

Balance Sheet

<i>Bougainville Copper Limited at 31 December 2009</i>		2009	2008
	Notes	K'000	K'000
Funds employed:			
Shareholders' Funds			
Ordinary shares	11	401,063	401,063
Asset revaluation reserve	9	31,276	31,276
Fair value reserve	12	44,437	(19,127)
Accumulated losses		(111,249)	(119,950)
		365,527	293,262
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)	2,770	1,142
Total Funds		401,646	327,753
These funds are represented by:			
Non-Current Assets			
Available-for-sale financial assets	3	145,672	98,753
Other receivables	10(b)	3,909	3,909
Mine assets	8	197,894	197,894
		347,475	300,556
Current Assets			
Cash and cash equivalents		438	968
Held-to-maturity financial assets	7	36,210	8,704
Other receivables	10(a)	17,523	17,525
		54,171	27,197
Total Assets		401,646	327,753

Details of contingent liabilities and assets are shown in Note 14. All amounts are expressed in Papua New Guinea kina. Rounding to the nearest thousand kina has been adopted. The Notes on pages 17 to 26 form part of these accounts and are to be read in conjunction with them.

past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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 the income statement. 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 a 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

Statement of Comprehensive Income

Bougainville Copper Limited year ended 31 December 2009		2009	2008
	Notes	K'000	K'000
Income			
Interest		603	974
Realised gain on disposal of investments		6,358	-
Exchange gains	5	3,178	-
Dividends		6,529	8,053
		16,668	9,027
Costs and expenses			
General and administration expenses	2	(7,661)	(9,176)
Exchange losses	5	(306)	(4,637)
		(7,967)	(13,813)
Profit (loss) before tax		8,701	(4,786)
Income tax	4	-	-
Profit (loss) after tax		8,701	(4,786)
Other comprehensive income			
Increase (decrease) in fair value of available-for-sale financial assets		63,564	(105,986)
Total comprehensive income for the year		72,265	(110,772)
Basic and diluted earnings per share (toea)		2.17	(1.19)

Statement of Changes in Equity

	Paid up capital	Asset revaluation reserve	Fair value reserve	Accumulated losses	Total
	K'000	K'000	K'000	K'000	K'000
Brought forward at 01.01.08	401,063	31,276	86,859	(115,164)	404,034
Total comprehensive income for the year	-	-	(105,986)	(4,786)	(110,772)
Balance at 31.12.08	401,063	31,276	(19,127)	(119,950)	293,262
Total comprehensive income for the year	-	-	63,564	8,701	72,265
Balance at 31.12.09	401,063	31,276	44,437	(111,249)	365,527

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Independent Audit Report

Independent Audit Report to the Members 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 statement of financial position as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Standards in Papua New Guinea and the Companies Act 1997. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for disclaimer of Auditor's opinion

The financial report of Bougainville Copper Limited for the year ended 31 December 2009 has been prepared with the inclusion of the company's mine assets at their 1 January 1991 book value, with 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 note 1(b) to the accounts, 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 this impairment 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 or when a reliable market price for the Panguna 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 2009. However, as the actual extent of such impairment can only be established after the company regains access to the mine site or a reliable market price can be determined, we recognise that, at present, the recoverable amount of the company's assets on Bougainville is not capable of reliable measurement or estimation. Accordingly the impairment provision made by directors in 1991 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. Accordingly we are unable to form an opinion as to whether or not the carrying value of the mine assets, as disclosed in these accounts, is properly stated.

The directors have established a provision of K22.1 million for compensation, rehabilitation and stabilisation

Statement of Cash Flows

<i>Bougainville Copper Limited year ended 31 December 2009</i>	2009 K'000	2008 K'000
<i>Cash flows from operating activities</i>		
Payments to suppliers	(6,360)	(10,163)
Interest received	626	979
Dividends received	6,529	8,053
Net operating cash flows	795	(1,131)
<i>Cash flows from investing activities</i>		
Proceeds from available-for-cash financial assets	23,003	-
Increment in held-to-maturity investments	(532)	(979)
Proceeds/(Purchases) held-to-maturity investments	(24,882)	3,126
Net investing cash flows	(2,411)	(2,147)
<i>Net increase/(decrease) in cash and cash equivalents</i>		
Net cash flow	(1,616)	1,016
Cash and cash equivalents at beginning of year	968	358
Effect of exchange rate changes on cash and cash equivalents	1,086	(406)
Cash and cash equivalents at end of year	438	968

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For, and on behalf of, the board.



P R Taylor

Chairman & Managing Director



J E Leahy

Director

10 February 2010