Balance sheet

Bougainville Copper Limited at 31 December 2012	Notes	**2012 K'000**	2011 K'000
Funds employed:			
Shareholders' funds			
Ordinary shares	10	**401,063**	401,063
Asset revaluation reserve	8	**31,276**	31,276
Fair value reserve	11	**19,853**	2,267
Accumulated losses		**(117,531)**	(112,107)
		334,661	322,499
Non-current liabilities			
Provisions	6(b)	**22,073**	22,073
Other payables	6(b)	**4,517**	4,517
Income tax	4(b)	**6,759**	6,759
		33,349	33,349
Current liabilities			
Trade payables	6(a)	**4,301**	11,232
Total funds		**372,311**	367,080
These funds are represented by:			
Non-current assets			
Available for sale financial assets	3	**99,895**	90,246
Other receivables	9(b)	**3,909**	3,909
Mine assets	7	**197,894**	197,894
		301,698	292,049
Current assets			
Cash and cash equivalents		**1,387**	6,494
Other receivables	9(a)	**69,226**	68,537
		70,613	75,031
Total assets		**372,311**	367,080

Details of contingent liabilities and assets are shown in note 13. All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The notes on pages 19 to 29 form part of these accounts and are to be read in conjunction with them.

Notes to accounts – continued

These notes form part of the 2012 accounts of Bougainville Copper Limited and should be read in conjunction with them.

Investments:

(i) Available for sale financial assets

Investments in marketable equity securities (shares in other corporations) are classified as "available for sale financial assets". Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available for sale; these are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available for sale investments are subsequently carried at fair value. Changes in the fair value of available for sale investments are recognised as a separate component of equity until the investment is sold, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in determining profit. For investments that are actively traded in organised financial markets, fair value is determined by reference to the Australian Securities Exchange quoted market bid prices at the close of business on the balance sheet date.

(ii) Held to maturity financial assets

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. These are measured at cost with accrued interest included in other receivables.

Cash and cash equivalents:

Cash and cash equivalents comprises cash on hand, deposits held at call with banks, and bank deposits and treasury bills with original maturities of three months or less.

Revenue recognition:

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

1.(c) Critical accounting estimates and assumptions

(i) Carrying value of mine assets

Mine production was suspended on 15 May 1989 because of attacks on employees. Following repeated instances of damage to mine facilities and the power line and further attacks on employees, it became necessary to evacuate all remaining company personnel from Bougainville early in 1990. There continues to be uncertainty surrounding the future of the Panguna mine. Since the withdrawal of company personnel from Bougainville was completed on 24 March 1990, there has been no care and maintenance of the company's assets. Considerable deterioration of the assets has occurred in the intervening period, because of this lack of care and maintenance, their exposure to the elements, vandalism, pilferage and militant action. However, as access to the mine site has not been possible, the extent of the necessary write-downs is not capable of reliable measurement or estimation.

With the passage of time, it became clear that a major write-down of assets from their pre-closure levels would be required. To allow for this future write-down, the directors made an impairment loss in 1991 for deterioration, damage and pilferage of K350 million, with this sum being classified as an extraordinary item.

The exact quantum of this provision should not be viewed as a precise calculation reflecting an accurate estimate of the present value of losses or likely costs of repair. Rather, the reduction in carrying value should be seen as a broad estimate of the total service potential likely to have been lost to the operation in respect of the whole inventory of assets carried in the books.

While directors have made this provision in good faith based on the limited information available to them, it must be recognised that the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible. Accordingly, the 1991 provision may eventually prove to be above or below the sum that is necessary to reflect these losses. The directors believe that in the absence of reliable information and the lack of a more suitable alternative, this is the only appropriate basis to use.

Notes to accounts – continued

These notes form part of the 2012 accounts of Bougainville Copper Limited and should be read in conjunction with them.

(ii) Income taxes

Refer to note 9 and 13 for information regarding the company's ongoing tax dispute with the IRC.

1.(d) Rounding of amounts

All amounts have been rounded off to the nearest K'000, unless otherwise stated.

1.(e) Capital risk management

Bougainville Copper's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

1.(f) Changes in accounting standards

(i) Standards, amendments and interpretations effective in 2012

The following new standards and amendments were applicable for the first time during the accounting period beginning 1 January 2012:

- Amendments to IFRS 7' "Financial instruments: Disclosures' on transfers of assets introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments mainly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendment was not relevant to the entity.
- Amendments to IFRS 1, "First time adoption' on fixed dates and hyperinflation are not relevant to the entity.
- Amendment to IAS 12, 'Income taxes', on deferred tax introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The entity has no investment property measured at fair value.

(ii) Standards, amendments and interpretations issued but not yet effective in 2012 or adopted early

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2012 or later periods, but the entity has not early adopted them:

- Amendments to IAS 19, 'Employee benefits' (effective 1 January 2013) require the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. The entity does not have a defined benefit pension scheme.
- Amendments to IAS 1, 'Financial statement presentation' (effective 1 July 2012) regarding other comprehensive income requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not effect the measurement of any items recognised in the balance sheet or profit and loss in the current period.
- IFRS 9, 'Financial Instruments' (effective 1 January 2013) is the first phase of replacing IAS 39, 'Financial Instrument' with a standard that is less complex and principles based. The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not expected to change the entity's existing accounting policy for its financial assets and liabilities.
- IFRS 10, 'Consolidated Financial Statements' (effective 1 January 2013) replaces all of the guidance on control and consolidation in IFRS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purposes Entities. The standard introduces a single definition of control that applies to all entities. The new standard will not have any impact on the existing company's financial statements.
- IFRS 11, 'Joint arrangements' (effective 1 January 2013) introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. As the entity is not a party to any joint arrangements, this standard will not have any impact on its financial statements.
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013) includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

Independent auditor's report to the shareholders of Bougainville Copper Limited

Report on the financial statements

We have audited the accompanying financial statements of Bougainville Copper Limited (the Company), which comprise the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The financial statements of the company for the year ended 31 December 2012 have been prepared with the inclusion of the company's mine assets at their 31 December 1991 book value of K198 million. This book value is net of a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in notes 1(b) and 1(c) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the company's assets on Bougainville. While the directors have made the impairment provision in good faith based on the limited information available to them, the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna mine assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2012. However as the actual extent of such impairment cannot presently be established, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not and therefore whether the carrying value of the mine assets is properly stated.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. For the same reasons as set out above in relation to mine assets, the company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The values attributed to the mine assets and the liability for compensation, rehabilitation and stabilisation are significant to the financial statements and are of fundamental importance to the presentation of the financial statements. In view of the significance of these matters we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the financial position of the company as at 31 December 2012 and of its performance for the year ended on that date.

Statistical Summary

FINANCIAL	2012	2011	2010	2009	2008	2007	2006	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Earnings (K million)																			
Net sales revenue and other income*****	**6.2**	8.2	12.1	16.7	9.0	8.3	7.9	7.4	16.1	11.7	13.0	19.6	18.3	12.4	6.1	10.7	5.5	2.2	1.7
Operating and other expenses****	**11.4**	10.5	8.9	8.0	9.2	4.9	4.4	5.0	4.7	4.1	4.6	3.8	4.8	5.2	4.8	5.0	4.9	3.6	4.1
Depreciation*****	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings/(loss) before taxation and exchange gains	**(5.2)**	(2.3)	3.2	5.8	(0.2)	3.4	3.5	2.4	11.4	7.6	8.4	15.8	13.5	7.2	1.4	5.7	0.6	(1.4)	(2.4)
Exchange gains/(losses)	**(0.2)**	(1.4)	(0.4)	2.9	(4.6)	0.2	0.2	(0.4)	3.1	0.3	-	-	0.4	0.5	-	-	6.6	9.2	(0.3)
Earnings/(loss) before taxation	**(5.4)**	(3.7)	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Income tax	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional profits tax	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net earnings/(loss)	**(5.4)**	(3.7)	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	7.9	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Dividends paid	**-**	-	-	-	-	-	-	-	-	8.0	-	-	-	-	-	-	-	-	-
Earnings/(losses) retained	**(5.4)**	(3.7)	2.8	8.7	(4.8)	3.6	3.7	2.0	14.5	(0.1)	8.4	15.8	13.9	7.7	1.4	5.7	7.2	7.8	(2.7)
Balance Sheet (K million)																			
Property, plant & equipment	**197.9**	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	197.9	198.6	200.1	200.6	200.7	200.7	200.8
Investments and loans	**99.9**	90.2	128.8	145.7	98.8	204.7	176.6	128.2	121.2	18.9	3.1	-	-	-	-	-	-	-	-
Current and other non-current assets	**74.5**	79.0	74.7	58.1	31.1	36.1	38.7	31.7	31.4	119.4	135.4	131.0	114.4	100.7	87.7	85.4	76.0	65.6	56.2
Total assets	**372.3**	367.1	401.4	401.7	327.8	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0
Shareholders' funds	**334.7**	322.5	364.7	365.5	293.3	404.0	378.2	323.3	316.1	301.6	301.8	293.3	277.5	263.6	255.9	254.5	248.8	241.6	233.8
Exchange fluctuation	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long term liabilities	**33.4**	33.4	33.4	33.4	33.4	33.6	33.7	33.4	33.4	33.4	33.4	33.4	33.5	35.3	6.8	6.8	6.8	6.8	6.8
Current liabilities	**4.2**	11.2	3.3	2.8	1.1	1.1	1.3	1.1	1.0	1.2	1.2	2.2	1.3	0.4	25.1	24.7	21.1	17.9	16.4
Funds employed	**372.3**	367.1	401.4	401.7	327.8	438.7	413.2	357.8	350.5	336.2	336.4	328.9	312.3	299.3	287.8	286.0	276.7	266.3	257.0
PRODUCTION / SALES																			
Mined																			
Ore and waste removed (millions of tonnes)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore milled (millions of tonnes)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore grade																			
Copper (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	**-**		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Produced																			
Concentrate (thousands of dry tonnes)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contained copper (thousands of dry tonnes)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Concentrate grade																			
Copper (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Silver (grams/tonne)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipped																			
Total concentrate (thousands of dry tonnes)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Destination:																			
Japan (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asian (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Values																			
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution by:																			
Copper (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (per cent)	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER																			
US$/Kina exchange rate	**.4906**	.4309	.3881	.3821	.3747	0.3636	0.3344	0.33	0.30	0.25	0.26	0.36	0.39	0.48	0.69	0.76	0.79	1.01	1.02
Average metal prices																			
LME copper (USc/lb)	**360.7**	342.6	339.7	231.9	319.5	323.66	305.50	130.01	79.95	70.65	66.2	82.1	71.4	75.2	105.6	104.0	133.1	105.0	87.0
London gold market (US$/oz)	**1 667**	1 575	1 222	970	872	691.00	602.00	409.55	363.89	310.14	276.5	280.0	280.0	294.0	335.3	387.0	384.5	384.0	360.0
Return on shareholders' funds (per cent)	**(1.621)**	(1.139)	0.772	2.380	(1.632)	0.888	0.967	0.60	4.6	2.6	2.8	5.4	5.0	2.9	0.5	2.2	2.9	3.2	-
Earnings per share*** (toea)	**(1.352)**	(0.916)	0.702	2.169	(1.19)	0.895	0.912	0.50	3.61	1.96	2.10	3.93	3.5	1.9	0.3	1.4	1.8	1.9	-
Dividends per fully paid share***(par value K1)(toea)	**-**	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-
Number of shares issued at end of year (millions)	**401**	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401
Number of shareholders at end of year	**15 394**	15 463	15 534	15 468	15 495	15 504	15 698	16 072	16 374	16 519	16 812	17 021	17 260	18 183	18 182	18 041	18 452	18 765	19 189
Debt/equity ratio	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workforce at end of year																			
Overseas	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
National	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

*Notes: Bonus dividends of 4.0 and 6.7 toea per fully paid share were made in 1979 and 1980 respectively and have been included in dividend figures for those years. *Full year figures: but commercial production commenced 1 April, 1972. **1972 figure is for Bougainville Mining Limited.*

Statement of comprehensive income

Bougainville Copper Limited year ended 31 December 2012	Notes	**2012 K'000**	2011 K'000
Income			
Interest		**820**	2,353
Realised gain on disposal of investments		**657**	-
Dividends		**4,674**	5,880
		6,151	8,233
Cost and expenses			
General and administration expenses	2	**(11,348)**	(10,518)
Exchange losses	5	**(227)**	(1,388)
		(11,575)	(11,906)
Profit (loss) before tax		**(5,424)**	(3,673)
Income tax	4	**-**	-
Profit (loss) after tax		**(5,424)**	(3,673)
Other comprehensive income			
Increase (decrease) in fair value of available for sale financial assets	3	**17,586**	(38,551)
Total comprehensive income (loss) for the year		**12,162**	(42,224)
Basic and diluted earnings per share (toea)		**(1.35)**	(0.92)

Statement of changes in equity

	Share capital K'000	**Asset revaluation reserve K'000**	**Fair value reserve K'000**	**Accumulated losses K'000**	**Total K'000**
Brought forward at 01.01.11	401,063	31,276	40,818	(108,434)	364,723
Profit (loss) for the year	-	-	-	(3,673)	(3,673)
Other comprehensive income (loss) for the year	-	-	(38,551)	-	(38,551)
Balance at 31.12.11	401,063	31,276	2,267	(112,107)	322,499
Profit (loss) for the year	-	-	-	(5,424)	(5,424)
Other comprehensive income (loss) for the year	-	-	17,586	-	17,586
Balance at 31.12.12	401,063	31,276	19,853	(117,531)	334,661

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted.
The notes on pages19 to 29 form part of these accounts and are to be read in conjunction with them.

Independent auditor's report to the shareholders of Bougainville Copper Limited

Report on the financial statements

We have audited the accompanying financial statements of Bougainville Copper Limited (the Company), which comprise the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The financial statements of the company for the year ended 31 December 2012 have been prepared with the inclusion of the company's mine assets at their 31 December 1991 book value of K198 million. This book value is net of a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in notes 1(b) and 1(c) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the company's assets on Bougainville. While the directors have made the impairment provision in good faith based on the limited information available to them, the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna mine assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2012. However as the actual extent of such impairment cannot presently be established, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not and therefore whether the carrying value of the mine assets is properly stated.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. For the same reasons as set out above in relation to mine assets, the company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The values attributed to the mine assets and the liability for compensation, rehabilitation and stabilisation are significant to the financial statements and are of fundamental importance to the presentation of the financial statements. In view of the significance of these matters we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the financial position of the company as at 31 December 2012 and of its performance for the year ended on that date.

Statement of cash flows

Bougainville Copper Limited year ended 31 December 2012	**2012 K'000**	2011 K'000
Cash flows from operating activities		
Payments to suppliers	**(18,270)**	(2,610)
Interest received	**122**	121
Dividends received	**4,674**	5,880
Net operating cash flows	**(13,474)**	3,391
Cash flows from investing activities		
Proceeds from available for sale financial assets	**8,594**	-
Net investing cash flows	**8,594**	-
Net increase/(decrease) in cash and cash equivalents		
Net cash flow	**(4,880)**	3,391
Cash and cash equivalents at beginning of year	**6,494**	4,491
Effect of exchange rate changes on cash and cash equivalents	**(227)**	(1,388)
Cash and cash equivalents at end of year	**1,387**	6,494

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The notes on pages 19 to 29 form part of these accounts and are to be read in conjunction with them.

For, and on behalf of, the board.

Peter R Taylor
Chairman & managing director
7 February 2013

Ian J Williams
Director

Independent auditor's report to the shareholders of Bougainville Copper Limited

Report on the financial statements

We have audited the accompanying financial statements of Bougainville Copper Limited (the Company), which comprise the balance sheet as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The financial statements of the company for the year ended 31 December 2012 have been prepared with the inclusion of the company's mine assets at their 31 December 1991 book value of K198 million. This book value is net of a separate general impairment loss provision of K350 million having been made in 1991 for the value of the indeterminate level of deterioration, damage and pilferage of assets which has occurred in the period since the withdrawal of company personnel from Bougainville in 1990. As explained in notes 1(b) and 1(c) to the financial statements, there continues to be considerable uncertainty surrounding the future of the Panguna mine, and the extent of deterioration, damage and pilferage of the company's assets on Bougainville. While the directors have made the impairment provision in good faith based on the limited information available to them, the actual extent of the necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible or when a reliable market price for the Panguna mine assets can be determined.

In our opinion, providing for the probable impairment loss from deterioration, damage or pilferage is the appropriate accounting treatment for the actual impairment which will have occurred in the period to 31 December 2012. However as the actual extent of such impairment cannot presently be established, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision may eventually prove to be above or below the sum which is necessary to reflect this impairment. In the absence of all the necessary information and explanations we require, and for the reasons set out above, we are unable to form an opinion as to whether or not the impairment provision against the carrying amount of mine assets of K350 million is adequate or not and therefore whether the carrying value of the mine assets is properly stated.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation for which the company may be liable. For the same reasons as set out above in relation to mine assets, the company's actual liability for these costs is subject to significant uncertainty, and we are unable to form an opinion as to whether the provision is fairly stated.

The values attributed to the mine assets and the liability for compensation, rehabilitation and stabilisation are significant to the financial statements and are of fundamental importance to the presentation of the financial statements. In view of the significance of these matters we are unable to form an opinion as to whether or not the financial statements give a true and fair view of the financial position of the company as at 31 December 2012 and of its performance for the year ended on that date.