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Hon Mathew Muir KC
BOGP Expert Panel Chair
Environmental Protection Authority
366 Lambton Quay
WELLINGTON 6011

By email: [redacted]

CC: ` [redacted]

Dear Matthew

Bendigo-Ophir Gold Project – Tax Advice – Robin Oliver

The BOGP Expert Panel has requested my advice on tax aspects of the above BOGP project proposal. In particular (as per an email from Hon Mr Muir dated 30 July 2026) a report covering the following:

> "A key element of the economic benefits of the Bendigo-Ophir Gold Project as assessed by the applicant are the corporate income tax and royalty payments that are expected to be made by Matakanui Gold Ltd ("the company"). The economist for the applicant, Benje Patterson, estimates these payments would total $1.58 m (sic billion) (in $2025) over 16 years. At a 8% discount rate this equates to around $817 NPV (BP response to RFI p.14 adjusted to take into account only corporate income tax and royalties paid by the company). E. Miller, an expert for Sustainable Tarras argues that Benje Patterson overstates the effective royalty and tax payments likely to be paid by the company in PV terms for various reasons (see the attached report). The panel would appreciate your advice on these competing views and in particular your advice on a reasonable range for

the likely effective corporate income tax and royalty payments that would be made by the company. Please base your advice on the gold price and other assumptions made by Benje Patterson for the applicant".

Executive Summary

The main issue considered by this Report is whether there is likely to be "tax leakage" so that the effective tax rate on the Bendigo-Ophir Gold Project (the Project) is likely to be less than that suggested in the reports of Benje Patterson (mainly a 28% effective company tax rate and gold mining royalties).

In a New Zealand national welfare benefit analysis, any such tax leakage could result in:

- New Zealand investors paying tax overseas instead to New Zealand.
- Foreign investors paying tax overseas and not in New Zealand.

Either would result in reduced New Zealand benefits from the Project and thus lower national welfare.

The conclusion reached is that given the character of the Project and the relevant tax laws, the risks of such leakage seem low so that a 28% effective company tax rate plus gold mining royalties seem reasonable estimates.

This is subject to the Project being substantially equity funded – which is the stated intention. To the extent the Project is debt funded there would be a material risk of "tax leakage".

Materials Used

In writing this report I have reviewed and considered the materials supplied. In particular:

- Benje Patterson – Economic Impacts of the Bendigo-Ophir Gold Project - October 2025 Update (Paterson 2025 Report).
- Edward Miller – Review of Tax Projections - Bendigo-Ophir Gold Project Fast Track Application – April 2026 (Miller Report).
- Benje Patterson – Statement of Evidence in response to Required Information – April 2026 (the Patterson 2026 Report).

I have also reviewed Bendigo-Ophir Gold Project Updated Pre-Feasibility Study (PFE) and the various materials cited in this Report.

Key Relevant Facts

The proposed BOGP project (the Project) is to mine gold in the Otago region.

This is to be undertaken by Matakanui Gold Limited (MGL) a New Zealand resident company owned by Santana Minerals Ltd (Santana). Santana appears to be an Australian tax resident company and is dual listed on the Australian and New Zealand Stock Exchanges. Santana is 40% owned by New Zealand shareholders. Santana is currently making accounting losses and has a 0.23% debt/equity ratio.

Financial forecasts in (PFE page 36) are typical for such a project - upfront losses followed by profits and then losses on remediation. The initial 14 year mine life forecasts have losses in years in the first two years. Profits in year 3 of AUD 200 million or so then falling in Year 13 and losses in Year 14 when the mine is at the end of estimated life.

From this is derived taxation revenue as follows (page 10 Patterson 2025 Report)

Government revenue directly generated by the Bendigo-Ophir Gold Project
Estimated total government revenue directly from BOGP mine operations + investment

Source **Revenue ($m)**	
Royalty payments (gold as crown mineral)	$448m
Corporate taxes: Santana/MGL	$1,074m
Corporate taxes: Others (profits from other royalties & supporting investment)	$82m
Income taxes: PAYE and ACC	$216m
Total government revenue directly generated by BOGP	**$1,820m**

> The majority of government taxation revenue directly generated by the Bendigo-Ophir Gold Project will be corporate taxes paid by Matakanui Gold Ltd ($1.1 billion) and royalty payments for gold mined as a crown mineral ($448 million). Income tax payments (capturing PAYE and ACC) will generate around $216 million of government revenue.

It seems the royalty estimate is based on the statutory New Zealand royalty rates. That is the higher of 2% ad valorem on revenue or 10% of net profit as per the financial forecasts.

As noted, the majority of the tax revenue is company tax. This seems to be estimated by applying the statutory company tax rate of 28% to the financial forecast profits.

Analytical Approach to Taxation and National Welfare Analysis

A national welfare analysis aims to evaluate how a proposal impacts on the overall net well-being and living standards of those living in a country. This takes into account the benefits in terms of increased output the project is expected to generate for residents of the country. In the BGOP case that seems to include the gross of tax:

- increase in wages and payments to New Zealand employees and contractors
- increase to other New Zealand factors of production (suppliers)
- return to New Zealand investors.

Benefits to non-New Zealand employees, contractors, suppliers and investors should not be included in calculating the increase in New Zealand net well-being the project would generate. The Patterson 2026 Report indicates that some 20% of project inputs are likely to be provided by non-residents (paragraphs 20 and 40). This is the GNP versus GDP distinction canvassed in paragraphs 87 to 91 of the Patterson 2026 Report.

MGL is a wholly owned subsidiary of Santana that is an Australian resident company. However, the residence of a company is not if itself relevant to such a national welfare analysis. The nationality of the shareholders (owners) is the relevant factor. I understand that Santana is 40% New Zealand owned. On that basis 40% of the gross of tax return to investors are estimated to increase national well-being while it is expected that 60% would flow to foreigners.

On this analysis tax is not in itself relevant to national welfare. The benefits that accrue to New Zealanders are apportioned between individual New Zealanders and the government. Tax does not increase welfare but is a mere transfer of that increased welfare between two sets of New Zealanders – from individuals to the government that receives increased tax revenue for the benefit of society as a whole.

There may be a view that benefits that accrue to only a small section of New Zealand society (the benefits going to individuals) are less welfare enhancing than benefits going to society in general (tax revenue). However, how economic output is distributed within society is subject to the many expenditure and tax tools a government has to achieve what it (on behalf of the country) decides produces the best outcome. The extent to which benefits from a particular project are apportioned between individuals and society in general should be determined by such wider government policy settings. Those settings should take into account the deadweight costs taxes impose.

The above leaves little reason to consider the tax from a project. However, there are important caveats to this.

- While benefits to non-New Zealanders generate no national welfare in the absence of tax, if New Zealand is able to tax these benefits, this transfers benefits from foreigners to New Zealanders. This is not then a transfer from New Zealanders to other New Zealanders but is a transfer from foreigners to New Zealanders. That would increase the net national welfare of New Zealand.
- Conversely if New Zealanders are able to have income derived offshore and subject to tax offshore with a consequential reduction in New Zealand tax, part of the project benefits is then transferred from New Zealand to overseas Treasuries reducing the net New Zealand welfare benefits.

In other words, tax can capture some of the Project benefits otherwise flowing to foreigners by taxing that return (New Zealand tax levied on foreigners). It can also lead to some of the benefits flowing to New Zealanders being diverted offshore (foreign taxes levied on New Zealanders).

Viewing tax as a transfer of benefits from New Zealanders to the New Zealand government or from foreigners (including foreign governments) to the New Zealand government with national benefits limited as above can be questioned if the tax is levied on excess returns from location specific economic rents (returns in excess of the investors' hurdle rate of return that can only be generated by operating in New Zealand).

Taxing in New Zealand such rents brings a national benefit in terms of raising government revenue without economic costs or a deadweight loss.

To the extent that New Zealand tax on the Project is a tax on location-specific economic rents, then such a tax is free of economic or deadweight costs. Most practical forms of taxation discourage what would otherwise be optimal behaviour and in doing so generate sub-optimal results. Taxation drives economic resources from higher value to lower valued uses. Tax is then more than a transfer between taxpayers and the government. Taxes in effecting this transfer reduce overall national welfare. Taxes on location specific economic rents have no such economic costs because the tax is limited to excess returns, that is returns over and above the hurdle rate of return that is sufficient to justify investment. Given governments need to raise tax to fund expenditure, if the costs raising government revenue through tax are reduced, then that is a national benefit,

The amount of economic loss tax normally imposes depends on the characteristics of the economy and the tax imposed. Overall, the cost cannot be directly observed but must be estimated and estimates vary. Studies in New Zealand and Australia[1] suggest that the deadweight cost can reasonably be estimated to be in the order of 20% to 30%. Thus, using tax to transfer $1 from taxpayers to the government incurs a national welfare loss of 20 to 30 cents.

Taxing location specific economic rents was the focus of the 2010 Australia's Future Tax System Review (The Henry Tax Review). This argued for a shift in Australia away from taxing capital income generally towards higher taxes on location specific economic rents. The Australian Henry Review identified mining as an area where economic rents were common so that tax could be levied without the normal costs of taxation. To the extent that New Zealand taxes on the Project are taxes on location specific economic rents, this tax revenue is not just a transfer from New Zealanders to the government, it is a net addition to national welfare given the government needs to raise that revenue in ways that have economic costs and thus would reduce national welfare.

The extent to which the tax revenue from the Project could be viewed as a tax on location specific economic rents is unclear. Given that a justification for mining royalties is that they are payment for accessing valuable natural resources giving rise to economic rents, it seems reasonable to at least increase the national benefit from mining royalites by 20% when considering national benefits.

Applying this analysis to the BGOP project

PAYE and ACC
As noted above the Patterson Report includes welfare benefits to New Zealand of individual income tax (PAYE and ACC) of $216 million. There is no mention of GST.

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[1] E Diewert and D Lawrence, The Marginal Costs of Taxation in New Zealand (Swan Consultants, Canberra), 1994. See also a summary of the literature Alex Robson in No Free Lunch – the Costs of Taxation, NZ Business Roundtable, Wellington, 2007.

To the extent this is earned by New Zealanders (and is additional to the income New Zealanders would otherwise derive), this should be included in (and should not be viewed as additional to) gross income employees, contractors and suppliers receive.

If the benefits are earned by foreigners, our tax settings are such as to suggest that this will generally be subject to full New Zealand tax (individuals taxed at up to 39% on marginal income over $180,000 per annum plus GST on NZ consumption, corporates taxed at 28%). That is because it will be New Zealand sourced income.

- Foreign employees are normally subject to tax on employment income if present in New Zealand for more than 6 months (Double Tax Agreements (DTAs) Article 14).
- Branches of foreign enterprises if they have a permanent establishment in New Zealand (a fixed place of business widely defined to include natural resource exploitation lasting more than 3 months) – (DTAs Articles 5 and 7).

It seems likely that most foreign employees of and suppliers to the Project would be taxable on their income under these rules.

Company tax and royalties
Currently 60% of the owners of the investment in the Project are foreigners. Prima facie their return is not counted as a national benefit to New Zealand. However, the investment is through a New Zealand resident company, subject to 28% New Zealand tax on profits. If that tax is able to be levied, this means 28% of the return to foreigners is returned to New Zealand as income tax. The key issue then is whether it should be expected that there would be leakage from this tax reducing the overall benefits the Project would generate on a national welfare analysis. The extent to which such leakage could be expected is specified as the prime issue for this Report to address.

Royalty payments to the Crown by MGL also would provide a return to New Zealand from foreign investors.

The 28% company tax used in the Patterson Reports is the estimated effective tax rate. That is the percentage of accounting profits levied as New Zealand tax.

There are two ways there could be leakage from the theoretical New Zealand tax at the statutory rate.

First, MGL might be able to take advantage of tax concessions or tax gaps to reduce its effective tax rate on accounting income below the 28% statutory rate.

Given New Zealand's tax rules and the nature of the investment, this does not seem likely. New Zealand has a comprehensive company tax base with few concessions. New Zealand's effective company tax rate is generally close to the 28% statutory rate. The OECD notes that our effective and statutory rates are more similar than is the case in most countries (OECD Corporate Tax Statistics July 2026 page 40).

The OECD conclusions were endorsed and expanded on in a paper produced by Treasury and Inland Revenue for the 2019 (Cullen Tax Working Group)[2]. This concluded that New Zealand's average effective company tax rate was close to the statutory rate. There are some sectors that have relatively low effective tax rates (insurance, residential care, and films). That is because of particular features of their tax rules.

Mining rules do not have such features and provide no explicit incentives. The current mining tax rules (subpart DU of the Income Tax Act 2007) are relatively recent (from 2014) and replace past more concessionary rules. Very broadly:

- Prospecting and exploration expenditure is immediately deductible (but with a clawback for expenditure leading to assets used in commercial production).
- Mining development expenditure is spread over the estimated life of the mine (in this case 14 years).
- Extraction expenditure is deductible under normal income tax rules.
- Gains and losses on land for mining and associated activities are taxable/deductible on realisation.
- Standard depreciation rates apply to assets the useful life of which are independent of the life of the mine.

These broadly follow accounting treatment and thus should produce an effective tax rate the same as the statutory rate.

The Miller Report correctly points out that an explicit tax incentive was introduced as part of Budget 2025 – Investment Boost. This allows an upfront deduction of 20% of investment expenditure (including expenditure on mineral mining development) incurred on or after 22 May 2025 (except rights, permits or privileges) for the year in which the asset is first available for use. This is a timing advantage, not a permanent tax saving. Instead of deducting mining development costs over the 14-year life of the mine, 20% is deducted in the first year the asset is available for use and the rest is deducted over the life of the mine. For an asset that is fully depreciated when disposed of the amount deducted over time is the same, Investment Boost just allows earlier deductions of the same total amount.

While a timing and not permanent difference, timing is important. Investment Boost will in general reduce effective tax rates. That is its policy intent – to reduce effective tax rates and thus encourage more investment. However, there are features of mining that would likely reduce the extent to which Investment Boost will reduce mining effective tax rates.

- An Investment Boost deduction is allowed only in the year an asset is available for use by a business. Usually this closely relates to the time the expenditure is incurred. However, with mining (and other long-term projects) there can be a material time delay between when expenditure is incurred and when that expenditure gives rise to an asset that is available for use.

[2] Inland Revenue and Treasury New Zealand, Effective company tax rates in New Zealand, June 2018.

- More importantly, the mining investment profile is one where there is substantial up-front costs with net profits generated in latter years. This means in early years the project is in tax loss. In economic terms, that loss should be cashed out by the government (just as the government cashes out GST when input credits exceed output tax). In line with most other countries New Zealand does not allow this for income tax for base protection reasons. Instead, losses are carried forward to future years (and then with restrictions). Clearly, the timing advantage of upfront deductions are reduced when those deductions result in tax losses. Investment Boost is likely to bring forward deductions when MGL is already in tax loss. So, while Investment Boost brings forward deductions, restrictions on the use of company losses offsets this by differing the use of deductions. It is unlikely therefore that Investment Boost will materially lower MGL's New Zealand effective tax rate given the forecast financial flows form the Project.

More broadly for mining and the Project, restrictions on losses generally are likely to increase the effective tax rate somewhat above the statutory 28%.

In addition, remediation costs for the mine would in economic and accounting terms be recognised throughout the life of the Project. However, our tax law does not allow deductions for such costs until actually incurred or paid although mining can then claim refundable credits so that costs are able to be utilised even if in tax loss in the final project year. The deferral of recognition of remedial costs can be expected to increase the effective tax rate of the Project above the 28% statutory rate.

Overall, therefore, it seems likely that the effective tax rate will be close to if not above the 28% statutory rate as seems to be assumed by the Patterson Report.

Considered above is tax leakage from tax concessions and loopholes reducing the effective statutory rate. A second potential form of tax leakage that could reduce New Zealand tax on foreign investors, and thus expected welfare benefits from the Project, is profit shifting. Instead of the tax rate on accounting or economic income of the New Zealand company through the use of concessions or loopholes, revenue is diverted from the New Zealand company to an overseas company, or expenses are diverted from overseas to New Zealand. This is commonly referred to as base erosion and profit shifting. In this case income of MGL might be diverted to Santana (an Australian company) or expenses of Santana might be diverted to MGL. The result would be lower taxable income in New Zealand and higher taxable income in Australia. The effective New Zealand tax rate remains the same but it is applied to a lower base.

In considering this potential leakage risk one looks at the incentive to undertake such profit shifting and then the opportunity to do so.

There is arguable some incentive to shift profits to Australian where Australia has tax losses and ongoing head office costs. The financial accounts show Santana having $14m of tax losses in Australia. That seems of a minor order. Other factors suggest no or low incentives for profit shifting. The Australian company tax rate is higher (30%) than New Zealand's rate 28%. Profit shifting is attractive to taxpayers when profits can be shifted to a jurisdiction with a lower tax rate. That is not the case here. Under Australian and New Zealand imputation systems, the proportion of New Zealand company tax paid attributable to New Zealand shareholders can be used as imputation credits to offset New Zealand tax on dividends of New Zealand shareholders). The proportion of Australian tax paid attributable to Australain shareholders can be used to as franking credits to offset Australian tax paid on dividends of Australian shareholders. With a near equal Australian and New Zealand shareholder base there is no obvious inventive for Santana/MGL to pay tax in Australia in preference to New Zealand or vice versa.

Santana might establish an offshore tax haven entity and have profits diverted there but that would likely result in tax for Santana under the Australian CFC rules.

Even if there were an incentive to shift profits out of MGL, the opportunities seem limited under New Zealand tax law. New Zealand has comprehensive transfer pricing rules (sections GC 6 to GC 14 of the Income Tax Act 2007) based on the OECD Transfer Pricing Guidelines. This requires associated party cross border supplies of goods and services to be based on an arm's length price taking into account the functions performed by the assets held by, and the risks undertaken by, each of the parties. The type of transactions MGL could enter with associates (sale of gold, engineering services etc) would seem to have robust comparable uncontrolled prices that would be required in determining arms' length prices.

Many types of techniques previously used to reduce the level of tax have now been legislated against. For example, financial arrangements giving rise to deductions in New Zealand without offsetting Australian tax liabilities are now non-deductible in New Zealand (subpart FH of the Income Tax Act 2007).

The conclusion is that there is little likelihood of the Project's effective tax rate being materially lower than the statutory 28% rate. There seems little opportunity or incentive in these circumstances for Santana to shift the New Zealand taxable profits of MGL so of that they are taxable in other countries.

This conclusion might be viewed as at variance with the recent international concerns with Base Erosion and Profit Shifting (BEPS). BEPS is an OECD led response to concerns that multinational enterprises have been able to exploit loopholes in tax rules to artificially shift profits to low or no-tax locations as a way to avoid paying tax. (See OECD A Decade of the BEPS Initiative - An Inclusive Framework Stocktake Report to G20 Finance Ministers and Central Bank Governors October 2025).

However, BEPS is mainly concerned with

- The digital economy and the ability to have a Significant Economic Presence in a country without a permanent establishment or substantial physical presence. Under international conventions, an enterprise operating in a country with no such presence has been considered as trading **with** the country (giving no or limited taxing rights to that country) as opposed to trading **in** a country which does give rise to source country taxing rights. Digital commerce is not very dependent on physical presence so that under these conventions the taxing rights of countries in which digital firms operate can be limited.

- The increasing attribution of profits to intellectual property as opposed to physical property. Intellectual property is globally mobile and MNEs can locate such assets in low tax jurisdictions as part of their tax planning strategies.

These features are absent from mining operations. A mine by its character is physically linked to where it operates and mining involves limited globally mobile intellectual property.

From a commercial and tax perspective it would seem most efficient for the Project's profits to be taxed at 28% in New Zealand as income of MGL. These profits would then be paid as a tax-free dividend (fully imputed so no New Zealand non-resident withholding tax) to the Australian parent company Santana. Then Santana would pay the profits out as a dividend with imputation credits able to be used by its large New Zealand shareholder base. The 28% effective tax rate used in the Patterson Reports would apply.

Despite the above comments, if Santana funded MGL by significant levels of debt, there is a potential for material New Zealand tax leakage. That is because the return on debt (interest) is deductible (reducing the levels of New Zealand taxable profits) but under international conventions New Zealand's taxing rights on interest flowing offshore are limited.

As the (McLeod) Tax Review 2001 sets out[3], this allows a foreign investor to choose an effective tax rate on a New Zealand investment by altering the balance between debt and equity funding. The greater the proportion of debt funding, the more investment returns are extracted at the low interest tax rate. Only 100% equity funded projects would have the 28% effective tax rate discussed above.

New Zealand officials explained this in a paper to the 2020 (Cullen) Tax Working Group[4] as follows:

> "14. When examining incentives to invest in New Zealand it is the effective company tax rate that is more relevant than the statutory rate. The effective company rate takes into account tax base issues, including deprecation rates, methods of financing, as well as the statutory rate. If investment is financed entirely with equity, the statutory rate is relevant. For investment funded by debt, the interest paid is deductible against the income tax base in New Zealand. Accordingly, the New Zealand tax paid on the underlying income is the non-resident withholding tax at a rate of 10% or 15%, depending on whether the residence country of the parent is a treaty country or not."

The paper concluded:

> "15. The single most important tax base issue in determining New Zealand's share of the taxes payable on income earned on foreign direct investment (FDI) is the method of financing employed by the parent company of the New Zealand operations. In particular, is the New Zealand subsidiary financed by debt or equity from the parent? "

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[3] Tax Review 2001 Issues Paper pages 139 – 140.
[4] New Zealand Treasury and Inland Revenue Department, Company Tax Rate Issues, March 2018.

The above officials' comments were in the context of foreign investors choosing to fund a project themselves by way of equity or debt with equity and debt seen as substitutable. As officials noted, interest on related party debt is subject to 10% or 15% withholding taxes. However, the same impact on effective tax rates of a project applies even with unrelated party debt. A proportion of the return on the investment is then still paid offshore as interest. Interest on unrelated party foreign debt can be subject to Approved Issuer Levy which is 2% on the interest paid and is deductible – if the borrower is a company on a 28% tax rate, that is an effective rate of 1.44% on the profits "paid" out of New Zealand as interest. Thus, an inbound investment where half the return is interest subject to AIL and half company profits has an effective New Zealand tax rate of just over 15%, not 28%.

The ability of foreign New Zealand companies controlled by non-residents to gear New Zealand operations so as to reduce the New Zealand effective tax rate is limited by New Zealand's thin capitalisation rules (subpart FE of the Income Tax 2007). In practice this normally does not allow interest deductions for foreign controlled companies where the debt exceeds 60% of assets. This applies to unrelated party debt and related party debt (given the above comments that effective tax rates are reduced by unrelated party debt) and New Zealand as well as foreign provided debt (given that New Zealand debt is potentially ultimately funded by foreign debt).

If MGL were to be partially debt funded by Santana or by other parties, this would thus materially impact on the Project's effective tax rate. It could be substantially lower than 28%, materially impacting on the benefits that would flow to New Zealand from the Project. However, the risk of high gearing in this case seems countered by commercial practice in the sector that seems to lead to low gearing. It is stated that MGL will not be geared to a material extent (Patterson 2026 Report paragraph 33). Santana has low gearing (0.23% debt to equity). That seems to be in line with other major gold mining companies globally. Newmont Corporation (16%), Agnico Eagle Mines (1.1%), Barrick Mining Corporation (13%). Presumably this low debt to equity is because of the investment profile and risk character of gold mining that makes debt funding relatively expensive.

Conclusion

Given the lack of incentive and opportunity for tax leakage, the Patterson Reports assumption that the effective income tax rate on the investment return from the BOGP Project will have an effective income tax rate of 28% seems reasonable. There is a limited risk of tax leakage so that New Zealand investors pay tax offshore rather than to New Zealand or that foreign investors pay materially less than 28% on the actual investment returns as New Zealand tax. That means a low risk of the expected return to New Zealand investors being reduced by foreign tax and a low risk that foreign investors will not pay to New Zealand 28% of the return. It also seems likely that foreign suppliers will pay 28% tax on their returns.

If there is limited risk of leakage from income tax, there seems limited risk of such leakage on royalites given that the higher 10% rate is based on net profits.

An important caveat to the above is the assumption that the BOGP Project will be lowly geared – that is it is mainly equity financed by the Australian parent. That is the stated intention of Santana and seems consistent with industry practice. Nevertheless, it is an important caveat. If the Project is in fact highly geared (even from the Australian parent) the effective tax rate could be halved while still complying with our thin capitalisation debt requirements.

Yours faithfully

Robin Oliver MNZM
Director
[redacted]