2018
ANNUAL REPORT

MRL CAPITAL
LIMITED

LIHIRIANS EQUITY TRUST

The Lihirians Equity Trust (**LET**) was established to hold in trust the shares in Lihir Gold Limited (**LGL**) for the benefit of the people of the Lihir Group of Islands. From 2005 these shares were sold and the proceeds of the sale reinvested into a portfolio of assets currently managed by MRL Capital Limited (**MRL**).

CONTENTS

OUR VISION – LIHIR DESTINY

The Lihir Destiny sets out the following key principles:

Vision
To be self-reliant and financially independent.

Mission
To create a healthy, wealthy, happy and wise community.

Mining Development
To ensure resource development continues to proceed as per the Integrated Benefits Package and compensation for land owners.

Parallel
To ensure development in all villages on Lihir will happen in parallel with the development of the Lihir Gold Project.

Balanced
To ensure that development is balanced in all villages and wards on Lihir.

Sustainable
To encourage sustainable development on Lihir that is not dependent on the Lihir Gold Project.

Stable
To ensure development on Lihir is stable and in harmony with Lihir society, not destroying or eroding the order and culture.

Non-Mining Development
To ensure the Lihir Sustainable Development Plan is not dependent on the mine.

MRL'S VISION

To create the wealth required to empower Lihirians to be independent by ensuring sustainable development in line with the Lihir Destiny.

OUR HISTORY

1995

Mineral Resources Lihir incorporated as a wholly owned subsidiary of Mineral Resources Development Company Limited (MRDC).

1997

MRL acquired 77 million LGL shares (6% of LGL).

MRL appointed as Trustee of the LET.

2005

Commenced sale of 15 million shares on the ASX to settle the outstanding EUR 16 million debt with European Investment Bank.

2007

The Lihir landowners equity in the Lihir Gold Mine completely liquidated on the ASX.

2008

MRL exercised its right to exit the Management Agreement with MRDC.

Incorporation of wholly owned Australian subsidiary Mineral Resources Lihir Pty Ltd.

First dividend payment of K18 million income distributed to beneficiaries.

2009

MRLP acquired its first property at 76 Lake St, Cairns.

Second dividend payment of K20 million income distributed to beneficiaries.

2010

MRLP acquired its second property at 120 Bunda St, Cairns.

OUR HISTORY

2011

MRLP acquired its third property at 316 Adelaide St, Brisbane.

MRL acquired properties at Doyle St and Eagle St, Lae.

2012

MRLP acquired its fourth property at 488 Queen St, Brisbane.

MRL acquired a 20% shareholding in Gazelle International Hotel.

2013

Established CSO Lihir Foundation (MRL Foundation).

2016

Acquired 100% interest in South Sea Lines.

Construction of Blue Orchid Apartments.

Awarded 'Best Private Sector Employer' by the PNG HR Institute.

2017

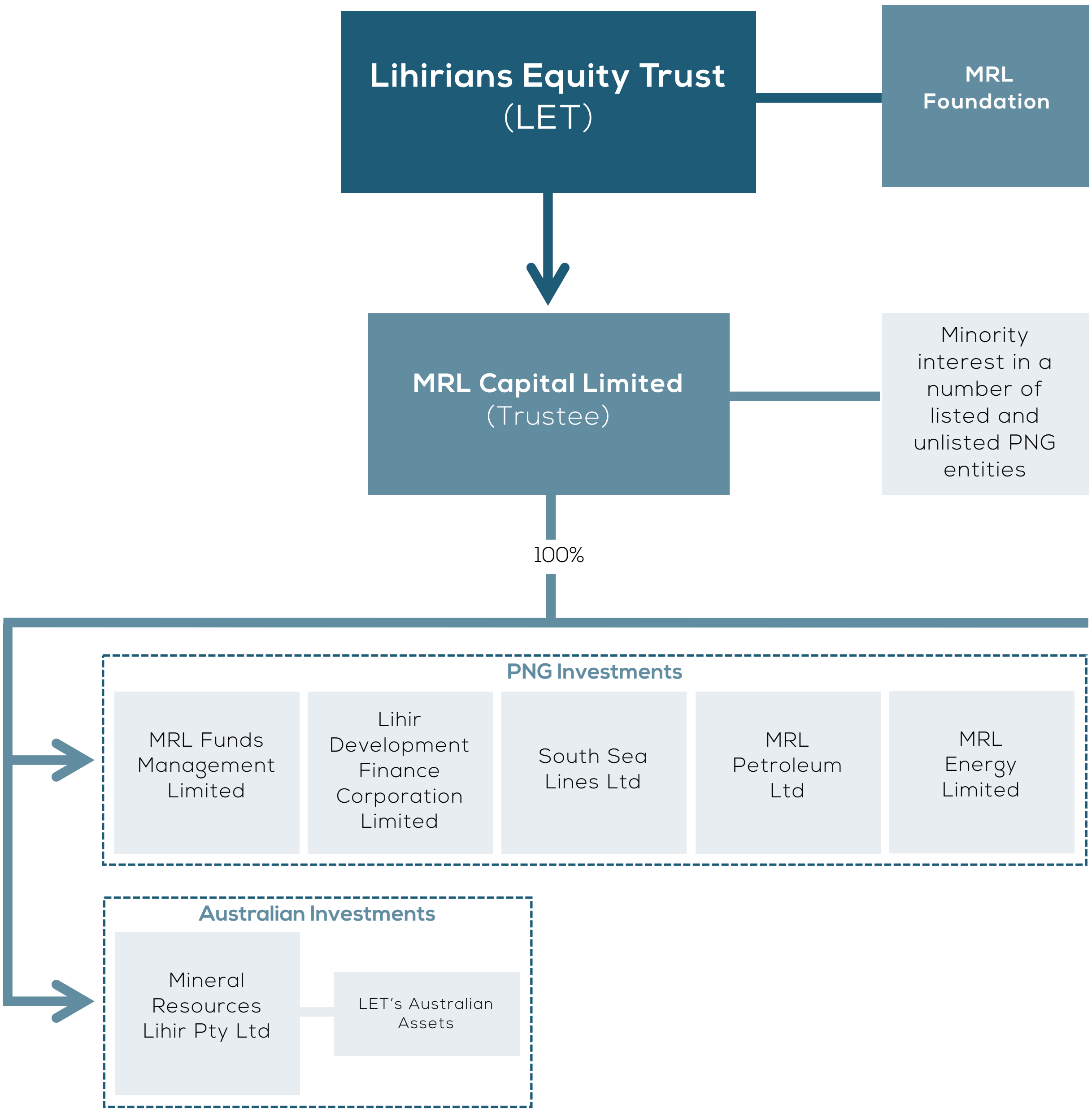
Developed Five-Year Strategic Plan.

2018

Incorporation of Lihir Development Finance Corporation Limited and MRL Energy Limited.

NOW

CORPORATE STRUCTURE



BOARD OF DIRECTORS & MANAGEMENT

Board of Directors

Mark Soipang
Board Chairman

John Kapsa
Director

Cornelia Sokes
Director

Joseph Braun
Director

Jerry Morus
Director

Ludwig Musmus
Director

Executive Management

Lawrence Rausim
Chief Executive Officer

Bruce Apana
Group Corporate Counsel
& Head of Special Projects

Patrick Vagahu
Chief Financial Officer

CHAIRMAN'S STATEMENT

On behalf of the MRL Capital Limited Board, I am pleased to present the financial results for the Lihirian's Equity Trust for 2018. Our achievements to date demonstrate MRL's position as a unique and exceptional trust manager in Papua New Guinea.

MRL as Trustee of the LET continues to **preserve, protect and grow** the assets of the LET for the long-term benefit of its Beneficiaries, who are the people of Lihir.

Admittedly, it has been a challenging year, fiscally, with continued stagnant economic conditions coupled with unfavourable market conditions. Despite these challenges, the Fund continues to look for opportunities to grow. Market conditions have had both an indirect and direct impact on the growth and value of the Funds' Investments. To counter these challenges the Board and Management thankfully took a more prudent approach and have ensured investments are made in accordance with the LET's investment strategy, that was aligned with the Five-Year Strategic Plan.

The first phase of our Five–Year Strategic Plan implemented in 2017 resulted in the establishment and implementation of stringent corporate governance and HR policies.

In 2018, the second phase of the Five-Year Strategic Plan was implemented. This resulted in the overall group restructure of the Fund and transfer of assets from CSO Lihir Foundation Association Inc (**CSO**) to Mineral Resources Lihir Pty Ltd.

Also, during the year, MRL as Trustee commenced the process of obtaining written approval from the Beneficiaries of the LET to amend the then Trust Deed to clearly define MRL's roles and responsibilities in line with purposes of the Deed.

The 2006 Amendments to the Deed that facilitated the sale of the Lihirian Shares resulted in a major change to the Trust arrangement.

Monies received from the sale of the LGL shares were subsequently invested in property, government bonds, term deposits as well as listed and unlisted shares both in PNG and Australia. Whilst there exists a general mandate for such investments to be made, the current terms of the Deed do not specifically express MRL's authority to invest and the contemplated changes will clearly define MRL's roles and responsibilities as Trustee of the LET. Ideally, as a consequence, it will, realign MRL's existing business operations with that of the Trust Deed.

Despite the challenges, I am pleased to report a profit for the financial year ending 31 December 2018. The 2018 Financial Statements for the LET have been audited independently by the Fund's auditor, KPMG, who have provided an Unqualified Audit Opinion. According to the audited financials, the value of the Fund's total Assets was slightly lower by 0.43% to K477.77 million from K479.85 million in 2017. This was attributed to the unfavourable economic climate. At an operational level, the Fund recorded a very pleasing profit of K2.53 million, for our Beneficiaries. As required under the existing Trust Deed, 50% of the Profits must be retained for growth and 50% for distribution (with 25% for CSO programs and projects and 25% paid out as cash payment to the Beneficiaries of the Fund).

In terms of Community Service Obligations, we proudly continue to provide support and assistance to the people of Lihir. A wonderful example of this support is that of the construction of the 6 in 1 Makapa Classroom built on Mahur Island.; a testament that MRL views the importance of investing in the education of the younger generation of Lihirians. We also continue to provide support and assistance to the Clan companies and other related Lihirian entities.

In summary, we have managed to make a profit in 2018 and will retain earnings for growth to fund CSO and pay distributions. With the implementation of our Corporate Governance and HR Framework, it is evident that we have put the systems and processes in place, as well as aligned our investment strategy with the Five-Year Strategic Plan, to enable the Fund to grow.

We are quietly optimistic that the various investment opportunities we have identified and continue to work on will be successful in delivering growth and as a net consequence increase the asset base of the Fund in the coming years.

Finally, I would like to take the opportunity to acknowledge and thank the Management and staff of MRL both in PNG and Australia and our external partner's that have contributed to our success.

Yours truly,

Mark Soipang
Chairman

LETTER FROM THE CEO

Dear Stakeholders and Beneficiaries,

The 2018 year has once again been a year of milestone achievements for the LET. 2018 was the second year of implementing the LET's Five-Year Strategic Plan.

As mentioned in my last report, the LET went through major changes and has crafted its investment targets and direction through devising its 2017 – 2021 Strategic Plan. In 2018, the LET moved ahead in implementing its goals and completed some of its key objectives and aligning of operations against the Strategic Plan for the year.

All this was implemented to maximize the LET's performance in line with our main objective which is "to preserve, protect and grow" the Fund.

The 2018 year was also a transformative year for the MRL group. As a Trust, we have an obligation to perform and provide services to our Beneficiaries as one of three key objectives of our business operations. The main highlights that have been achieved in the operations of the LET in 2018 include:

- General Awareness on the amendments to the Trust Deed;
- Distributions of dividends to the Beneficiaries of over K4 million;
- Incorporation of MRL subsidiaries such as Lihir Development Financial Corporation (LDFC), and MRL Energy;
- Net Profit after Tax and Other Comprehensive Income was K2.762 million; and
- Management expense ratio was maintained under 2% of funds under management.

This is a pleasing result with overheads maintained at 2% or less of the value of total assets under management, Beneficiaries receiving distribution payments and the ongoing delivery of community social support services and benefits.

Again, I am pleased to announce our Strategic Plan captures the aspirations of the Lihir Destiny to be "self-reliant and financially independent".

This is evident in the way we adopt a methodical approach in providing social services through CSO Foundation Association Inc. (CSO) and dividend distributions to our Beneficiaries.

At MRL, we always remind ourselves of the visions and goals we are here for; to create the wealth required to empower Lihirians to be independent by ensuring sustainable development in line with the Lihir Destiny.

As we all know, our current economic climate is not conducive for many of the companies and investments throughout the country due to unfavourable market conditions and continuing foreign exchange issues which have resulted in downward pressure on our currency.

This is reflected in our 2018 financial results which was audited by the Fund's auditors, KPMG, who provided an Unqualified Audit Opinion. According to the financial results, the Fund Assets had slightly decreased by 0.43% to K477.77 million from K479.85 million.

Regardless of this outcome, the Fund had a steady inflow of income from its fixed income portfolio, dividends from its listed equities and contained its overheads below the 2% management expense ratio which resulted in the Fund recording a net profit after tax of K12.5 million compared to K0.14 million in 2017. Total comprehensive income which takes into consideration the fair value adjustments of equity investments in subsidiaries was K2.674 million compared to K42.5 million in 2017. This is a pleasing result for our Beneficiaries in these challenging economic times.

While acknowledging these results, our Beneficiaries should also note our investments are subject to unpredictable market conditions which may result in fluctuating returns. Here at MRL, we are mindful of these risks and therefore maintain a disciplined approach when assessing any investment opportunities.

The Fund continues to make profit at an operational level and therefore we continue to provide support and assistance to the community on Lihir through the CSO Foundation. We continue to support the Clan companies and Lihirian entities/Beneficiaries including the 6 in 1 Makapa Classroom built on Mahur Island and the opening of the new classroom for Lihir Secondary School. These are milestone achievements in terms of our continued investment in the human capital of Lihir.

In 2018, we also incorporated Lihir Development Foundation Corporation Limited. The LDFC was established as a vehicle to provide financial assistance and business extension services to Clan companies and related entities including the Beneficiaries. The company was incorporated in line with the Five-Year Strategic Plan, Vision and Goals.

Under our Human Resource Framework, staff development is a priority of the Board and the Executive Management Team. Leadership development and professional training for our staff is an ongoing process to ensure we retain and maintain the best team possible for the Fund at all times.

Much of MRL's success as an organization is attributed to the hard working and committed Board of Directors, Management and staff. The Fund administration would not have been executed successfully without the support and cooperation of our people both in PNG and Australia.

For 2019, we will continue the focus on where we left off in 2018.

On this note, I would like to sincerely thank our Chairman, Mark Soipang, and our Board of Directors for their counsel and guidance over 2018. I also acknowledge my fellow Management colleagues and all staff throughout PNG and Australia. Thank you for your invaluable support and commitment in delivering these results for our Beneficiaries.

God bless MRL and its Beneficiaries!

Yours truly,

Lawrence Rausim
Chief Executive Officer

CORPORATE GOVERNANCE

MRL is the Trustee and manager of the LET. MRL seeks to meet the two primary objectives of the LET:

1. To preserve and grow the capital of the LET; and
2. To generate sufficient annual income to pay distributions to eligible Lihirians and to support a Community Service Obligation Program to improve education, health and social welfare standards for members of the clans, who are Beneficiaries of the LET.

As Trustee and manager of the LET, MRL has established an appropriate governance and Risk Management Framework for the administration of the LET.

The Board is primarily responsible for the governance and oversight of the LET and is comprised of a representative from each of the six Lihirian clans; Unawos, Lamatlik, Tengawom, Tinetalgo, Nisal and Ahot. Each director is elected by their respective clan and serve for a term of three (3) years with eligibility for re-appointment.

The Board meets regularly to discuss the operations of the LET and to evaluate new investment opportunities. All decisions are made after careful deliberation and objective evaluation of all the facts available.

The Audit, Risk and Remuneration Committee assists the Board by providing independent and objective review, advice and assistance in developing Board policies and monitoring corporate activity within the scope of its remit and making recommendations to the Board for resolution. It is not a policy making body, nor does it have substantive executive function in its own right.

The role of the Audit, Risk and Remuneration Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities for the annual audited financial statements, financial reporting process, audit process, performance management and remuneration and retention activities.

As at 31 December 2018, the Audit, Risk and Remuneration Committee comprised of Mr David McDougall as Chairman, and Mr Mark Soipang, Mr Lawrence Rausim, Mr John Kapsa and Ms Cornelia Sokes as committee members.

The Investment Committee assists the Board by reviewing and making recommendations to the Board on investment strategy, investment performance and outlook, compliance with the investment and gearing components of the company's Investment Policy, external group borrowings and compliance with debt covenants.

As at 31 December 2018, the Investment Committee comprised of Mr Mark Soipang as Chairman, and Mr David McDougall, Mr Lawrence Rausim and Mr Jerry Morus as committee members.

When necessary, the Board requests briefing from the Executive Management Team and independent professional advisors to assist the Board in fulfilling its responsibilities.

External Auditor

It is MRL's policy to appoint external auditors who can clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. Following a tender process, KPMG were appointed as the external auditors in 2018.

Board & Committee Attendance

	MRL Capital Board	Audit, Risk & Remuneration Committee	Investment Committee
Mark Soipang, Chairman	4/4	3/4	3/4
Lawrence Rausim, Managing Director	4/4	4/4	4/4
John Kapsa	4/4	4/4	n/a
Cornelia Sokes	4/4	4/4	n/a
Jerry Morus	4/4	n/a	4/4
Joseph Braun	4/4	n/a	n/a
David McDougall	n/a	4/4	4/4

n/a = not applicable

INVESTMENT STRATEGY

Overall Investment Approach

MRL's Investment Governance Framework includes an Investment Policy and an Investment Strategy, which govern the approach and activities of MRL in seeking to maximise growth and preserve the capital of the LET.

The objectives of the Investment Strategy require a proactive investment approach be adopted and provide that in order of priority, the goals of the LET's investment activities are:

1. Preservation of Capital;
2. Return on Investment; and
3. Liquidity.

1. Preservation of Capital

Preservation of capital is the principal objective of the approach to managing the LET investment portfolio. Investments are to be performed in a manner that seeks to ensure security of the capital of the overall portfolio in real terms, while growing the assets. This includes managing market risk, credit risk, interest rate and foreign exchange risks within the agreed risk management parameters.

2. Return on Investments

For each asset class the portfolio is expected to at least achieve a market average rate of return taking into account the risk tolerance. Any additional return target set by the Investment Committee or Board will also consider the risk parameters, prudent investment principles and cash flow and distribution expectations.

3. Liquidity

The LET will retain sufficient liquid assets to meet its operating cost and distribution obligations.

Setting Return Requirements

The overall objective for MRL's management of the LET is to optimise risk-adjusted returns for the Beneficiaries while growing the fund. The Investment Strategy determines how the investment portfolio is constructed and managed and is formulated by:

a) Setting rolling risk adjusted return objectives for the overall portfolio and individual asset classes which are designed to deliver a return above inflation;
b) Determining a strategic asset allocation (set on a longer term basis);
c) Implementing dynamic asset allocation tilts (to capitalise on significant market inefficiencies and anomalies or specific opportunities); and,
d) Using investment managers to complement in house skills when required.

Setting Risk Parameters

Risk is the chance of something happening that will have an impact upon objectives which can be measured in terms of consequences and likelihood. The risk management process involves systematic application of management policies, procedures and practices to the tasks of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risk.

Managing investment risk in the portfolio is a critical component of MRL's overall Risk Management Framework.

Asset Allocation

MRL has evaluated the various categories of asset classes under which it manages the LET's assets. Considering the historical rates of return, the relative levels of risk associated with each category, and the objectives of the Strategic Plan, MRL recognises that asset allocation is critical to the performance of the LET.

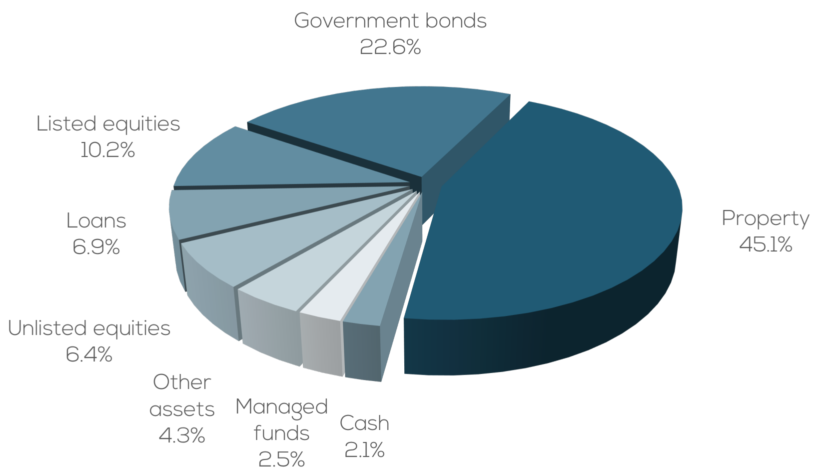
FUND INVESTMENTS

The LET's investment portfolio includes a combination of PNG and Australian assets. The PNG assets are held by MRL as Trustee for the LET, while the Australian assets are held by MRLP, a wholly-owned Australian subsidiary of MRL.

LET's asset allocation, in line with the Investment Strategy, is invested according to the following minimum and maximum ranges for each asset class.

	Percentage of Total Assets		
Asset Class	Minimum	Target	Maximum
Cash	2.5%	2.5%	10%
Fixed income	20%	27.5%	35%
Property	30%	35%	50%
Listed equities			
-Domestic	2.5%	5%	10%
-International	12.5%	15%	20%
Private equity / business enterprises	10%	15%	25%

LET's asset allocation as at 31 December 2018 is summarised below.



	PNG Assets	Australian Assets	LET Total Assets
	K	K	K
Property	14,913,515	201,447,284	216,360,799
Government bonds	108,682,075	-	108,682,075
Listed equities	16,946,323	31,798,763	48,745,087
Loans	24,137,485	8,833,772	32,971,257
Unlisted equities	30,768,668	-	30,768,668
Other assets	13,813,373	6,656,763	20,470,136
Management funds	-	11,906,693	11,906,693
Cash	3,692,481	6,462,888	10,155,369
Group Total Assets	**212,953,920**	**267,106,163**	**480,060,083**
Less: MRLP Liabilities			*(2,280,567)*
MRLC Total Assets			**477,779,516**

FUND INVESTMENTS

PNG ASSETS AT 31 DECEMBER 2018

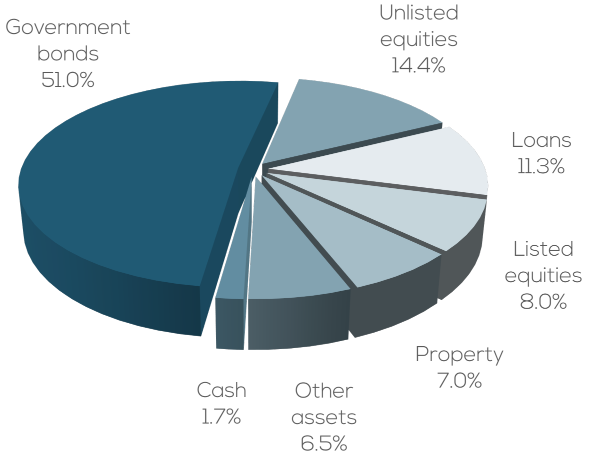
Approximately 50% of the PNG assets are government bonds. The remainder of the assets include unlisted equities, loans, property, cash and listed equities. The largest unlisted equity is South Sea Lines Ltd (**SSL**), a Lae based shipping company that provides regular services to Lihir.

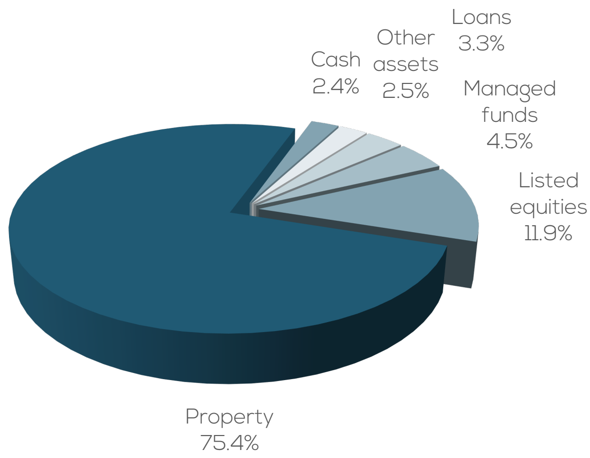
The PNG asset allocation as at 31 December 2018 is depicted in the graphic below.

AUSTRALIAN ASSETS AT 31 DECEMBER 2018

The majority of the Australian assets are property and listed equities. Key property assets include commercial buildings in Brisbane and Cairns. The listed equities are held in two portfolios, one managed by Macquarie Wealth Management and the other by BT Private Wealth.

The Australian asset allocation as at 31 December 2018 is depicted in the graphic below.





The LET's total assets under management increased from K411.4 million in 2008 to K480.1 million in 2018.

COMMUNITY SERVICE OBLIGATIONS

The Community Service Obligation (CSO) program is designed to support and assist Lihirians with a strong focus on health, education and social welfare services.

These community service projects and activities are undertaken by the CSO Lihir Foundation Inc. which is a charitable institution funded by distributions from the LET and managed by MRL. Initiatives supported under this program aim to contribute to the Lihir community and ensure a more prosperous future, in line with the Lihir Destiny.

2018 CSO PROJECT OVERVIEW

The following table provides a list of CSO projects undertaken and initiated during 2018. All CSO projects are reviewed and approved accordingly to ensure they meet Trust Deed requirements and contribute towards the development of Lihir and its people.

Project Name	Type	Scope
Completed in 2018		
Makapa School Rebuild	Education	Includes funding and project management to help rebuild the school. Issues were encountered with shipment of building materials which delayed the project.
CSO Workers Camp/Palie Manager's House Furniture	Infrastructure	Furnishing of the house.
Bulamue Sub Health Centre	Health	Maintenance works completed.
Solar Solutions	Health	Solar system solutions for Palie, Latual and Masahet health facilities.
Putput 1 Elementary Fencing	Education	New fencing for the school.
Ongoing		
Partnership with Australian Business Volunteers (ABV)	Professional Development	An ongoing initiative providing Corporate Governance training for directors of clan companies.
Lihir Malaria Elimination Program	Health	The CSO Foundation is a partner of the Lihir Malaria Elimination Program on Lihir Island.
Cadetship Program	Education	Sponsorship of Lihirian students across PNG & Australia in various fields of study. The total contributed to this program in 2018: PNG Based Students – K447,221.97 Australian Based Students – AUD $1,164,489.19
In Progress		
Lihir Secondary School Classroom	Education	New classroom for the school.

CSO CADETSHIP PROGRAM

The CSO Cadetship Program provides Lihirians with scholarships for the opportunity to further their education to build the capacity of future Lihirian leaders. Students enrolled in the cadetship program during 2018 based in Papua New Guinea and Australia have been listed below with expected graduation dates.

Australian Based Students

Student Name	Degree / Area of Study	Graduation
Dietriche Rausim	Bachelor of Engineering Computer & Software	2020
Nicholas Bokas	Bachelor of Information Technology	2019
Martina Laimo	Bachelor of Information Technology	2019
George Philemon	Bachelor of Engineering Science	2018
Joe Eikamu	Associate Degree of Engineering	2018
Jessie Moab	Associate Degree of Engineering	2020
Julia Lourie	Bachelor of Commerce & International Business	2020

PNG Based Students

Student Name	Degree / Area of Study	Graduation
Geraldine Winaulin	Bachelor of Education	2019
Raymond Winaulin	Bachelor of Public Administration	2019
John Tububol	Diploma of Project Management	2019
Aidah Togilar	Bachelor of School of Humanities	2019
Jayson Bungim	Bachelor of Commerce	2020
Ruth Aming	Diploma in Tropical Agriculture	2020
Rose Tanle	Business Accounting	2020
Benedicta Misren	Bachelor of Science	2020
Theresia Butman	Bachelor of Education	2020
Joan Sumbis	Bachelor of Medical Laboratory Science	2019
Johanna Hobo	Bachelor of Arts - Communication	2019
Naomi Tsiklebiah	Bachelor of Commerce Management	2019
Mathilda Karani	Bachelor of Law	2020
Serah Lusem	Bachelor of Agriculture & Rural Development	2020

2018 FINANCIAL PERFORMANCE

The 2018 financial results were negatively impacted by movement in the foreign exchange rate during the year. This has impacted significantly on earnings and the balance sheet.

The 2018 annual financial statement now adopts the changes proposed under International Financial Reporting Standard 9 (IFRS9). The changes specifically relate to the reclassification and presentation of fair value movements of financial instruments. In prior years, the fair value movements of long term listed/unlisted equity were presented or classified as fair value through profit and loss statement in the operating income and loss section of the profit and loss statement. The changes under IFRS9 require fair value movements to be presented or classified as fair value through profit and loss under Other Comprehensive Income. The movement is also reflected in the statement of changes in equity. The 2017 comparatives have been restated to reflect the impact of IFRS9.

The key highlights for 2018 are:

Profit and Loss

- Total operating income of K15.44 million;
- Total operating expense of K12.91 million. A reduction of K2.52 million on 2017;
- Net operating profit before tax of K2.54 million. Compared to K4.17 million in 2017;
- Total net profit after tax and other comprehensive income of K2.76 million; and
- Management expense ratio kept below 2%.

Balance Sheet

- Total assets of K477.78 million, marginally down on 2017;
- Total liabilities of K15.63 million; and
- Total net assets of K462.15 million.

Despite the adverse movement of the foreign exchange rate, MRLC is pleased to advise its Beneficiaries that the LET continues to make profits at the operating level with positive net operating cash flows.

Net Operating Profit before Tax for 2018 was K2.54 million compared to a profit of K4.17 million in 2017. Total 2018 Net profit after tax including other comprehensive income was K2.76 million compared to K42.53 million in 2017. The 2017 profit was largely driven by the fair value movements of the LET's investments in its subsidiaries.

Operating expenses decreased by K2.52 million to K12.91 as LET refocused on cost containment.

Total Assets marginally decreased by K2.07 million or 0.43% to K477.78 million in 2018 from K479.85 million in 2017 due to movement in the fair value of investments as a result of fluctuation in the foreign exchange rate.

Total Liabilities increased from K14.01 million in 2017 to K15.63 million in 2018. This is primarily due to capital loans absorbed by LET as a subsequent adjustment to the purchase price associated with the acquisition of South Sea Lines Limited (SSL).

The Total net assets of the Trust slightly reduced by K3.68 million to K462.14 million in 2018 from K465.83 million in 2017 due to changes noted above.

Regardless of this outcome, the Fund had a steady inflow of income from its investment portfolios and contained its overheads below the 2% management expense ratio which resulted in the Fund recording a net profit at the operating level. A distribution of K4.78 million has been declared for the 2018 financial year which will be used to fund the CSO Foundation and support Beneficiary distributions.

This is a positive result for our Beneficiaries in these challenging economic times.

SPECIAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

KPMG

Independent Auditor's Report

To the members of Lihirians Equity Trust

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lihirians Equity Trust ('the Trust').

In our opinion the accompanying financial statements of the Trust as contained on pages 7 to 37 are in accordance with the accounting policies as described in Note 2 and the Trust Deed, including

- giving a true and fair view of the Trust's financial position as at 31 December 2018 and of its financial performance for the year ended on that date; and
- complying with the International Financial Reporting Standards.

The financial statements comprise the:

- statement of financial position as at 31 December 2018;
- statement of profit and loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the financial statements section of our report.

We are independent of the Trust in accordance with the Companies Act 1997 and the relevant ethical requirements of CPA Papua New Guinea. We provide other permitted non-audit services to the Trust. We have fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Papua New Guinea.

We confirm that we have remained independent as required by the Companies Act 1997, during the time of our audit to the date of this Auditor's Report.

Other Information

Other Information is financial and non-financial information in the Trust's annual reporting which is provided in addition to the financial statements and the Auditor's Report. This includes, the Trust Information and Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management are responsible for:

- preparing financial statements that give a true and fair view in accordance with the International Financial Reporting Standards and the Companies Act 1997;
- implementing necessary internal control to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Trust's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Trust, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Companies Act 1997, in the manner so required.

KPMG
Chartered Accountants

Suzaan Theron

Partner

Registered under the Accountants Act 1996

Port Moresby

29 August 2019

REPORT OF THE TRUSTEE

The Directors present their report together with the financial statements of Lihirians Equity Trust (the "LET") for the year ended 31 December 2018 and the auditor's report thereon. MRL Capital Limited is the Trustee (the "Trustee") of the LET.

Directors

The Directors of the Trustee during the year:

Mr Mark Soipang	Chairman
Mr Lawrence Rausim	Managing Director (resigned on 31 December 2018)
Mr Joseph Braun	Director (reappointed 21 February 2019)
Mr John Kapsa	Director (reappointed 21 February 2019)
Ms Cornelia Sokes	Director (reappointed 21 February 2019)
Mr Jerry Morus	Director (reappointed 21 February 2019)

Company secretary

Mr Daniel Kaima was the company secretary during the year (resigned on 21 February 2019).

State of affairs

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the LET as at 31 December 2018 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results of the LET for the year then ended.

Principle activities

The principal activity of the LET is to hold investment assets, which include a selection of term deposits, equity investments and commercial real estate in trust, on behalf of the six clans of Lihir Island and distribute any earnings to the Beneficiaries, being the members of the clans. There were no significant changes in the nature of the activities of the LET during the financial year.

Results

The total comprehensive income for the year was K2,762,611 (2017: K42,536,964).

Distributions to Beneficiaries

On 16 May 2019, the LET resolved to approve the declaration of the distribution for 2017 and 2018 dividends for the amount of K1,421,302 and K4,783,896, respectively (2015/2016: K6,450,701).

Signed on behalf of the Board of Directors of MRL Capital Limited.

Mark Soipang
Chairman
Date: 20 August 2019

Lawrence Rausim
Chief Executive Officer
Date: 20 August 2019

TRUSTEE'S DECLARATION

In the opinion of the directors of MRL Capital Limited, the Trustee of the Lihirians Equity Trust (**LET**):

a) the financial statements of the LET are drawn up so as to give a true and fair view of the state of the LET's affairs as at 31 December 2018, and of its results, cash flows and changes in equity for the financial year ended on that date and;
b) there are reasonable grounds to believe the LET will be able to pay its debts as and when they become due and payable.

Dated at Port Moresby this 20th day of August 2019.

Mark Soipang
Chairman

Lawrence Rausim
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		2018	2017
Operating income	**Note**	**K**	**K**
Interest income	6	12,361,223	12,173,902
Dividend income	7	2,588,086	1,630,317
Foreign exchange gains on foreign cash deposits		-	3,651,116
Rental income		888,488	892,501
Other income	8	-	1,809,228
		15,837,797	**20,157,064**
Fees and commission expense	9	(394,219)	(554,723)
Total operating income		**15,443,578**	**19,602,341**
Operating expenses			
Personnel expense	10	1,990,220	2,095,562
Director expenses	11	2,189,140	2,067,012
Professional expenses	12	2,710,971	2,068,298
Depreciation	22	223,366	345,072
Interest expense		198,131	-
Loss on disposal of non-current assets		-	214,038
General administrative expenses	13	2,738,938	1,574,163
Loss on change in fair value of investment properties	20	399,367	-
Allowance for loan losses and provisions	16, 21.b.1	2,455,316	7,060,822
Total operating expense		**12,905,449**	**15,424,967**
Profit before tax		**2,538,129**	**4,177,374**
Income tax (benefit)/expense	23(a)	(9,986,202)	4,041,574
Profit for the year		**12,524,331**	**135,800**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change	21.a, 21.b.2	(9,761,720)	42,401,164
Other comprehensive income, net of tax		**(9,761,720)**	**42,401,164**
Total comprehensive income		**2,762,611**	**42,536,964**

The Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Capital	Retained earnings	Fair value reserve	Total equity
	Note	**K**	**K**	**K**	**K**
Balance at 1 January 2017		**2**	**424,765,298**	**546,286**	**425,311,586**
Reclassification of IFRS9 Equity instruments	2(iii)		34,868,820	(34,868,820)	-
Profit for the year		-	135,800	42,401,164	42,536,964
Other comprehensive loss		-	-	-	-
Prior year adjustments		-	(2,014,605)	-	(2,014,605)
Total comprehensive income for the year		-	32,990,015	7,532,344	40,522,359
Balance at 31 December 2017		**2**	**457,755,313**	**8,078,630**	**465,833,945**
Balance at 1 January 2018		2	457,755,313	8,078,630	465,833,945
Profit for the year		-	12,524,331	-	12,524,331
Other comprehensive income		-	-	(9,761,720)	(9,761,720)
Total comprehensive income / (loss) for the year		-	12,524,331	(9,761,720)	2,762,611
Distributions paid		-	(6,450,701)	-	(6,450,701)
Balance at 31 December 2018		**2**	**463,828,943**	**(1,683,090)**	**462,145,855**

The Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

		2018	2017
Assets	**Note**	**K**	**K**
Cash and cash equivalents	14	3,692,481	14,560,140
Receivables	15	2,463,513	1,475,478
Accrued interest on GIS and deposits	17	2,620,078	2,629,438
PNG Government fixed income securities	18	108,682,075	107,862,513
PNG listed and unlisted shares	19	23,546,323	16,504,707
Investment properties	20	14,913,515	15,312,882
Related party loans and receivables	16	50,109,077	53,351,717
Shares in Australian subsidiary	21 (a)	238,854,004	240,319,455
Shares in PNG subsidiary	21 (b.2)	24,168,668	25,861,060
Property, plant and equipment	22	1,876,527	1,973,393
Income tax receivable	23 (b)	5,110,340	-
Deferred tax assets – net	23 (d)	1,742,915	-
Total assets		**477,779,516**	**479,850,783**
Liabilities			
Trade and other payables	24	7,418,779	8,335,416
Loan payable	27	7,529,976	-
Employee benefits	25	684,906	716,975
Income tax payable	23 (b)	-	3,760,271
Deferred tax liabilities - net	23 (d)	-	1,204,176
Total liabilities		**15,633,661**	**14,016,838**
Net assets attributable to Beneficiaries		**462,145,855**	**465,833,945**
Equity			
Capital		2	2
Fair value reserve		(1,683,090)	8,078,630
Retained earnings		463,828,943	457,755,313
Total equity		**462,145,855**	**465,833,945**

The Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

		2018	2017
Cash flows from operating activities	**Note**	**K**	**K**
Interest and option income received		12,369,968	13,532,889
Management fee and rental income		888,488	1,628,288
Investments in PNG listed and unlisted shares		(6,000,000)	(3,258,830)
Investments in Australian listed financial instruments		-	-
Dividends received		2,588,086	1,630,317
Investment in long term deposits		-	-
Investments in PNG government debt securities		(2,020,000)	7,604,810
Operating expenses and taxes paid		(12,058,503)	(6,420,278)
Net cash generated in operating activities		**(4,231,961)**	**14,717,196**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	-
Purchase of investment properties		-	(280,078)
Purchase of property and equipment		(126,500)	(1,927,974)
Loan to related parties		(1,306,266)	(7,751,665)
Investment in related party		-	(1,355,054)
Net cash used in investing activities		**(1,432,766)**	**(11,314,771)**
Cash used in financing activities			
Distributions paid		(5,184,124)	-
Net cash used in financing activities		**(5,184,124)**	**-**
Net (decrease)/increase in cash and cash equivalents		(10,848,851)	3,402,425
Cash and short term deposits at the beginning of the year		14,560,140	7,506,599
Effect of exchange rate change on foreign currency balance	14	(18,808)	3,651,116
Cash and cash equivalents at end of year		**3,692,481**	**14,560,140**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 General

The Lihirians Equity Trust (the "LET") is a Trust domiciled in Papua New Guinea. The administrative address of the Trust and MRL Capital Limited, the Trustee of the Trust (the "Trustee"), is Level 3 PWC Haus, Harbour City, Port Moresby, Papua New Guinea.

The principal activity of the LET is to hold investment assets on behalf of the 6 clans of Lihir Island and distribute any earnings to the Beneficiaries, being the members of the clans. There were no significant changes in the nature of the activities of the LET during the financial year.

The financial statements have been authorised for issue by the Trustee's Board of Directors on 20 August 2019.

2 Basis of preparation

The financial statements have been prepared on the historical cost convention basis except for the following material items in the statement of financial position:

- financial assets at fair value through profit or loss are measured at fair value;
- financial assets at fair value through other comprehensive income are measured at fair value; and
- investment properties are measured at fair value.

The financial statements have been presented on a going concern basis.

Statement of compliance

The special purpose financial statements have been prepared solely to assist the LET to meet the requirements of the Special Purpose Framework and the Trust Deed. Accordingly, the financial statements may not be suitable for another purpose. The financial statements are intended solely for use of the Lihirians Equity Trust, the Trustee and its Directors.

Changes in accounting policies

Except for the changes below, LET has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 9 Financial Instruments

The LET has early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2017. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the LET's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the LET adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income (OCI). Additionally, the LET adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures for 2018 and to comparative information.

(i) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the LET classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 5 (i).

The adoption of IFRS 9 has not had a significant effect on the LET's accounting policies for financial liabilities.

(ii) *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, debt investments at FVOCI and loan commitments issued, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 5 (i).

(iii) *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively.

- Comparative periods have been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2017. Accordingly, the information presented for 2018 reflect the requirements of IFRS 9 and therefore is comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

    - The determination of the business model within which a financial asset is held.

    - The designation of certain investments in equity instruments not held for trading as FVOCI.

- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the LET assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings at 1 January 2017.

	2017
Fair value reserve	**K**
Closing balance under IAS 39 (31 December 2016)	546,286
Reclassification of equity securities at FVTPL	-
Reclassification of prior year net gain/(losses) from retained earnings	(34,868,820)
Opening balance under IFRS 9 (1 January 2017)	(34,322,534)
Retained earnings	**K**
Closing balance under IAS 39 (31 December 2016)	424,765,298
Reclassification of prior year net gain/(losses) to fair value reserve	34,868,820
Related tax	-
Opening balance under IFRS 9 (1 January 2017)	459,634,118

On 1 January 2017 the LET elected to reclassify the investments held in Mineral Resources Lihir Pty Ltd and South Sea Lines as FVOCI. The following adjustment were made to reclassify cumulative fair value movements previously recognised in Retained Earnings to Other Comprehensive Income on the date of initial application:

Mineral Resources Lihir Pty Ltd (Acquired in 2010 for K128,633,908 Add Subsequent Acquisitions in 2011 and 2013 of K89,178,180 and K34,740,903, respectively, Minus 2017 NAV K217,684,171)	(34,868,820)
South Sea Lines (Acquired in 2017 therefore full amount reclassified in comparative period)	-
	(34,868,820)

(iv) *Classification of financial assets and financial liabilities on the date of initial application to IFRS 9*

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the LET's financial assets and financial liabilities as at 1 January 2017.

		Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets	**Note**			**K**	**K**
Debt securities	18	Held-to-maturity	Amortised cost	107,862,513	107,862,513
Equity securities	19, 21 (a), (b)	FVTPL	FVOCI	282,685,222	282,685,222
Loans, advances and receivables	10, 11, 15	Loans & receivables	Amortised cost	57,456,633	57,456,633
Cash and cash equivalents	14	Loans & receivables	Amortised cost	14,560,140	14,560,140
Total financial assets				**462,564,508**	**462,564,508**
Financial liabilities	**Note**			**K**	**K**
Payables	24	Other financial liabilities	Other financial liabilities	8,335,415	8,335,415
Borrowings	27	Other financial liabilities	Other financial liabilities	-	-
Total financial liabilities				**8,335,415**	**8,335,415**

The LET's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 5 (i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a) Debt securities that were previously classified as held-to-maturity are now classified at amortised cost. LET intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.
b) These equity securities represent investments that LET intends to hold for long term strategic purposes. As permitted by IFRS 9, LET has designated these investments at the date of initial application as measured at FVOCI.
c) Loans, advances and receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
Financial assets	**K**	**K**	**K**	**K**
Loans, advances & receivables				
Brought forward: Loans & receivables	57,456,633			
Remeasurement		-	-	
Carried forward: Amortised cost				57,456,633
Debt securities				
Brought forward: Held for maturity	107,862,513			
Remeasurement		-	-	
Carried forward: Amortised cost				107,862,513
Total amortized cost	**165,319,146**	**-**	**-**	**165,319,146**
FVOCI				
Equity Investments				
Brought forward: FVTPL	10,803,336			
Reclassified to: FVOCI – equity		(10,803,336)		
FVOCI - equity				
Investments securities				
Brought forward: FVTPL		10,803,336		
Carried forward: FVOCI – equity				10,803,336
Total FVOCI	**10,803,336**	**-**	**-**	**10,803,336**

3 Foreign currency transactions

The financial statements have been prepared on the historical cost convention basis except for the following material items in the statement of financial position:

(i) *Functional and presentation currency*

The financial statements are presented in the Papua New Guinea currency, the Kina (K) which is the LET's functional currency.

(ii) *Transactions and balances*

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of available-for-sale equity investments are recognised in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

4 Changes in significant accounting policy

New standards issued but not yet effective

The relevant standards and interpretation that are issued, but not yet effective, up to the date of issuance of the LET's financial statements are disclosed below.

IFRS 16 Leases

The final version of IFRS 16 was issued in February 2017. IFRS 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for annual reporting periods beginning on or after 1st Jan 2019, with early adoption permitted. Management are in the process of determining the impact on the entity.

5 Summary of significant accounting policy

A Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the LET estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income composes of interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in statement of profit or loss and other comprehensive income.

For presentation purposes, interest income is offset against amortisation expense of premium on Papua New Guinea government inscribed stocks. Amortisation expense is calculated using the straight line method. Discounts on Papua New Guinea treasury bills are recorded as interest income using the straight line method. The effects of the straight line method do not materially vary from the effective interest method.

Dividend Income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'. This includes any ineffectiveness recorded in hedging transactions.

Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Rental Income

Rental income from investment properties is recognized in the profit or loss on straight line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income, over the term of the lease.

B Cash and short term deposits

Cash and short term deposits as referred to in the cash flow statement comprises cash on hand and short term deposits.

C Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the LET, and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

(iii) Depreciation

Property, plant and equipment including office equipment, furniture and fittings and motor vehicles are depreciated using the straight line method, at rates which will write off the costs of those assets over their expected useful lives. The method of write off and the rates used are those considered appropriate to each class of asset.

The depreciation rates used for each class of asset for the current and comparative years are as follows:

Office equipment	11%
Furniture and fittings	11%
Motor vehicle	30%

D Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

E Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

F Employment benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date at the future expected cost.

(ii) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the LET pays fixed contributions on behalf of the employees of the Trustee into separate entities such as National Superannuation Fund and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The LET's contribution to defined contribution plans are recognised as employee benefit expense when they are due.

(iii) *Directors retirement benefits*

Directors' retirement benefits are recognised when they accrue to directors. A provision is made for the estimated liability as a result of services rendered by directors up to the balance sheet date at the future expected cost.

G Use of estimates and judgement

The preparation of the financial statements in conformity with Special Purpose Frameworks requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in Note 5(l) Determination of fair value.

H Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Additional taxes that arise from distribution made by the LET to Beneficiaries are recognized at the same time as the liability to pay the related distribution is recognized.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

There are no differences between the tax treatments of a LET and Company under Papua New Guinea's tax legislation.

I Financial instruments

(i) Recognition and measurement

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the LET becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and measurement

<u>Financial assets – Policy applicable from 1 January 2018</u>

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI- equity investments or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the LET changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the LET may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.
All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. On initial recognition, the LET may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment - Policy applicable from 1 January 2018

The LET makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether Management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the LET's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(ii) Classification and measurement (continued)

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest - Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the LET considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the LET considers:

- contingent events that would change the amount or timing of cash flows
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the LET's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets: Subsequent measurement and gains and loss- Policy applicable from 1 January 2018

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets amortized as cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2018

The LET classified its financial assets into one of the following categories:
loans and receivables;

- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading; or
  - designated as at FVTPL.

Financial assets: Subsequent measurement and gains and loss - Policy applicable before 1 January 2018.

Financial assets at FVTPL are measured at fair value and changes therein. including any interest or dividend income, were recognised in profit or loss.

Held-to-maturity financial assets are measured at amortised cost using the effective interest method.

Loans and receivables are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified and measured at amortised cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gains or loss on derecognition is also recognised in profit or loss.

(iii) *Derecognition*

Financial assets

The LET derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the LET neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The LET enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The LET derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The LET also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) *Modifications of financial assets*

If the terms of a financial asset are modified, the LET evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value.

Policy applicable from 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the LET recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see (j), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income (see (5)).

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LET currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

J Impairment

(i) *Non-derivative financial assets*

Policy applicable from 1 January 2018

Financial instruments

The LET recognises loss allowances for ECLs on:

- financial assets measured at amortised cost.

No impairment loss is recognised on equity investment.

The LET measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the LET considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the LET's historical experience and informed credit assessment and including forward-looking information.

The LET assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The LET considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the LET in full, without recourse by the LET to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The LET considers another receivable or cash balance to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade".

Policy applicable from 1 January 2018 (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the LET is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flow due to the entity in accordance with the contract and the cash flows that the LET expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the LET assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;

- the restructuring of a loan or advance by the LET on terms that the LET would not consider otherwise;
- it is probable that the borrower will enter LETruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the LET determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the LET's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as a FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included default or delinquency by a debtor, restructuring of an amount due to the LET on terms that the LET would not consider otherwise, indications that a debtor will enter LETruptcy, adverse changes in the payment status of borrowers or issuers, the disappearance of an active market for a security because of financial liabilities and observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

The LET considers evidence of impairment for receivables at a specific asset level.

In assessing impairment the LET uses historical information of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for Management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss with respect to a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the LET's non-financial assets, other than inventories and investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

K Comparatives

Where necessary, comparative figures have been adjusted to conform with the changes in presentation in the current year to make the information more useful to the reader of the financial statements.

L Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(ii) Receivables

The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(iv) Investment properties

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the LETs investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

(v) Investment in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets in the investment portfolio are determined by the reference to their quoted closing bid price at the reporting date.

(vi) Unquoted investments

The fair value is determined by the use of the most appropriate valuation technique depending on the characteristic of the unquoted equity instrument and the information that is reasonably available to the LET.

M Share capital

Capital is the equity held in LET.

N Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income. When such equity instruments are derecognised the related cumulative amount in the fair value reserve is transferred to retained earnings.

	2018	2017
	K	K
6 Interest income		
PNG Interest bearing deposits	21,480	32,309
Australian Interest bearing deposits	7,572	31,532
Loans to clan companies	1,262,741	1,376,772
PNG Government Treasury bills	12,183,465	11,847,324
Premium amortisation on PNG GIS	(1,114,035)	(1,114,035)
	12,361,223	**12,173,902**
7 Dividend income		
PNG listed and unlisted shares dividend	2,588,086	1,361,370
Australia listed shares dividend	-	268,947
	2,588,086	**1,630,317**
8 Other income		
Realised and unrealised fair value and foreign exchange gains and losses on Australian shares	-	629,938
Option trading gains	-	443,503
Others	-	735,787
	-	**1,809,228**
9 Fees and commission expenses		
Bank charges	10,044	9,402
Property agents commission	384,175	545,321
	394,219	**554,723**
10 Personnel expenses		
Salaries and wages	1,032,732	1,099,071
Contributions to superannuation	55,402	68,021
Staff travel expenses	260,870	227,600
Staff allowances	457,820	446,782
Other staff expenses	183,396	254,088
	1,990,220	**2,095,562**
11 Director expenses		
Director fees	1,039,506	746,045
Director travel expenses	454,875	596,788
Director allowances	694,759	724,179
	2,189,140	**2,067,012**

	2018	2017
	K	K

12 Professional expenses

Audit fees	150,000	137,500
Accounting and tax	29,810	88,493
Legal fees	75,267	64,167
Consulting	2,455,894	1,778,138
	2,710,971	**2,068,298**

13 General administrative expenses

Utilities, overheads, rent and rates	1,625,640	1,384,514
Repairs and maintenance	5,680	5,821
Motor vehicle	33,769	55,509
Advertising	151,783	12,395
Insurance	604	-
Office supply	15,878	23,975
Others expenses	905,584	91,949
	2,738,938	**1,574,163**

14 Cash and cash equivalents

Cash on hand	2,002	2,002
Cash at bank	2,040,479	12,408,138
Short term deposits with less than 3 months maturity	1,650,000	2,150,000
	3,692,481	**14,560,140**

There were no term deposits with maturities greater than 3 months in 2018 and 2017.

15 Receivables

Other	2,463,513	1,475,478
	2,463,513	**1,475,478**

	2018	2017
	K	K

16 Related party loans and receivables

Receivable from CSO	7,062,797	4,456,105
Provision on receivable from CSO	(3,567,854)	(3,567,854)
Loan to LMALA	1,041,292	-
Loan to CSO	7,353,628	24,511,000
Provision on loan to CSO	(7,353,628)	(7,596,239)
Loan to MRL Pty Ltd	25,971,592	20,123,229
Loan to MRL Petroleum	1,294,121	1,294,121
Provision on loan to MRL Petroleum	(1,294,121)	(1,294,121)
Loan to Farm Project	5,496,671	5,098,431
Provision on loan to Farm Project	(5,496,671)	(5,098,431)
Loans to clan companies	26,159,595	23,351,664
Provision on loans to clan companies	(11,769,130)	(10,546,401)
Advances to staff and directors	706,252	848,990
Loan to Australian subsidiary	-	28,337
Loan to Anitua Housing Limited	3,706,026	-
Loan to South Sea Lines	798,507	1,742,885
	50,109,077	**53,351,716**

Total loans and advances	79,590,482	81,454,762
Total provisions raised	(29,481,404)	(28,103,046)

17 Accrued interest

Accrued interest on PNG government securities	2,620,693	2,620,692
Accrued interest on term deposit	(615)	8,746
	2,620,078	**2,629,438**

18 PNG Government securities

PNG government treasury bills	1,933,667	70
Par value PNG government inscribed stock	101,300,000	101,300,000
Net premium on government inscribed stock	5,448,408	6,562,443
	108,682,075	**107,862,513**

19 PNG listed and unlisted shares

Gazelle Hotel shares	6,600,000	6,600,000
PNG listed shares	16,946,323	9,904,707
	23,546,323	**16,504,707**

Opening balance	16,504,707	13,245,877
Additional shares purchased	6,000,000	3,027,003
Adjustment of investment to fair value	1,041,616	231,827
Closing balance	**23,546,323**	**16,504,707**

PNG listed and unlisted shares are classified as other comprehensive income. Any changes in value of the investments are recorded in Other Comprehensive Income and Fair Value Reserve.

	2018	2017
	K	K

20 Investment properties

Opening balance	15,312,882	15,032,804
Additions during the year	-	280,078
Change in fair value	(399,367)	-
Closing balance	**14,913,515**	**15,312,882**

The LET owns four investment properties. Three earned rental income and the fourth is vacant land. Doyle apartment is located in Lae while Blue Orchid and Eagle apartments are located in Port Moresby.

The LET's investment property policy requires the investment properties to be revalued by an independent, external valuation specialist every three years. All properties were subject to valuations by The Professional Valuers of PNG Ltd. at 31 December 2018 which resulted in the above valuations. The valuation techniques adopted for the measurement of fair values are the capitalisation and market approach.

Rental income earned from investment properties amounted to K888,488 (2017: K892,501). Costs of property operations recognized under "General and administrative expenses" arising from investment properties amounted to K249,217 (2017: K328,356).

The LET has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase or construct or develop investment properties or for repairs, maintenance and enhancements.

21 Shares in Australian Subsidiary and PNG Subsidiary

(a) Shares in Australian Subsidiary

Opening balance	240,319,455	217,684,171
Additions during the year	-	-
Impact of foreign exchange translation	(13,766,015)	21,208,705
Adjustment of investment to fair value	12,300,564	1,426,579
Closing balance	**238,854,004**	**240,319,455**

(b) 1. Shares in MRL Petroleum

Opening balance	1,327,007	1,327,007
Impairments	(1,327,007)	-
Adjustment of investment to fair value	-	-
Closing balance	**-**	**1,327,007**

The LET owns 100% of MRL Petroleum Limited, a lubricants procuring and on-selling business. During 2018, Management impaired the investment since the Company is now under liquidation.

(b) 2. Shares in South Sea Lines

Opening balance	24,534,053	2,178,841
Additional purchase price paid (Note 27)	8,972,500	2,821,159
Adjustment of investment to fair value	(9,337,885)	19,534,053
Closing balance	**24,168,668**	**24,534,053**

Shares in Australian subsidiary Mineral Resources Lihir Pty Ltd and shares in South Sea Line are classified as other comprehensive income. Any changes in the value of the investments are recorded in Other Comprehensive Income and Fair Value Reserve.

Equity securities designated as at FVOCI

At 1 January 2017, the Company and the LET designated the investments shown above as equity securities as at FVOCI because these equity securities represent investments that the Company and the LET intends to hold for the long-term for strategic purposes. In 2016, these investments were classified as FVTPL – see Note 2(iv)(b).

22 Property, plant and equipment

	Office equipment	Furniture and fittings	Motor vehicles	Website	Total
	K	K	K	K	K
Cost					
Balance at 1 January 2017	597,064	461,336	825,706	23,390	1,907,496
Additions	57,899	1,883,537	-	-	1,941,436
Disposals	(92,078)	(135,422)	-	-	(227,500)
Balance at 31 December 2017	562,885	2,209,451	825,706	23,390	3,621,432
Additions	-	1,481	125,019	-	126,500
Disposals	(320,148)	(304,498)	(126,338)	-	(750,984)
Balance at 31 December 2018	**242,737**	**1,906,434**	**824,387**	**23,390**	**2,996,949**
Accumulated depreciation					
Balance at 1 January 2017	459,036	238,172	592,063	13,696	1,302,967
Depreciation expense	63,951	106,194	174,227	700	345,072
Disposals	-	-	-	-	(641,800)
Balance at 31 December 2017	522,987	344,366	766,290	14,396	1,648,039
Depreciation expense	27,555	70,345	124,765	702	223,366
Disposals	(320,148)	(304,498)	(126,338)	-	(750,984)
Balance at 31 December 2018	**230,395**	**110,213**	**764,717**	**15,097**	**1,120,422**
Net book value					
At 31 December 2017	**39,898**	**1,865,085**	**59,416**	**8,994**	**1,973,393**
At 31 December 2018	**12,342**	**1,796,222**	**59,670**	**8,293**	**1,876,527**

	2018	2017
	K	K

23 Income tax

(a) Income tax expense

Profit for the year	2,538,129	4,177,374
Income tax on the profit	761,439	1,253,212
(Over) / under provision in prior years	(10,746,028)	1,840,973
Dividend rebate	(776,425)	(489,095)
Tax effect of non-deductible items	4,015,813	(11,214,317)
	(6,745,201)	**(8,609,227)**
Income tax expense comprises:		
Current income tax: current year	1,319,420	2,182,715
Deferred income tax: current year	216,830	997,641
(Over) / under provision in prior years	(11,522,452)	861,218
	(9,986,202)	**4,041,574**

(b) Income tax receivable/(payable)

Balance at beginning of the year	(3,760,271)	(3,999,845)
Current income tax	(1,319,420)	(2,179,401)
Under/(over) provision in prior years	7,582,108	-
Rebates	2,607,924	2,271,040
Tax paid	-	147,935
Balance at end of the year	**5,110,340**	**(3,760,271)**

(c) Deferred income tax asset movement

Balance at beginning of the year	253,215	2,573,457
(Under)/over provision in prior years	212,618	(1,821,000)
Charge to income tax expense	3,163,920	(499,242)
Balance at the end of the year	**3,629,753**	**253,215**

(d) Deferred income tax lability movement

Balance at beginning of the year	(1,457,391)	(935,941)
(Under)/over provision in prior years	(429,448)	(21,630)
Charge to income tax expense	-	(499,820)
Balance at the end of the year	**(1,886,839)**	**(1,457,391)**
Net deferred income tax asset/(liability)	**1,742,915**	**(1,204,176)**
Employee benefits	198,625	211,965
Accrued audit fees	48,188	41,250
Unrealised gains and losses	-	-
Provision for loan to clan companies	3,382,941	-
	3,629,753	**253,215**

	2018	2017
	K	K
Accrued interest	(1,998,349)	(1,611,114)
Property, plant and equipment	148,165	176,900
Unrealised exchange gains	-	-
Prepaid insurance	(36,653)	(23,177)
	(1,886,838)	**(1,457,391)**
Net deferred income tax asset/(liability)	**1,742,915**	**(1,204,176)**

24 Trade and other payables

Trade payables and accruals	2,670,265	5,291,518
Distributions payable	3,281,183	2,014,605
Payroll tax payable	1,299,990	887,867
Deposits held from tenants	167,342	141,425
	7,418,779	**8,335,415**

25 Employee benefits

Director's retirement benefits payable	608,072	684,492
Wages and superannuation payable	22,823	10,425
Annual leave	(3,301)	11,304
Long service leave	57,312	10,754
	684,906	**716,975**

26 KMP and Related party transactions

Other than disclosed elsewhere in the financial statements, the following transactions took place between the LET and related parties during the financial year:

(a) Key management personnel compensation

Directors fees and benefits expense (note 11)	(2,189,140)	(2,067,012)
Directors' retirement benefits (note 25)	(608,072)	(684,492)

(b) Related part transactions and balances

Advances to staff and directors (note 16)	706,252	848,990
Receivables from CSO (note 16)	3,494,943	888,251
Net loan to CSO (note 16)	-	16,914,761
Net loans to clan companies and other parties (note 16)	15,431,757	12,805,263
Loan to Anitua Housing Solutions Limited (note 16)	3,706,026	-
Loan to PNG subsidiary (note 16)	789,507	1,742,885
Loan to Australian subsidiary (note 16)	25,971,592	20,151,566

Loan and receivables

The LET paid out approximately PGK 2M of accrued director benefits during the year. The LET incurred an allowance for provision on loans issued to clan companies of approximately PGK 11.6M. Approximately PGK 5.5M was advanced in the form of a loan to the Farm Project. Full provision have been made against this loan..

Loans made to MRL Petroleum have been fully provided for. Refer to note 22.b.1 for information regarding the performance of the equity investment in MRL Petroleum.

27 Loan payable

In 2016, Nationwide Scaffolding Services Limited agreed to make a loan to Bacasa to finance Bacasa's acquisition of all of the shares in South Sea Lines Limited (SSL) not already owned by Bacasa. Following a change in Bacasa's strategy in January 2018, it was resolved that MRL Capital Limited would acquire all the shares held by Bacasa in SSL for K4,972,500 in addition to the original acquisition cost of K5,000,000. The loan is payable over 3 years and attracts an interest rate of 5% per annum. Monthly repayments amount to K149,030.

In 2015, Lihir Business Services Limited granted a K4,000,000 loan to Bacasa Ltd to buy out Lae Builder's shares on South Sea Lines. In January 2018, the loan was absorbed by MRL Capital Limited in relation to its acquisition of South Sea Lines Limited from Bacasa Ltd. The loan is payable over 3 years and does not attract any interest.

As a result, a subsequent adjustment to the purchase price of SSL was made in 2018 amounting to K8,972,500. The investment was then reduced to the 31 December 2018 net asset value of SSL as a fair value adjustment.

28 Reserves

Fair value reserve (2017: Available for sale reserve)

Fair value reserve consists of subsequent changes in the fair value of investments in equity instruments that are not held for trading. (2017: Available for sale reserve consisted of unrealised gains or losses arising from changes in the fair value of investments classified as available for sale financial assets).

29 Capital commitments and contingencies

At balance date the LET had K nil (2016: K nil) capital commitments and contingencies.

30 Events after the reporting period

On 16 May 2019, the LET resolved to approve the declaration of the distribution for 2017 and 2018 dividends for the amount of K1,421,302 and K4,783,896, respectively (2015/2016: K6,450,701).

31 Financial risk management

Overview

The LET has exposure to the following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Capital management.

This note presents information about the LET's exposure to each of the above risks, the LET's objectives, policies and processes for measuring and managing risk, and the LET's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors of the Trustee of the LET have overall responsibility for the establishment and oversight of the LET's Risk Management Framework. The LET's risk management policies are established to identify and analyse the risks faced by the LET, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the LET's activities. The LET, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

Credit risk is the risk of financial loss to the LET if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the LET's loans and receivables.

The LET has established a policy under which each new investment is analysed for credit worthiness before the investment is made.

The maximum exposure to credit risk at reporting date is as follows:

	2018	2017
	K	**K**
Cash and cash equivalents	3,692,481	14,560,140
Receivables	2,463,513	1,475,478
Accrued interest on GIS and deposits	2,620,078	2,629,438
PNG Government fixed income securities	108,682,075	107,862,513
PNG listed and unlisted shares	23,546,323	16,504,707
Related party loans and receivables	50,109,077	53,351,717
	191,113,547	**196,383,993**

(ii) Liquidity risk

Liquidity risk is the risk that the LET will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The LET's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the LET's reputation.

The following are the contractual maturities of financial liabilities:

	Contractual cash flows		
	Carrying amount	Less than 1 year	Greater than 1 year
31 December 2018	**K**	**K**	**K**
Financial liabilities			
Trade and other payables	7,418,779	7,418,779	-
	7,418,779	7,418,779	
31 December 2017			
Financial liabilities			
Trade and other payables	8,335,416	8,335,416	-
	8,335,416	8,335,416	

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the LET's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(a) Interest rate risk

The LET adopts a policy of ensuring that its exposure to changes in interest rates on investments is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates.

At the end of the reporting period the interest rate profile of the LET's interest-bearing financial instruments was:

	2018	2017
Fixed rate investments	**K**	**K**
PNG Government inscribed stock	108,682,075	107,862,513
Interest bearing loans to related clan companies	14,390,465	12,805,263
Net loans to PNG subsidiaries	798,507	1,742,885
	123,871,047	**122,410,661**

Fair value sensitivity for fixed rate instruments

The LET does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rate at the reporting period would not affect profit or loss.

(b) Price risk

The LET is exposed to equity securities price risk. These arises from investments held by the LET and are classified on the statement of financial position as financial assets at fair value through profit and loss ("FVTPL") and financial assets available for sale ("AFS").

To manage its price risk arising from FVTPL and AFS assets, the LET diversifies its portfolio. Diversification of portfolio is done in accordance with allocations set by the LET.

Financial assets classified as FVTPL include publicly traded Australian shares and options. Financial assets classified as AFS include publicly traded PNG shares.

A 10 percent change in market prices of listed shares would have and increase/ (decrease) on equity and profit and loss by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018		2017	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	K	**K**	**K**	**K**
10% movement	2,354,632	2,354,632	1,650,471	1,650,471

(c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The LET's exposure to foreign currency risk was as follows based on notional amounts:

	2018	2017
	AUD	**AUD**
Cash and term deposits	323,437	531,869
Australian listed financial instruments	-	-
Net loans to related parties	10,962,945	15,070,610
Shares in subsidiary	100,510,862	95,334,728
	111,797,244	**110,937,207**

The following significant exchange rates applied during the year:

	2018	2017	2018	2017
	Average Rate		**Reporting date spot rate**	
AUD/PGK	0.4064	0.4092	0.4208	0.39665

A 10 percent strengthening of the PNG Kina against the Australian dollar would have increased or (decreased) equity and profit and loss by the amount shown below. This analysis assumes that all other variables remain constant.

	2018	2017
	Profit or loss K	**Profit or loss K**
10% appreciation	24,152,533	25,425,944
10% depreciation	(24,152,533)	(25,425,944)

(iv) Fair value versus carrying values

The LET's financial assets and liabilities are included in the statement of financial position at amounts that approximate their net fair value.

(v) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the level of valuation hierarchy. The different levels have been defined as follows:

Level 1: Quoted prices in active markets for identical assets.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
2018	**K**	**K**	**K**	**K**
Cash and cash equivalents deposits	3,692,481	-	-	3,692,481
Australian listed financial instruments	-	-	-	-
PNG listed shares	16,946,323	-	-	16,946,323
PNG unlisted shares	-	-	6,600,000	6,600,000
Related party loans	-	-	50,109,077	50,109,077
Shares in Australian subsidiary	-	-	238,854,004	238,854,004
Shares in PNG subsidiary	-	-	24,168,668	24,168,668
Investment properties		-	14,913,515	14,913,515
	20,638,804	**-**	**334,645,264**	**355,284,068**
2017	**K**	**K**	**K**	**K**
Cash and cash equivalents deposits	14,560,140	-	-	14,560,140
PNG listed shares	9,904,707	-	-	9,904,707
PNG unlisted shares	-	-	6,600,000	6,600,000
Related party loans	-	-	53,351,717	53,351,717
Shares in Australian subsidiary	-	-	240,319,455	240,319,455
Shares in PNG subsidiary	-	-	25,861,060	25,861,060
Investment properties	-	-	15,312,882	15,312,882
	24,464,847	**-**	**341,445,114**	**365,909,961**

(vi) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the LET defines as result from operating activities divided by total equity of the LET. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The LET is not subject to any externally imposed capital requirements. The LET's policies with respect to capital management are reviewed regularly by the Directors.

The LET's net debt to adjusted equity ratio at the reporting date was as follows:

	2018	2017
	K	**K**
Total liabilities	15,633,661	14,016,838
Less cash at bank and short term deposits	(3,692,481)	(14,560,140)
Net (surplus) / debt level	11,941,180	(543,302)
Total equity	**462,145,855**	**465,833,945**
Net (surplus) / debt to equity ratio	0.026	(0.001)

There have been no changes in the Trust's management of capital during the year.

NOTES

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