

AUDITOR GENERAL'S REPORT

Under the terms of the Public Enterprises Reform and Divestiture Statute No. 9 of 1993 section 15 (4), I am required to audit the accounts of Kilembe Mines Limited and report to the Speaker of Parliament in accordance with Article 163 (4) of the Constitution.

REPORT:

1. The Financial Statements set out on pages 1 to 13 have been audited. The financial statements have been prepared on the basis of accounting policies set out in note B on pages 7 and 8 are in agreement with the books of account. All the information and explanations which were considered necessary for the purposes of the audit were obtained.

2. Respective Responsibilities of Directors and Auditors

The Directors are responsible for the preparation of financial statements which give a true and fair view of the company's state of affairs and its profit or loss. The responsibility of the Auditor is to express an independent opinion on the financial statements based on the audit.

3. Basis of Opinion

The audit was conducted in accordance with International Standards on Auditing. These standards require that the audit is planned and performed to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amount and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by

the Directors, as well as an evaluation of the overall presentation of the financial statements.

OPINION:

In my opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 30th June, 2003 and of the loss and cash flows for the year then ended and comply with the Companies Act (Cap. 85) and International Accounting Standards.

Without qualifying my opinion, I draw attention to the following matters:

- i) Kilembe Mines Limited has accumulated losses of Shs.12,317,857,107 arising partly from recognition of fixed assets impairment loss, and loss on exchange in respect of loans denominated in foreign currencies.
- ii) As outlined in note 2, the investment in Kasese Cobalt Company Limited (KCCL) is reflected at Shs.17 billion. KCCL operations were put under care and maintenance due to a fall in the world market prices of Cobalt. The value of this investment is subject to the future operations of KCCL and therefore could not be fully ascertained as at 30th June 2003.

Management is confident of the going concern of the company as this is a public enterprise that the Government is in the process of restructuring and divesting.

John F. S. Muwanga
AUDITOR GENERAL
KAMPALA
20th January 2004

KILEMBE MINES LIMITED
BALANCE SHEET AS AT 30TH JUNE 2003

| | Notes | 2003 Ushs. | 2002 Ushs. |
|---------------------------------------|-------|-----------------------|-----------------------|
| FIXED ASSETS | 1 | 21,411,204,311 | 22,195,467,025 |
| INVESTMENTS | 2 | 17,426,428,620 | 17,426,428,620 |
| CURRENT ASSETS | | | |
| Work in Progress (Poles Project) | | 158,953,079 | 40,943,138 |
| Stock | 3 | 91,601,395 | 98,299,363 |
| Debtors | 4 | 942,834,880 | 567,489,094 |
| Withholding Tax | | 169,259,723 | 171,222,858 |
| Cash and Bank | | 4,144,198 | 122,442,007 |
| | | 1,366,793,275 | 1,000,396,460 |
| CURRENT LIABILITIES | | | |
| Creditors | 5 | 590,980,046 | 185,488,462 |
| Bank Overdraft | | 20,988,126 | 21,127,106 |
| V.A.T | | 310,377,644 | 388,938,197 |
| | | 922,345,816 | 595,553,765 |
| NET CURRENT LIABILITIES/ASSETS | | 444,447,459 | 404,842,695 |
| | | 39,282,080,390 | 40,026,738,340 |
| FINANCED BY: | | | |
| Share Capital | 6 | 190,000,000 | 190,000,000 |
| Government Contribution | 7 | 8,470,217,854 | 7,711,225,992 |
| Revaluation Surplus | 8 | 13,682,455,921 | 13,625,142,309 |
| Accumulated losses | | (12,317,857,107) | (8,559,975,618) |
| Share Holders' Funds | | 10,024,816,668 | 12,966,392,683 |
| Deferred Tax Liability | | 3,756,813,191 | 3,756,813,191 |
| Provision for Terminal Benefits | 9 | 529,688,531 | 1,312,843,066 |
| Provision for Mining Surface Rent | | | 129,000,000 |
| Long Term Loans | 10 | 24,970,762,000 | 21,861,689,400 |
| | | 39,282,080,390 | 40,026,738,340 |

.....
DIRECTOR

.....
COMPANY SECRETARY

KILEMBE MINES LIMITED
PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30TH JUNE 2003

| | Notes | 2003 Ushs. | 2002 Ushs. |
|--|-------|-----------------------------|----------------------------|
| GROSS INCOME | | 1,805,940,779 | 2,360,484,072 |
| Loss for the Year before taxation | | (3,959,058,212) | (1,179,585,222) |
| Taxation | | - | - |
| Loss for the Year after taxation | | (3,959,058,212) | (1,179,585,222) |
| STATEMENT OF ACCUMULATED LOSSES | | | |
| 1st July, | | (8,559,975,618) | (7,380,390,396) |
| Prior Year Adjustment | 11 | 201,176,723 | |
| Loss for the Year after taxation | | <u>(3,959,058,212)</u> | <u>(1,179,585,222)</u> |
| 30th June, | | (12,317,857,107) | (8,559,975,618) |

KILEMBE MINES LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2003

| | Share Capital Ug. Shs. | Revaluation Reserve Ug. Shs. | Revenue Reserve Ug. Shs. | Government Contribution Ug. Shs. | Total Ug. Shs. |
|---------------------------------|-------------------------------------|---|---------------------------------------|---|------------------------------|
| At 1st July, 2002 | 190,000,000 | 13,625,142,309 | (8,559,975,618) | 7,711,225,992 | 12,966,392,683 |
| Changes in the year | | | | | - |
| Prior Year Adjustment (Note 11) | | | 201,176,723 | 758,991,862 | 758,991,862 |
| Loss for year | | | (3,959,058,212) | | (3,959,058,212) |
| Revaluation Reserve Adjustment | | 57,313,612 | | | 57,313,612 |
| At 30th June, 2003 | 190,000,000 | 13,682,455,921 | (12,317,857,107) | 8,470,217,854 | 10,024,816,668 |

KILEMBE MINES LIMITED
NOTES TO THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2003

| | 2003 Ushs. | 2002 Ushs. |
|---|---------------|---------------|
| Cash Flows from Operating Activities | | |

| | | |
|---|----------------------|----------------------|
| Loss for the year | (3,959,058,212) | (1,179,585,222) |
| Adjustments on fixed assets | 22,177,100 | 227,504,637 |
| Depreciation | 854,494,525 | 763,316,368 |
| Gain/Loss on Exchange (Net) | 3,109,072,600 | 765,716,065 |
| Decrease in stock | 6,697,968 | 29,810,295 |
| Increase in Work in Progress | (118,009,941) | (40,943,138) |
| Increase in Debtors | (375,345,786) | (63,924,497) |
| Decrease in Withholding Tax | 1,963,135 | (52,854,556) |
| Decrease in creditors | <u>(456,223,504)</u> | <u>(339,411,283)</u> |
| Net Cash Flows from Operating Activities | (914,232,115) | 109,628,669 |
| Cash flows from Investing Activities | | |
| Purchase of Fixed Assets | (12,918,400) | 1,600,441 |
| Cash flows from Financing Activities | | |
| Bank Loan (Stanbic Bank) | 50,000,000 | - |
| Government Grants (Min.Of Finance) | 758,991,862 | - |
| <hr/> | | |
| Net Increase (Decrease) in cash and cash equivalents | (118,158,653) | 111,229,110 |
| Cash and Cash equivalents at the begining of period | | |
| Cash and Bank | 122,442,007 | 1,780,922 |
| Overdraft | <u>(21,127,106)</u> | <u>(11,695,131)</u> |
| | 101,314,901 | (9,914,209) |
| Cash and Cash equivalents at the end of period | | |
| Cash and Bank | 4,144,198 | 122,442,007 |
| Overdraft | <u>(20,988,126)</u> | <u>(21,127,106)</u> |
| | (16,843,928) | 101,314,901 |
| Change | (118,158,653) | 111,229,110 |

KILEMBE MINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30.6.2003

Note 1. FIXED ASSETS

| COST/ VALUATION | LAND | BUILDINGS | PLANT AND MACHINERY | MOTOR VEHICLES | FURNITURE & FITTINGS | TOTAL |
|---------------------------------|----------------------|-----------------------|--------------------------------|---------------------------|-------------------------------------|-----------------------|
| | | Ushs | Ushs | Ushs | Ushs | Ushs |
| Depreciation rate | | 2.5% | 7.5% | 25% | 12.5% | |
| 1.7.2002 | 3,739,251,000 | 13,125,127,000 | 18,565,408,223 | 156,400,000 | 128,469,017 | 35,714,655,240 |
| Adjustments | (135,000,000) | (149,450,000) | | | | (284,450,000) |
| Additions | | 135,000,000 | (67,900,000) | | | 67,100,000 |
| | | | | 38,500,000 | 3,218,400 | 41,718,400 |
| | | | | 9,700,000 | | |
| Revaluation | | 225,000,000 | | | | |
| | 3,604,251,000 | 13,335,677,000 | 18,497,508,223 | 204,600,000 | 131,687,417 | 35,773,723,640 |
| Accumulated Depreciation | | | | | | - |
| 1.7.2002 | | 2,369,922,960 | 10,940,751,315 | 143,064,483 | 65,449,659 | 13,519,188,417 |
| Depreciation adjustments | | (21,061,930) | (21,749,510) | 31,647,827 | | (11,163,613) |
| Charge for the year | | 273,617,303 | 565,125,555 | 7,471,922 | 8,279,745 | 854,494,525 |
| 30.6.2002 | | 2,622,478,333 | 11,484,127,360 | 182,184,232 | 73,729,404 | 14,362,519,329 |
| <u>Net Book Value</u> | | | | | | |
| As at 30.06.2003 | 3,604,251,000 | 10,713,198,667 | 7,013,380,863 | 22,415,768 | 57,958,013 | 21,411,204,311 |
| As at 30.06.2002 | 3,739,251,000 | 10,755,204,040 | 7,624,656,908 | 13,335,517 | 63,019,560 | 22,195,467,025 |

KILEMBE MINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30th JUNE 2003

A. ACCOUNTING CONVENTION

The accounts are prepared in accordance with historical cost convention as modified by the revaluation of any Company's fixed assets.

B. PRINCIPAL ACCOUNTING POLICIES

The accounts are prepared in accordance with generally accepted accounting practice. The following is a summary of the more important accounting policies used.

i) Depreciation

Depreciation has been calculated to write off the cost or valuation of fixed assets on a reducing balance basis over useful lives as follows:

| | |
|------------------------|-------|
| Buildings | 2.5% |
| Plant and machinery | 7.5% |
| Motor vehicles | 25.0% |
| Furniture and fittings | 12.5% |

Realisation of revaluation surplus

Effective the financial year 2000 and retrospectively, revaluation surplus is transferred directly to retained earnings when the surplus is realized. The whole surplus on assets is considered realised when the asset is disposed of or retired. For the surplus realised as the asset is used, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's original cost. The transfer from revaluation surplus to retained earnings is not made through the income statement.

ii) Stocks

Stock of copper in hand and in process are stated at estimated net realizable value. Supplies on hand are stated at average cost. Provision has been made for obsolete, slow-moving and defective stocks.

KILEMBE MINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30th JUNE 2003

iii) Bad and Doubtful debts

Specific provision is made for all known doubtful debts. Bad debts are written off when all reasonable steps to recover them have been taken without success.

iv) Foreign Currencies

All monetary assets and liabilities denominated in foreign currencies at the year-end are translated at exchange rates ruling at the balance sheet date. The investment in Kasese Cobalt Company has been deemed a non monetary asset and effective this financial year and prospectively, it is not restated. Transactions during the year are converted at exchange rates applicable at the dates of the transactions. All exchange differences are dealt with in the profit and loss account. The closing rate applicable for the year was US\$1 = UShs 2000.

v) Turnover

Turnover of the company is the aggregate invoice value of goods provided and services rendered exclusive of value added tax.

vi) Taxation

Corporation tax is provided on net taxable income at 30% as provided by the Income Tax Act 1997.

Deferred tax is provided on all temporary timing differences that will result in amounts to be considered in determining taxable income of future periods when the carrying amount of the asset or liability is recovered or settled. Deferred tax attributable to revaluation of assets is charged or credited to revaluation surplus.

KILEMBE MINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30th JUNE 2003

C: i European Investment Bank Loan FI NO. 7.1076-US\$
8,800,000

A finance contract was signed between the Government of the Republic of Uganda, the European Investment Bank (EIB) and Kilembe Mines Limited (KML).

The proceeds of this loan were used to part finance the purchase of the Equity in Kasese Cobalt Company Limited (KCCL).

KML opened a Trustee account with Standard Chartered Bank (U) Limited into which all dividends and cash distributions from KCCL in respect of this investment would be credited. According to the Finance contract, KML shall pay EIB out of the Trustee account as remuneration for the loan 30% of the dividends and cash distributions received from KCCL in regard to this equity holding during each financial year.

KML shall repay from the Trustee account 50% of the loan balance outstanding as at 25th November, 2003 by five equal annual installments of 10% as follows:

| Date | Installment |
|--------------------------------|--------------------|
| 25 th November 2004 | 10% |
| 25 th November 2005 | 10% |
| 25 th November 2006 | 10% |
| 25 th November 2007 | 10% |
| 25 th November 2008 | 10% |
| | 50% |
| | === |

Then on 25th November 2009, KML shall pay the balance of 50% in one installment.

Provided that in the event that there are not sufficient funds on the Trustee account to repay the loan as above and there remains an amount outstanding on the loan on 25th November, 2009, the repayment shall be extended to 25th November 2014. In the event that the loan has not been fully repaid on 25th November 2014, EIB shall cancel the borrower's obligation in respect of the remaining balance.

KILEMBE MINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30th JUNE 2003

i EIB has room to elect on or before 25th May, 2004 that the repayment of the loan balance outstanding shall be made in thirteen equal annual installments commencing 25th November, 2004. Under this scenario in the event that the loan is not repaid on 25th November 2017, EIB would cancel KML's obligation.

However as disclosed in note 2, repayment of this loan may not start on the due date.

ii European Investment Bank Loan to KCCL on lend to KML ECU 1,440,000

KCCL obtained a loan from EIB which was on lend to KML to part finance KML's equity holding in KCCL.

It is KCCL that has the responsibility to repay the loan to EIB. KML's obligation is the forfeiture of future dividends payable by KCCL as a repayment mode. KCCL has already started repaying back the loan.

iii Democratic People's Republic of Korea loan to Government of Uganda –US\$ 2,065,381

The Government of the Democratic People's Republic of Korea agreed to lend the Government of Uganda-US\$ 2,065,381 to finance the Foundry project at Kilembe Mines Limited.

There was no on lending agreement between the government of Uganda and Kilembe Mines Limited and the terms are vague. No interest has been accrued in the Financial Statements.

D. CONTINGENT LIABILITIES

Description

Estimate of Financial effect UGShs

There exists possible obligations that may, but probably will not require an out flow of resources. in the accordance with the applicable International Accounting Standard, no provision has been made In the financial statements and the following disclosure is made.

**KILEMBE MINES LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30th JUNE 2003**

- (i) Civil suit no. MKS 07 OF 1999
 John Bujune versus Kilembe Mines Limited
 1,500,000=
 This case was filed against the company on 24th
 January, 1999. The company filed a defence
 On 11th March, 1999. The case is yet to be fixed
 for hearing

E. RELATED PARTY DISCLOSURES

As disclosed in note 10, the company obtained unsecured loan from Kasese Cobalt Company Limited of ECU 1,440,000 which is repayable through the forfeiture of future

dividends on the Company's investment in Kasese Cobalt Company as disclosed in note 2 Kilembe Mines Limited hold a 25.3% interest in Kasese Cobalt Company Limited. Further, KCCL sub leased a mining quarry from KML. KCCL is the biggest customer for lime

Related party transactions between KCCL and KML were at normal commercial rates and conditions. Directors' fees and emoluments were UGShs. 31,354,066.during the year.

KILEMBE MINES LIMITED NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS

Note 2.

INVESTMENTS

Kilembe Mines Limited investment of 25% of shareholding in KCCL amounting to **Shs 17,426,428,620** has remained unchanged as the impairment loss in KCCL was written to Profit and Loss Account, in 2001. Meanwhile KCCL operations are still Care and Maintenance following the continued drop in the world cobalt prices. The value of this investment is subject to the future performance of KCCL.

Note 3.

STOCKS

| | 2003 Ug. Shs | 2002 Ug. Shs |
|---------------------|-----------------|-----------------|
| Main mining stocks | 2,753,356 | 3,077,077 |
| Copper concentrates | 431,218 | 431,218 |
| Timber yard | 72,408,358 | 64,260,060 |
| Copper tailings | 1,450 | 1,450 |

| | | | |
|----------------|---|------------------------------|----------------------|
| | Hima Lime Works | 1,630,397 | 13,729,372 |
| | Foundry stores | 14,375,166 | 16,798,736 |
| | Pyrite Concentrates | 1,450 | 1,450 |
| | | 91,601,395 | 98,299,363 |
| Note 4. | DEBTORS | | |
| | Sundry | 746,482,719 | 765,472,657 |
| | Staff | 327,318,622 | 303,711,081 |
| | Trade | <u>613,003,643</u> | <u>242,275,460</u> |
| | | 1,686,804,984 | 1,311,459,198 |
| | Provision for Bad debts | <u>(743,970,104)</u> | <u>(743,970,104)</u> |
| | | 942,834,880 | 567,489,094 |
| Note 5. | CREDITORS | | |
| | Trade | 26,911,461 | 149,646,673 |
| | Accruals | 92,507,593 | 12,185,015 |
| | Sundry | <u>471,560,992</u> | <u>23,656,774</u> |
| | | 590,980,046 | 185,488,462 |
| Note 6. | SHARE CAPITAL | | |
| | Authorised | | |
| | 190,000 | Shares of shs 1,000= each | 190,000,000 |
| | | | 190,000,000 |
| | Issued and fully paid | | |
| | 190,000 ordinary shares of ug shs 1,000 @ | 190,000,000 | 190,000,000 |

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KILEMBE MINES LIMITED
NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS

| | | | |
|----------------|---|----------------------|----------------------|
| Note 7. | Government Contribution | | |
| | Cash injection for operations | 1,693,926,856 | 1,693,926,856 |
| | Cash injection for founry project | 1,079,239,130 | 1,079,239,130 |
| | European Union Grant | 4,390,308,373 | 4,390,308,373 |
| | Korean Grants | 141,750,000 | 141,750,000 |
| | French grant (\$ 356,665) | 374,498,733 | 374,498,733 |
| | Copper Tailing and concentrates | 2,900 | 2,900 |
| | GTZ grant (\$ 30,000) | 31,500,000 | 31,500,000 |
| | Ministry of Finance Grant for terminal benefits | 758,991,862 | |
| | | 8,470,217,854 | 7,711,225,992 |

| | | | | |
|----------------|--|-----------------------|----------------|-----------------------|
| Note 8. | Revaluation Surplus | | 13,625,142,309 | |
| | Adjustment due to revaluation of buildings, Motor/vehicles and plant & machinery | | 57,313,612 | |
| | | 13,682,455,921 | | 13,625,142,309 |

Note 9. **Provision for Terminal Benefits.** -
This amount relates to terminal benefit obligations that the company has to pay if workers are to be discharged in the financial year.

| | | | | |
|-----------------|---------------------------------|-----------------------|--|-----------------------|
| Note 10. | Long term loans | | | |
| | European Investment Bank | | | |
| | F1.NO.7.1076 -\$ 8,800,000 - 1 | 17,600,000,000 | | |
| | F1.NO.7.0908 ECU 1,440,000 - 11 | 3,240,000,000 | | 18,144,000,000 |
| | | 20,840,000,000 | | |
| | DPRK US \$ 2,065,383- 111 | 4,130,762,000 | | 3,717,689,400 |
| | | 24,970,762,000 | | 21,861,689,400 |

Note 11 This figure relates to amounts due from Banff Resources in respect of utility services rendered to them by KML but now reversed pending future negotiations set forth on page 2