunities for the company to use accounting devices and revenue shifting to minimise its exposure to tax in New Zealand.

7. Companies in the Canadian extractives sector have a well-documented history of revenue-shifting activities. Canadian uranium miner Cameco has been enmeshed in long-running legal battles with Canadian tax authorities over profits that were realised in Switzerland rather than in Canada, where they enjoy a low corporate tax rate.[2] A 2019 article by the Canadian Centre for Policy Alternatives describes how Canada has built a network of tax, trade and investment treaties to facilitate Canadian investment, "as well as allowing profits to be shifted through subsidiary companies to avoid taxation."[3]

8. A recent CICTAR report on the NZ subsidiary of Canadian-owned Methanex is illustrative of this problem. Methanex NZ Limited is reported to own roughly half of the gas rights in New Zealand, and received more than $300 million in free emissions units over the past decade. In addition, financial statements show a US$350 million loan from its Hong-Kong based parent company. Over the preceding decade the company paid $257.9 million in finance costs related to said loan but never touched the principal, despite paying $480 million in shareholder dividends over the same period. The report estimated that this could have had the effect of reducing tax revenue by $46 million over the period.[4]

9. This evidence begins by reviewing the corporate tax projections made in the Eaqub report, using those figures to estimate corporate profits and margins. It then compares those margins to existing Oceanagold profit margins, and estimates tax revenue based on recent margins. The next section looks briefly at Oceanagold's corporate structure and management fees apparently paid to a Singapore subsidiary that could have reduced taxable income by $139.1 million, before describing how related party borrowing during the project's lifecycle could further reduce tax payments.

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[2] Josh White "Cameco CEO says Canada Revenue should re-write TP rules" (2 July 2020) *International Tax Review*. https://www.internationaltaxreview.com/article/2a68rfy5bw2ycq1wn6aex/cameco-ceo-says-canada-revenue-agency-should-re-write-tp-rules

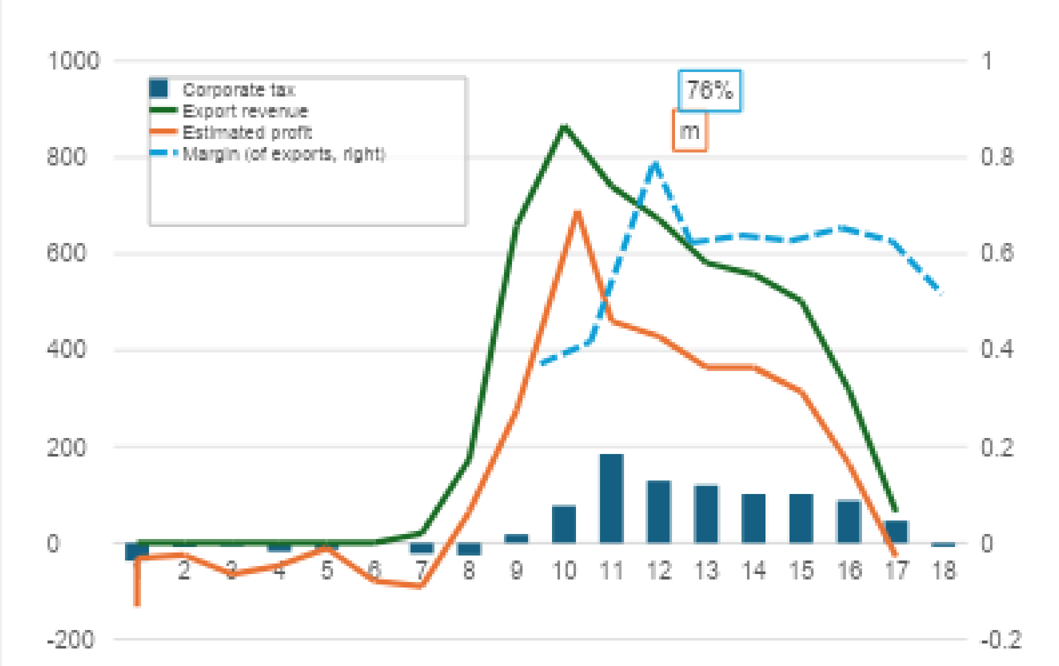
[3] "What riches await…" (1 November 2019) *Canadian Centre for Policy Alternatives.* https://www.policyalternatives.ca/news-research/what-riches-await/

[4] "Methanexit: Should NZ be subsidising our largest gas user?" (December 2024) *Centre for International Corporate Tax Accountability and Research*. https://static1.squarespace.com/static/636a46c59a62847f542195d2/t/675eaf05e87ef61e02e051d6/1734258464475/Methanexit+%28December+2024%29%2C+CICTAR%2C+350+and+CGA.pdf

Reviewing corporate tax projections

10. The Appendix to the Eaqub report includes large corporate tax projections, totaling a net $725 million. Since corporate tax is levied at 28 percent of accounting profit, Figure 1 contains a simple estimate of expected pre-tax profits over the period. Capital costs incurred in Years 1-8 generate some tax benefits. In Year 9 pre-tax profit turns positive, rising to $64 million. In Year 10 it rises 328 percent to $275 million, then in Year 11 rises another 140 percent to $661 million. Over the project's 18-year lifecycle, estimated net pre-tax profits (i.e. profits less losses) total a net $2.6 billion.

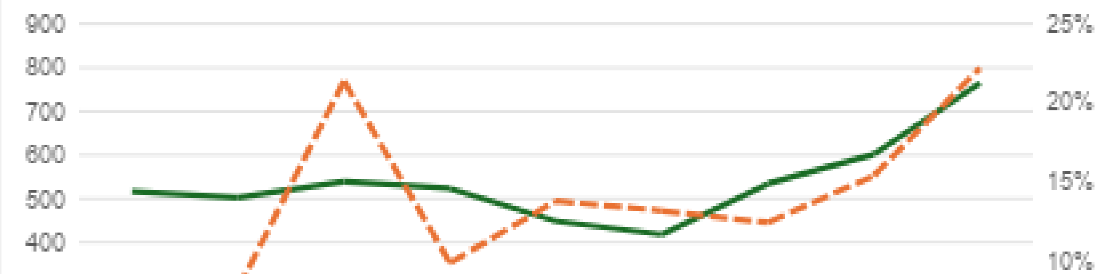
Figure 1: Estimated profit ($m)



11. No specific detail is given on total project revenue, however the appendix does contain annual "export revenue" figures. Oceanagold already controls what limited domestic processing capacity does exist in the country (at the Macraes Mine in Otago), but given that the vast majority of both raw and processed gold are destined for the international market, I have used the export revenue figures to approximate total project revenue.

12. Using Eaqub's export revenue figures and the pre-tax profit estimated above, I have estimated pre-tax profit margins, represented by the blue dotted line in Figure 1 (measured on the right-hand side).[5] In Year 9 when estimated pre-tax profit reaches $661 million, the estimated pre-tax profit margin reaches 76 percent. The average pre-tax profit margin over the years 9-17 totals 58 percent.

Figure 2: OGHNZL pre-tax profit margin ($m)



[5] Marg
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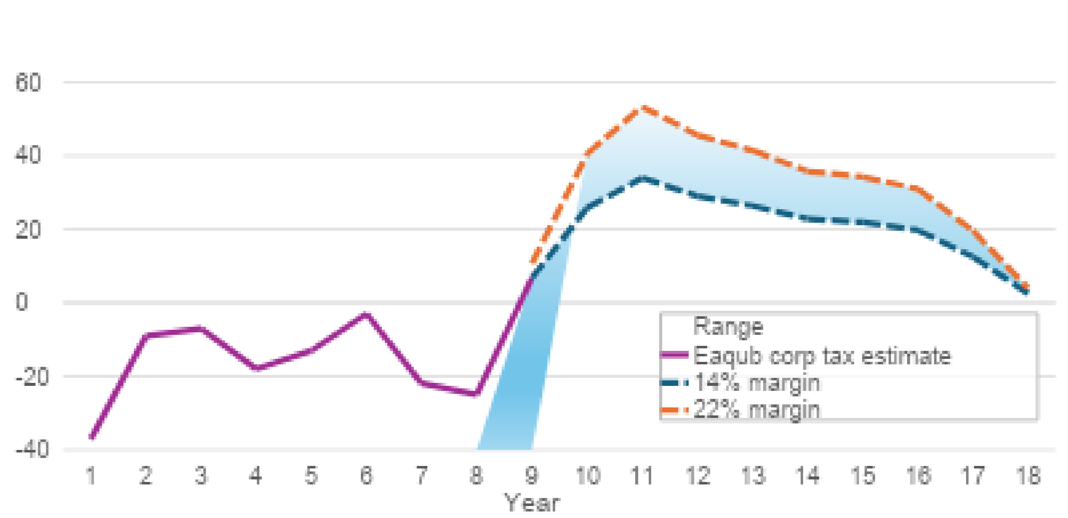
13. These margins appear somewhat overstated when contrasted with the company's performance in recent years. Figure 2 presents revenue, pre-tax profit and calculates a pre-tax profit margin (on the right-hand side). Despite an 83 percent surge in pre-tax in 2024 (to $169.8 million), this only brought OGHNZL's pre-tax profit margin to 22 percent, less than a third of the projected peak in profitability of the Waihi North economic effects paper. The average pre-tax profit margin over the period presented in Figure 2 is 14 percent.

Comparing estimated margins to existing margins

14. As in the Bertram review, it is agreed that Eaqub's tax benefits figures for project's early years are credible. For the subsequent years, Figure 3 uses the average (14%) and upper limit (22%) of OGHNZL's recent pre-tax profit margins to present a more realistic estimate of possible corporate tax revenue from the project over this period. Even at 22%, the Year 11 peak reaches only $53 million, less than a third of the amount outlined in the Eaqub report ($185m). At the 22 percent margin, the $316 million in tax revenue generating during the mine's production period (Year 9-18)

Figure 3: Estimated corporate tax revenue based on recent margins



would be partially offset by the $134 million in tax benefits projected by Eaqub in Years 1-8, leaving estimated net tax revenue of $182.1 million. This amount, equal to $10 million per annum - is a quarter of the corporate tax revenue calculated by Eaqub.

15. If instead pre-tax margins reflect the 14 percent average margin of OGHNZL in recent years then net tax revenue could be as low as $67.1 million, or $3.7 million per year over the 18-year lifecycle.

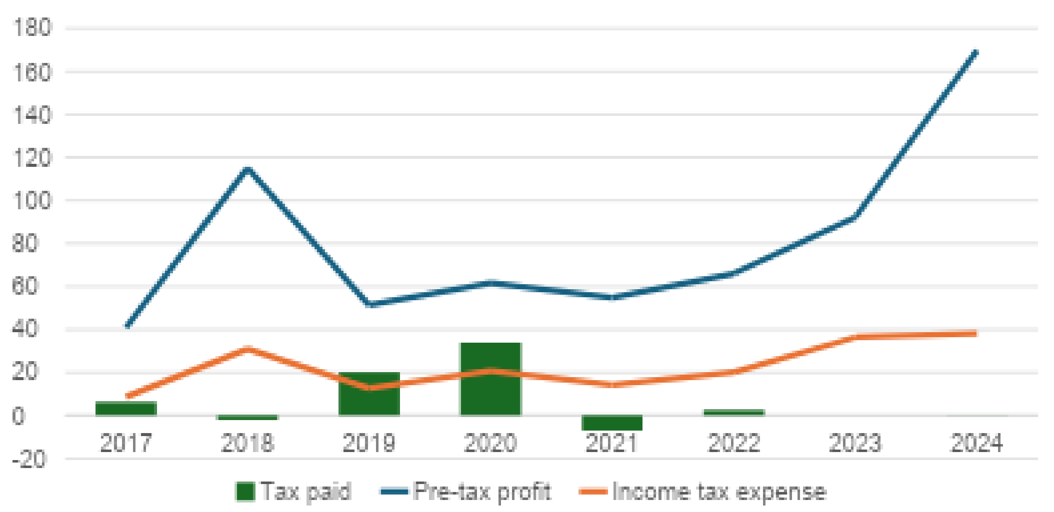
16. Based on these estimates, it appears that the corporate tax revenue relies on a sustained high and/or rising gold price. Because gold is a non-yielding asset (i.e. it doesn't pay dividends or returns), gold prices are potentially sensitive to future bouts

of monetary tightening, as rising returns from interest rate-linked financial assets would become relatively attractive investments, potentially impacting the gold price. It is unrealistic to think there is no real likelihood of higher interest rates, or other economic, financial, geopolitical or cultural factors resulting in a flat or declining gold price over the project's 18-year lifecycle.

Tax expense vs tax payments

17. Corporate tax expenses are not always paid in the year they're incurred. The blue line in Figure 1 shows the pre-tax profit of OGHNZL over the past eight years, totaling $695.4 million over that period (note that this decade-long cumulative is roughly similar to the amount projected in a single year of the Eaqub report). The orange line shows OGHNZL's corporate tax expense, which totaled $198.6 million over the period, an average corporate tax rate of 29 percent.

Figure 4: OGHNZL tax expenses and payments ($ million)



18. The green bars in Figure 1 are the actual tax payments made by OGHNZL over the same period. In most years these are lower than tax expenses, and total only $69.5 million over the period, less than half of the total corporate tax expense incurred. In 2022, only $2.5 million was paid against a $20 million tax expense. In 2023, no tax was paid against a $36.4 million expense. In 2024, $101,000 was paid against a $38.1 million expense. This difference appears to have resulted in a substantial tax liability on OGHNZL's balance sheet, reaching $189.3 million in 2024.[6]

Subsidiaries in low-tax jurisdictions

19. According to the NZ Companies Register, Oceana Gold Holdings (New Zealand) Ltd ("OGHNZL") is wholly owned by Victorian Oceanagold Pty Limited[7] and its ultimate

[6] This figure comprises a deferred tax liability of $117.3 million and a current tax liability of $72 million.

[7] https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1470884/shareholdings?backurl=H4sIAAAAAAAAAC2MwQrCMBBEv6a55FDoSQ9Bggm1EFOhBcHb0ixasElMtkL%2F3lC8DDOP4dURnpjrKSwR%2FFxaRkjT67QEhyITeAfJMdoiCvQ0U7mwj%2BjPWlrJ294ofinR2XbgVXOw%2Bs4fWhppVdUcuemu3agVA%2FcFP6G7gce3oLQi22XbWLxZSGP%2BeyCgNbcprHHHP5JDVjqeAAAA

holding company Oceanagold Corporation, in British Columbia.[8] It is unclear whether there are any other subsidiaries or holding companies that sit between these two firms.

20. Records from corporate database S&P Capital IQ show a number of Oceanagold subsidiaries registered in tax havens or jurisdictions used to reduce taxable income. These include the Singaporean “OceanaGold (Singapore) Pte Ltd”, the Dutch “Australasian Netherlands Investments BV” and “DMC Cayman Inc.”, incorporated in the Cayman Islands.

21. Transactions between subsidiaries can have the effect of shifting revenue from jurisdictions with relatively higher corporate tax rates to those with relatively low corporate tax rates. Multinational companies can use these transactions to reduce overall tax liabilities. These transactions can have the effect of depriving state governments of much-needed tax revenue.

Management fees

22. OGHNZL financial statements from the last decade show significant management fee payments. These are payments made from OGHNZL to related parties (i.e. within the Oceanagold corporate structure), not the cost of remunerating their NZ management staff.[9]

23. Figure 5 shows the quantum of management fee payments, which have increased from $3.6 million in 2015 to $24.9 million in 2024, a 584 percent increase over the decade. Revenue grew by 98 percent over that period. As a result, management fees as a share of revenue increased from 0.9 percent of revenue in 2015 to 3.7 percent in 2020, staying around 3.5 percent in the years since.

[8] https://app.companiesoffice.govt.nz/companies/app/ui/pages/companies/1470884?backurl=H4sIAAAAAAAAAC2MwQrCMBBEv6a55FDoSQ9Bggm1EFOhBcHb0ixasElMtkL%2F3lC8DDOP4dURnpjrKSwR%2FFxaRkjT67QEhyITeAfJMdoiCvQ0U7mwj%2BjPWIrJ294ofinR2XbgVXOw%2Bs4fWhppVdUcuemu3agVA%2FcFP6G7gce3oLQi22XbWLxZSGP%2BeyCgNbcprHHHP5JDVjqeAAAA

[9] The remuneration of NZ-based “key management personnel” did increase by 175 percent in the last eight years, from $2.8 million in 2017 to $7.8 million in 2024. Non-management labour costs (“employee benefit costs”) increased by 76 percent over the same period.

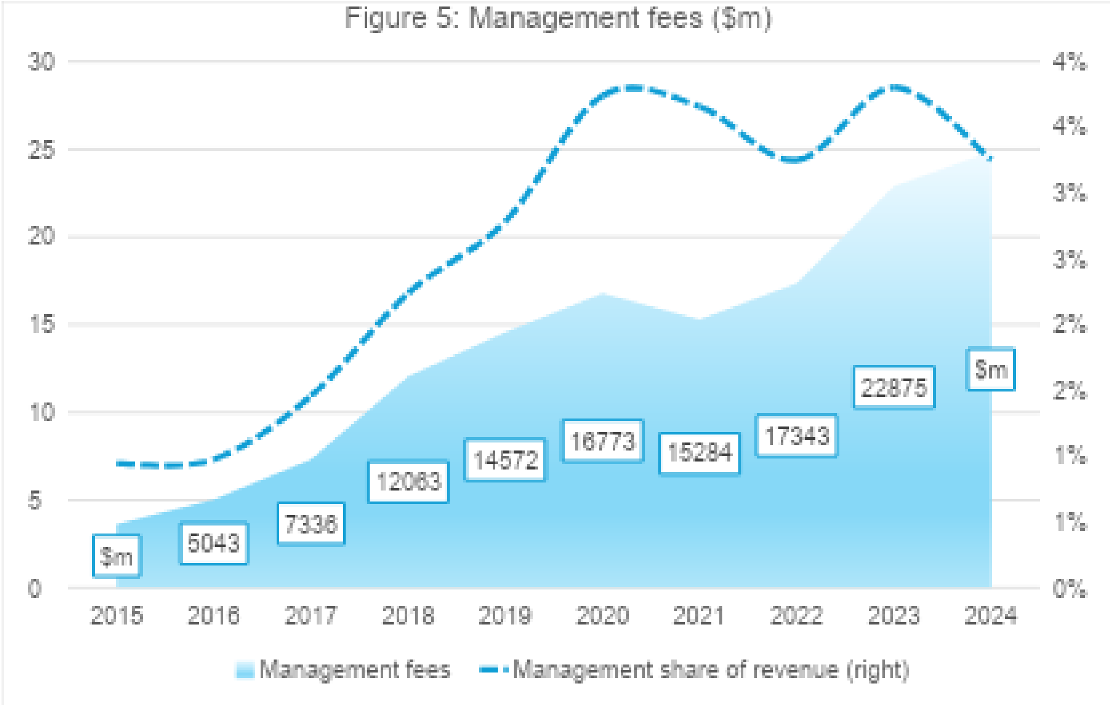


Figure 5: Management fees ($m)

24. Notes on related parties to the financial statements from this period mention transactions with “Other related parties includ[ing] … Oceana Gold (Singapore) Ptd Ltd.”[10] The payment of management fees to a Singaporean subsidiary could have the effect of shifting otherwise taxable income earned in New Zealand to Singapore.

25. Management fees are legitimate, but must be commercially justifiable and comply with the arms-length principle. One can presume that these tests have been met, however this does not change the fact that these fees have the effect of reducing the company’s NZ taxable income.

26. Over the decade, it appears that management fees have reduced the taxable income of OGHNZL by $139.8 million. Applying a crude 28 percent corporate tax rate to this figure suggests that management fees could have reduced national tax revenue by as much as $39.1 million over the last decade.

Related party borrowings

27. Related party borrowings can similarly have the effect of reducing taxable income in New Zealand, although it appears that in this instance they may have been booked within New Zealand. This is particularly relevant in extractive sectors that involve significant capital investment in plant, property and equipment. OGHNZL shows substantial related party borrowings that appear to be with a NZ-based finance company, which would not have the effect of reducing taxable income.

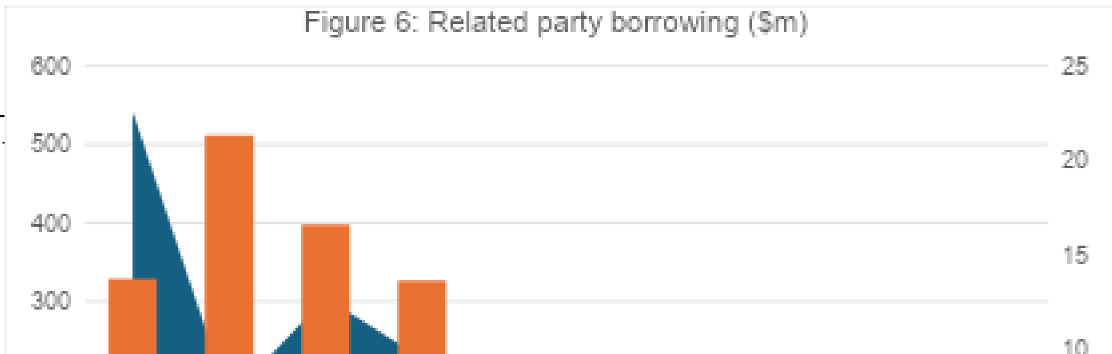


Figure 6: Related party borrowing ($m)

[10] 2018

28. Figure 6 presents details on related party loans from OGHNZL's financial statements. The blue section shows the scale of total borrowing from related parties, measured on the left-hand scale, which totaled in the hundreds of millions from 2015 to 2020. The orange bars (measured on the right-hand side) show the associated finance costs, totaled $84.1 million over the decade. If those borrowings had been with a related party in a lower-tax jurisdiction it could have had the effect of further reducing taxable income.

29. Relatively greater capital requirements during the development of Waihi North Project could provide opportunities for related party borrowing that reduces overall taxable income, impacting national tax revenue. Oceanagold's multinational structure includes subsidiaries incorporated in a range of jurisdictions that may provide opportunities to use related party transactions that reduce taxable income.

Conclusion

30. The projected corporate tax revenue figures mentioned in the Eaqub report assume overstated margins that are well out of step with current firm performance. While gold prices have risen in recent years (evident in 2024 financial statements), it is unrealistic to assume there is no possibility that these will decline in the future. It therefore seems that the corporate tax revenue figures included in the Eaqub report are unlikely.

31. Multinational mining companies enjoy significant opportunities to use related party transactions to reduce their taxable earnings in jurisdictions with relatively high corporate tax rates. Financial statements for Oceanagold Holdings New Zealand Limited appear to suggest the company may already be using such transaction to reduce taxable earnings in New Zealand. This behaviour and the opportunities available for further such behaviours further call into question the numbers in the Eaqub report.