TAX DISPUTE

The Company has been assessed by the PNG Internal Revenue Commission as owing the sum of K12.5 plus penalties and interest a total of K47.3 million in income tax for the years 1998 to 2002. Traditionally penalties of this magnitude apply usually when a company deliberately misleads or falsely reports its situation, BCL has done no such thing, and it has diligently lodged its tax returns regularly and properly.

The assessment is contested by the Company.

The dispute relates to the appropriate taxation treatment of the Company's assets on Bougainville at the time that the mine was forced to cease operations due to civil unrest and company personnel being withdrawn in 1989 and 1990. At the time, and thereafter, the Company lodged its annual taxation returns on the basis that approximately K 350 million of those assets were probably destroyed or lost at that time, and since then the balance of the assets (approximately K258 million) were depreciated for tax purposes in an Internationally recognised manner.

This treatment lead to depreciation each year that exceeded the income earned by the Company's investment activities and resulted in Nil tax being payable. This treatment was fully and clearly disclosed to the PNG taxation authorities and was accepted by those authorities for 12 years. Although the circumstances have not changed, nor has any new factual material been discovered, the PNG taxation authorities have changed their view and now maintain that the proper treatment would have been write off all assets on Bougainville in 1990. Under that treatment, the Company’s very significant tax losses could only be carried forward for 7 years, and from 1998 onward no significant depreciation amounts would be available to offset income earned by the Company from its investment activities.

The Company believes that it is entitled to have the issues determined under the arbitration provisions of the Bougainville Copper Agreement. The Company has commenced arbitration proceedings but these have been suspended pending the outcome of the court proceedings.

Based on expert advice the Company believes the treatment adopted over by it over the previous 12 years is the correct one and is disputing the assessment through the PNG court system, in the manner provided by the PNG tax legislation

The Internal Revenue Commission has sought to enforce its assessment and to seize the company's funds in PNG, notwithstanding the existence of the appeal against the assessment.

No date has yet been set to hear the Company’s appeal.