

**Balance sheet**

<i>Bougainville Copper Limited at 31 December 2010</i>		<b>2010</b>	2009
	Notes	<b>K'000</b>	K'000
<b>Funds employed:</b>			
<b>Shareholders' funds</b>			
Ordinary shares	11	<b>401,063</b>	401,063
Asset revaluation reserve	9	<b>31,276</b>	31,276
Fair value reserve	12	<b>40,818</b>	44,437
Accumulated losses		<b>(108,434)</b>	(111,249)
		<b>364,723</b>	365,527
<b>Non-current liabilities</b>			
Provisions	6(b)	<b>22,073</b>	22,073
Other payables	6(b)	<b>4,517</b>	4,517
Income tax	4(b)	<b>6,759</b>	6,759
		<b>33,349</b>	33,349
<b>Current liabilities</b>			
Trade payables	6(a)	<b>3,349</b>	2,770
<b>Total funds</b>		<b>401,421</b>	401,646
<b>These funds are represented by:</b>			
<b>Non-current assets</b>			
Available for sale financial assets	3	<b>128,797</b>	145,672
Other receivables	10(b)	<b>3,909</b>	3,909
Mine assets	8	<b>197,894</b>	197,894
		<b>330,600</b>	347,475
<b>Current assets</b>			
Cash and cash equivalents		<b>4,491</b>	438
Held to maturity financial assets	7	<b>-</b>	36,210
Other receivables	10(a)	<b>66,330</b>	17,523
		<b>70,821</b>	54,171
<b>Total assets</b>		<b>401,421</b>	401,646

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The Notes on pages 19 to 28 form part of these accounts and are to be read in conjunction with them.

## Notes to accounts – continued

*These notes form part of the 2010 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 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 necessary write-downs can only be established when access to the mine site by appropriate company representatives is again possible. Accordingly, the 1991

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

### ***Report on the financial statements***

We were engaged to audit the accompanying financial statements of Bougainville Copper Limited (the company), which comprise the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, and other explanatory information.

### ***Directors' responsibility for the financial statements***

The directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practice in Papua New Guinea, the PNG Companies Act 1997, and for such internal control as directors may determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matter described in the Basis for disclaimer of opinion paragraph, however, 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 statement of Bougainville Copper Limited for the year ended 31 December 2010 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 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 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 2010. 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 financial statements, 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. 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 mine assets, which represent 49% of the book value of total assets and 54% of the book value of net tangible assets, and the liability for compensation, rehabilitation and stabilisation, are of fundamental importance to the presentation of the accounts. In view of these matters over the carrying amount of the mine assets and the liability for compensation, rehabilitation and stabilisation as set out above, we are unable to form an opinion as to whether or not the financial statements gives a true and fair view of the financial position of the company as at 31 December 2010 and its performance for the year ended on that date.

### ***Disclaimer of auditor's opinion***

Because of the significance of the matters described in the Basis for disclaimer of auditor's opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

### ***Report on other legal and regulatory requirements***

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to

# BOUGAINVILLE COPPER LIMITED ANNUAL REPORT

## Statistical Summary

<b>FINANCIAL</b>	<b>2010</b>	2009	2008	2007	2006	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
<b>Earnings (K million)</b>																	
Net sales revenue and other income*****	<b>17.6</b>	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****	<b>14.8</b>	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	<b>3.2</b>	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)	<b>(0.4)</b>	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	<b>2.8</b>	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)	<b>2.8</b>	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	<b>2.8</b>	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)
<b>Balance Sheet (K million)</b>																	
Property, plant & equipment	<b>197.9</b>	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	<b>128.8</b>	145.7	98.8	204.7	176.6	128.2	121.2	18.9	3.1	-	-	-	-	-	-	-	-
Current and other non-current assets	<b>74.7</b>	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	<b>401.4</b>	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	<b>364.7</b>	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	<b>33.4</b>	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	<b>3.3</b>	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	<b>401.4</b>	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
<b>PRODUCTION / SALES</b>																	
<b>Mined</b>																	
Ore and waste removed (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore milled (millions of tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ore grade																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Produced</b>																	
Concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contained copper (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Concentrate grade																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Silver (grams/tonne)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Shipped</b>																	
Total concentrate (thousands of dry tonnes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Destination:																	
Japan (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Asian (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Europe (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Other (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Values</b>																	
Gross concentrate sales value (before treatment and refining charges, freight, etc.) (K million)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution by:																	
Copper (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold (per cent)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>OTHER</b>																	
US\$/Kina exchange rate	<b>.3881</b>	.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 (US\$/lb)	<b>339.7</b>	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)	<b>1 222</b>	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)	<b>0.772</b>	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)	<b>0.702</b>	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)	<b>401</b>	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401	401
Number of shareholders at end of year	<b>15 534</b>	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 2010		2010	2009
	Notes	K'000	K'000
<b>Income</b>			
Interest		696	603
Realised gain on disposal of investments		5,451	6,358
Exchange gains	5	5,477	3,178
Dividends		5,972	6,529
		<b>17,596</b>	<b>16,668</b>
<b>Costs and expenses</b>			
General and administration expenses	2	(8,883)	(7,661)
Exchange losses	5	(5,898)	(306)
		<b>(14,781)</b>	<b>(7,967)</b>
<b>Profit (loss) before tax</b>		<b>2,815</b>	<b>8,701</b>
Income tax	4	-	-
<b>Profit (loss) after tax</b>		<b>2,815</b>	<b>8,701</b>
<b>Other comprehensive income</b>			
Increase (decrease) in fair value of available-for-sale financial assets		(3,619)	63,564
<b>Total comprehensive income (loss) for the year</b>		<b>(804)</b>	<b>72,265</b>
Basic and diluted earnings per share (toea)		<b>0.70</b>	<b>2.17</b>

## Statement of changes in equity

	Share capital	Asset revaluation reserve	Fair value reserve	Accumulated losses	Total
	K'000	K'000	K'000	K'000	K'000
Brought forward at 01.01.09	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
Total comprehensive income (loss) for the year	-	-	(3,619)	2,815	(804)
Balance at 31.12.10	401,063	31,276	40,818	(108,434)	364,723

All amounts are expressed in Papua New Guinea Kina. Rounding to the nearest thousand Kina has been adopted. The Notes on pages 19 to 28 form part of these accounts and are to be read in conjunction with them.

## Statement of cash flows

Bougainville Copper Limited year ended 31 December 2010	2010 K'000	2009 K'000
Notes		
<b>Cash flows from operating activities</b>		
Payments to suppliers	(14,203)	(6,360)
Monies paid to the Supreme Court	(48,843)	-
Interest received	733	626
Dividends received	5,972	6,529
Net operating cash flows	(56,341)	795
<b>Cash flows from investing activities</b>		
Proceeds from available for cash financial assets	18,706	23,003
Increment in held to maturity investments	(637)	(532)
Proceeds/(Purchases) of held to maturity investments	42,226	(24,882)
Net investing cash flows	60,295	(2,411)
<b>Net increase/(decrease) in cash and cash equivalents</b>		
Net cash flow	3,954	(1,616)
Cash and cash equivalents at beginning of year	438	968
Effect of exchange rate changes on cash and cash equivalents	99	1,086
Cash and cash equivalents at end of year	4,491	438

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For, and on behalf of, the board.



**Peter R Taylor**  
Chairman & managing director



**John E Leahy**  
Director

1 March 2011