Company Registration No. 5059077

Vatukoula Gold Mines PLC

(Formerly known as River Diamonds Plc)

Financial Statements

For the year ended 31 August 2008

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Exploration summary

The past year has been one of extraordinary change and development for Vatukoula Gold Mines Plc (the "Company"). We began the year as a small diamond exploration group and ended having acquired a medium size gold mine and brought it back into production. This transformation has occurred in a changing business and economic environment that is the most dramatic of recent history, which has presented its own challenges and opportunities to the Company. In particular, the wildly fluctuating commodity prices which are so intrinsic to our operations in Fiji.

For the Group, the year has been dominated by the acquisition of the Vatukoula Gold Mine in Fiji, which was completed in early April 2008. Until this point the Company had been a passive investor in the asset and by the time the acquisition had been completed we had invested over £5.7 million in the mine. To reflect our change in focus the Company changed its name from River Diamonds Plc to Vatukoula Gold Mines Plc in August 2008. .

Since the completion of the acquisition, the Company has been focusing on bringing the mine back into full production. Our first milestone was reached in May, when the first Gold was produced from underground mining since late 2006. During May and June 2008 a substantial operational review was commissioned by newly appointed mine management. It was soon realised that regular maintenance on the mine equipment had been neglected by the previous operators and that a substantial re-investment programme was required, especially in relation to underground haulage equipment, and power generation. We are continuing this programme of improvements with our current focus on the underground haulage equipment.

Production to the end of August 2008 was 12,847 milled ounces which was achieved from the treatment of 57,117 tonnes at a grade of 6.99 g/t.

Given the change in focus of the Company during the year we have reviewed our other two projects. In Sierra Leone, we re-applied for our exploration licenses over the Panguma diamond concession. As yet we have not received an approval to our application, which given the length of time since the application was lodged, we have to assume that the exploration license was not approved. In Brazil, we did not carry out any further exploration on our Tapajós gold province exploration package.

Results summary

Turnover this year for the Group was £3.8 million (2007: £0.03 million). This income came primarily from the sale of gold, and a small amount from the hire of plant and equipment to contractors in Brazil. The associated costs of bringing a mine from care and maintenance to production and an accounting impairment charge of £1.2 million relating to the write down of the Group's investment in Sierra Leone resulted in an operating loss for the Group of £4.4 million (2007: £977,127).

During the year the Company raised approximately £17.5 million via the issue of shares either via a share placement or warrant exercises. These funds were raised via the issue of 567 million shares at an average weighted price of 3.1 pence per share.

Outlook

Going forward the Company is looking to restore the mine back to full production. It is important that we achieve our production targets over the next couple of years, as underground mines have relatively high and consistent fixed costs, with relatively small variable costs.

We are in an excellent position to capture the benefits of the current gold market with a long life resource of approximately five million ounces, together with a reserve of over 800,000 ounces.

The gold market has been dominated by global economic and political events which have contributed to the gold price volatility and although investors might be disappointed by the performance of gold against the dollar its performance against other currencies has been more impressive with a gain of 24% against sterling, 28% against the Australian dollar and 40% against the rand. Furthermore, the ogre of deflation has so shaken Governments that most have opted for a plethora of Government spending, which will inevitably lead to inflation. The tipping point when deflation turns to inflation will be difficult to call but most commentators are expecting it to appear by the middle of 2009. This should lead to a corresponding strengthening in the gold price.

Corporate

During May 2008 Mr Bert Leathley was appointed General Manager at the mine. Bert along with a small group of expatriate staff have been key to our strategy to bring the mine back to full production. It is these staff along with the some 750 local Fijian employees, which have made our considerable progress this year possible.

On behalf of the Board of Directors, we would like to thank all employees for their tremendous efforts over the past year, and the work they have undertaken in our journey to restore the Vatukoula Gold Mine to its rightful position within the Fijian economy.

Colin Orr Ewing
Chairman
24th February 2009

Officers And Professional Advisors
For the year ended 31 August 2008

Directors

I C Orr-Ewing, Executive Chairman, age 67

Mr Orr-Ewing has been involved in the natural resources sector for 35 years. His experience covers both the oil and mining industries and he has been a director of UK and Canadian oil companies and Irish and Canadian mining companies. Currently Mr Orr-Ewing also advises a fund management company on its natural resources portfolios. He began his career as an investment manager for the Shell Pension Fund in London after completing his education as a Chartered Accountant. Mr Orr-Ewing also has extensive experience in international financial affairs. He was deeply involved in the oil industry from 1971 through to 1987 with numerous companies in the North Sea, Libya, Nigeria and Algeria. Mr Orr-Ewing has also served as a director for a number of oil and gas exploration and development companies. He is a graduate of Oxford University in geography and geology.

D K Paxton, Chief Executive Officer (CEO) age 54

Mr Paxton is a professional engineer with over 35 years experience in the mining industry, starting with mine production at Goldfields of South Africa, and then time in at their head office and culminating with 24 years as a mining analyst. As a mining analyst he has worked for a number of Canadian and UK stockbrokers, most recently Religare Hichens, Harrison Plc. He is a director of India Minerals Plc, Adit Investments Ltd, Sahara Mines Ltd, Ortac Resources Plc, Far North Platinum Ltd and Mining and Dining Club Ltd.

K C Morzaria, Finance Director, age 34

Mr Morzaria holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School. He has 8 years of experience in the mineral resource industry covering gold and diamonds. Mr Morzaria spent his first four years in exploration, mining and civil engineering working for Highland Gold, Firestone Diamonds and CL Associates. He was appointed Finance Director of Vatukoula Gold Mines Plc in 2004 and since then has been overseeing the development of its mining and exploration projects in Sierra Leone and Brazil. In this role, Mr Morzaria has been involved in acquisitions, joint ventures, valuations, independent experts' reports, due diligence and capital raisings.

D A Lenigas, Executive Director, age 47

David Lenigas, 47, has 24 years of experience in the gold, diamond, coal and base metals industries. David is a Mining Engineer with a Bachelor of Applied Science (Mining Engineering - with distinction). He is Chairman of Leni Gas & Oil Plc and Templar Minerals Ltd and is also a non-executive director of Global Coal Management Plc.

John Ian Stalker, Non-executive Director, age 55

Mr. Stalker was the Chief Executive Officer of UraMin, a London- and Toronto-listed uranium company from July 2005 until its acquisition by Areva in August 2007 for US$2.5 billion. He has over 30 years of mining experience in Europe, Africa and Australia and has worked his way up from operational roles in base and precious metals companies to senior project development and director positions with some of the largest mining companies in the world.

Neil Lindsey Herbert, Non-executive Director, age 41

Mr. Herbert was Finance Director of UraMin Inc, a London and Toronto listed Uranium exploration and development company until late 2007 when the company was acquired by Areva. Prior to Uramin, Mr. Herbert was Finance Director of Galahad Gold Plc, International Molybdenum Plc, Kalahari Diamond Resources Plc and HPD Exploration Plc. He was also Chief Financial Officer of Argentinean gold explorer Brancote Holdings Plc and was Group Financial Controller of Antofagasta Plc during the period when the Los Pelambres and El Tesoro copper mines were brought to production. Before joining the mining sector he worked for PricewaterhouseCoopers and is a fellow of the Association of Chartered Certified Accountants.

The directors are pleased to present this year's annual report together with the consolidated financial statements for the year ended 31 August 2008.

Principal activities

The principal activity of the Group was that of mineral exploration and from 1 April 2008, was the operation of a gold mine. The principal activity of the Company was that of a holding Company.

Results and dividends

The trading loss of the Group for the year ended 31 August 2008, after taxation was £4,067,819 (2007: £982,111).

The directors do not recommend the payment of a dividend.

Business review

A review of the current and future development of the Group's business is given in the Chairman's statement on pages 1 to 2..

Given the nature of business and industry the key performance indicators are based on operational objectives set at the beginning of the year. Performance in relation to these is highlighted in the operational review on pages 3 to 4.

Financial key performance indicators are based on the variance to the budget as set out at the beginning of the year. Performance against these indicators is highlighted in the Chairman's statement on pages 1 to 2.

Post balance sheet events

At the date these financial statements were approved, being 19th February 2009, the directors were not aware of any significant post balance sheet events other than those set out in Note 355 of the financial statements.

Future developments

A review of our future developments are given in the Chairman's statement on pages 1 and 2.

Financial risk management

The Group's operations expose it to financial risks that include liquidity risk, interest rate and foreign exchange risk. The Group does not have any debt and is therefore not required to use derivative financial instruments to manage interest rate costs nor is hedge accounting applied.

The Group depends on the Vatukoula mine for substantial portion of its revenue and cash flow and therefore the Group's business will be harmed if Vatukoula's revenues are adversely affected.

Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The Group's finance department implements the policies set by the board of directors.

Liquidity risk

The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion. The directors are currently seeking to raise further funds to provide the capital required to finance future operations. As referred to in Note 2 of the financial statements it is for this reason that the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Interest rate cash flow risk

Interest bearing assets are only cash balances that earn interest at a floating rate.

Foreign exchange risk

The Group principally operates in Fiji, Sierra Leone and Brazil. The board has assessed its exposure using value at risk methodology and it does not currently consider the risk of exposure to these currencies to be material. As such the directors do not currently consider it necessary to enter into forward exchange contracts. This situation is monitored on a regular basis.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument, fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group has credit risk management policies in place and exposures to credit risk are monitored on an ongoing basis. Management generally adopts conservative strategies and a tight control on credit policy.

Directors' insurance

The Company has taken out an insurance policy to indemnify the directors and officers of the Company against liability when acting for the Group.

Directors

The following directors have held office during the year:

I C Orr-Ewing
D K Paxton (appointed 11 November 2008)
N D Shaw-Hardie (resigned 13 March 2008)
D A Lenigas
K C Morzaria
A Balme (resigned 13 March 2008)
D I G L Strang (appointed 12 March 2008, resigned 18 December 2008)
J I Stalker (appointed 1 April 2008)
N L Herbert (appointed 1 April 2008)

Directors' interests

Directors' interests, including family interests in the ordinary share, were as follows:

	Beneficial Holding	
	31 August 2008	**31 August 2007**
I C Orr-Ewing*	22,634,154	22,634,154
D A Lenigas	1,000,000	-
K C Morzaria	1,797,000	1,647,000
D I G L Strang	-	-
N L Herbert	-	-
J I Stalker	-	-

* of which 10,555,367 (2007: 10,555,367) are held beneficially.

Directors also hold warrants over ordinary shares as follows:

	Number of Warrants	
	31 August 2008	**31 August 2007**
I C Orr-Ewing*	3,500,000	3,500,000
D A Lenigas	3,500,000	3,500,000
K C Morzaria	3,500,000	3,500,000
D I G L Strang	-	-
N L Herbert	-	-
J I Stalker	-	-

* - of which 3,500,000 (2007: 3,500,000) are held beneficially.

Substantial shareholdings

As at 12th February 2009 the following had notified the Company of disclosable interests of 3% or more in the nominal value of the Company's shares:

	Ordinary shares of 0.1p	**%**
Templar Minerals Ltd	285,000,000	14.34
Pershing Nominees Limited	256,945,261	12.93
Atlantic Law (Nominees) Limited (*)	143,290,000	7.21
Euroclear Nominees Limited	99,616,154	5.01
HSBC Client Holdings Nominees Limited	72,928,235	3.67
State Street Nominees Limited	69,650,000	3.5
Total	927,429,650	46.67

(*): Templar Minerals Ltd acquired 143,290,000 shares in March 2008 from Viso Gero Global Inc. Templar Minerals ltd is in negotiations with Visa Gero Global Inc to extend settlement until 31 March 2009 against security of the shares.

Policy on payment of creditors

The Company seeks to maintain good terms with all of its trading partners. In particular, it is the Company's policy to agree appropriate terms and conditions for its transactions with suppliers and, provided the supplier has complied with its obligations, to abide by the terms of payment agreed. Trade creditor days of the Group for the year ended 31 August 2008 were 144 days (2007: 102 days) calculated in accordance with the requirements set down by the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year and the amounts due, at the year end, to trade creditors.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors have adopted the going concern basis in preparing the financial statements.

Auditors

In accordance with Section 487 of the Companies Act 2006, a resolution proposing that Mazars LLP be re-appointed will be put to the forthcoming Annual General Meeting.

Directors' responsibilities in the preparation of financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations. Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the results of the Group for that year. In preparing those financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

K C Morzaria
Director
24th February 2009

Compliance with the Combined Code

The directors recognise the value of the Combined Code on Corporate Governance and whilst under AIM rules full compliance is not required, the directors believe that the Company applies the recommendations insofar as is practicable and appropriate for a public company of its size.

Board of Directors

The board of directors comprises four executive directors, one of whom is the Chairman, and two non-executive directors. The directors are of the opinion that the board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The board, through the Chairman and the Finance Director in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the board develops an understanding of the views of major shareholders about the company.

The board meets regularly throughout the year and met six times up to the year ending August 2008. The board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the executive directors who are charged with consulting the board on all significant financial and operational matters. Consequently decisions are made promptly and following consultation amongst the directors concerned where necessary and appropriate.

All necessary information is supplied to the directors on a timely basis to enable them to discharge their duties effectively, and all directors have access to independent professional advice, at the company's expense, as and when required.

The chairman is available to meet with institutional shareholders to discuss any issues and concerns regarding the Group's governance. The non-executive directors can also attend meetings with major shareholders if requested.

The participation of both private and institutional investors at the Annual General Meeting is welcomed by the board.

Internal controls

The directors acknowledge their responsibility for the Company's and the Group's systems of internal control, which are designed to safeguard the assets of the Group and ensure the reliability of financial information for both internal use and external publication. Overall control is ensured by a regular detailed reporting system covering both technical progress of a project and the state of the group's financial affairs. The board has put in place procedures for identifying, evaluating and managing any significant risks that face the group.

Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

Committees

Each of the following committees has its own terms of reference.

Audit Committee

The Audit Committee comprises the non-executive directors. Its terms of reference indicate at least two regular meetings per year, however it has not met formally since it was set up. The Audit Committee's primary responsibilities are to review the effectiveness of the company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of the audit, and to evaluate and select external auditors.

Remuneration Committee

The Remuneration Committee comprises the non-executive directors. It plans to meet at least twice in each year. In view of the current sense of operations the committee has not met since it was set up.

The Company's policy is to remunerate senior executives fairly in such a manner as to facilitate the recruitment, retention and motivation of staff. The Remuneration Committee agrees with the board a framework for the remuneration of the chairman, the executive directors and the senior management of the company. The principal objective of the Committee is to ensure that members of the executive management of the Company are provided incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. Non-executive fees are considered and agreed by the board as a whole.

Independent Auditor's Report
To the shareholders of Vatukoula Gold Mines Plc
For the year ended 31 August 2008

We have audited the Consolidated and Parent Company Financial Statements of Vatukoula Gold Mines Plc for the year ended 31 August 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and Company balance sheets, the consolidated and Company cash flow statements, the consolidated and Company statement of changes in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the annual report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' Report is consistent with the Financial Statements.

In addition, we report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises only of the Chairman's Statement, and Operational Review Report, the Corporate Governance Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group and the Company's affairs as at 31 August 2008 and of the Group's results for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP
Chartered Accountants
Registered Auditor

Date: 24th February 2009

Tower Bridge House
St Katharine's Way
London, E1W 1DD

Consolidated Income Statement
For the year ended 31 August 2008

	Note	2008 £	2007 £
Turnover	4	3,817,376	28,106
Cost of sales	5	(4,441,698)	(4,116)
Gross (loss)/profit	4	(624,322)	23,990
Administrative expenses		(2,050,159)	(1,001,117)
Impairment charge		(1,213,091)	-
Rehabilitation charge		(483,871)	-
Operating loss	6	(4,371,443)	(977,127)
Other interest receivable and similar income		303,624	9,188
Interest payable and similar charges	8	-	(14,172)
Loss on ordinary activities before taxation		(4,067,819)	(982,111)
Taxation	9	-	-
Loss on ordinary activities after taxation		(4,067,819)	(982,111)

Loss per share

		Pence	Pence
Basic	11	(0.30)	(0.17)
Fully diluted *	11	(0.30)	(0.17)

All activities relate to continuing operations.

* In accordance with IAS 33 “Earnings per share” and as the Group has reported a loss for the period, potentially dilutive shares are not dilutive.

The notes on pages 20 to 49 form an integral part of these financial statements.

Consolidated Statement of Recognised Income And Expense
For the year ended 31 August 2008

	2008 £	2007 £
Loss for the financial year	(4,067,819)	(982,111)
Currency translation differences	974,663	(27,945)
Total recognised income and expense for the year	(3,093,156)	(1,010,056)

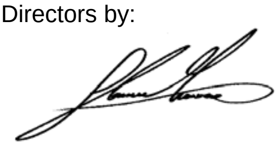
The notes on pages 20 to 49 form an integral part of these financial statements.

Vatukoula Gold Mines Plc

Consolidated Balance Sheet
As at 31 August 2008

	Note	2008 £	2007 £
Assets			
Non current assets			
Intangible asset	**12**	38,413,593	-
Goodwill	**13**	-	1,213,091
Property, plant and equipment	**14**	13,466,462	434,268
Available for sale investments	**15**	400,000	2,900,250
Mine properties and development	**17**	949,273	-
		53,229,328	4,547,609
Current assets			
Investment	**18**	1	1
Inventories	**19**	3,362,908	-
Trade and other receivables	**20**	4,666,376	56,561
Cash and cash equivalents	**21**	2,248,894	35,436
		10,278,179	91,998
Total assets		63,507,507	4,639,607
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	**22**	1,902,371	835,622
Share premium account		49,426,898	6,884,411
Merger reserve		2,166,528	2,166,528
Foreign exchange reserve		946,718	(27,945)
Other reserves		168,092	154,092
Accumulated losses		(9,829,630)	(5,761,811)
Total equity		44,780,977	4,250,897
Current liabilities			
Trade and other payables	**23**	4,357,883	300,155
Provisions	**24**	1,599,116	-
Borrowings	**25**	278,257	-
		6,235,256	300,155
Non current liabilities			
Provisions	**24**	1,660,913	-
Convertible loan	**26**	74,555	88,555
Deferred tax liability	**33**	10,755,806	-
Total liabilities		18,726,530	388,710
Total equity and liabilities		63,507,507	4,639,607

Approved by the Board and authorised for issue on 24 February 2009 and signed on behalf of the Board of Directors by:



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K C Morzaria
Director
24 February 2009

The notes on pages 20 to 49 form an integral part of these financial statements.

Vatukoula Gold Mines Plc

Company Balance Sheet
As at 31 August 2008

	Note	2008 £	2007 £
Assets			
Non current assets			
Investment in subsidiary companies	**16**	34,275,207	4,113,091
		34,275,207	4,113,091
Current assets			
Trade and other receivables	**20**	10,540,560	33,805
Cash and cash equivalents	**21**	1,220,249	-
		11,760,809	33,805
Total assets		46,036,016	4,146,896
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	**22**	1,902,371	835,622
Share premium account		49,426,898	6,884,411
Other reserves		168,092	154,092
Accumulated losses		(5,804,345)	(3,823,784)
Total equity		45,693,016	4,050,341
Current liabilities			
Trade and other payables	**23**	268,445	8,000
Non current liabilities			
Convertible loan	**26**	74,555	88,555
Total liabilities		343,000	96,555
Total equity and liabilities		46,036,016	4,146,896

Approved by the Board and authorised for issue on 24 February 2009 and signed on behalf of the Board of Directors by:

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K C Morzaria
Director
24 February 2009

The notes on pages 20 to 49 form an integral part of these financial statements.

Vatukoula Gold Mines Plc

Consolidated Statement of Changes In Shareholders' Equity
For the year ended 31 August 2008

	Ordinary share capital £	Share premium £	Merger reserve £	Foreign exchange reserve £	Other Reserves £	Accumulated losses £	Total £
Balance at 1 Sep 2007	835,622	6,884,411	2,166,528	(27,945)	154,092	(5,761,811)	4,250,897
Loss for the year	-	-	-	-	-	(4,067,819)	(4,067,819)
Issue of shares	1,066,749	46,571,084	-	-	-	-	47,637,833
Cost of share issue	-	(4,028,597)	-	-	-	-	(4,028,597)
Exchange adjustment	-	-	-	974,663	-	-	974,663
Convertible loan	-	-	-	-	14,000	-	14,000
Balance at 31 Aug 2008	1,902,371	49,426,898	2,166,528	946,718	168,092	(9,829,630)	44,780,977

	Ordinary share capital £	Share premium £	Merger reserve £	Foreign exchange reserve £	Other Reserves £	Accumulated losses £	Total £
Balance at 1 Sep 2006	469,928	3,179,460	2,166,528	-	102,390	(4,779,700)	1,138,606
Loss for the year	-	-	-	-	-	(982,111)	(982,111)
Issue of shares	365,694	3,704,951	-	-	-	-	4,070,645
Exchange adjustment	-	-	-	(27,945)	-	-	(27,945)
Convertible loan	-	-	-	-	11,445	-	11,445
Share based payments	-	-	-	-	40,257	-	40,257
Balance at 31 Aug 2007	835,622	6,884,411	2,166,528	(27,945)	154,092	(5,761,811)	4,250,897

The notes on pages 20 to 49 form an integral part of these financial statements.

Company Statement of Changes In Shareholders' Equity
For the year ended 31 August 2008

	Ordinary share capital £	Share premium £	Other reserves £	Accumulated losses £	Total £
Balance at 1 Sep 2007	835,622	6,884,411	154,092	(3,823,784)	4,050,341
Loss for the year	-	-	-	(1,980,561)	(1,980,561)
Issue of shares	1,066,749	46,571,084	-	-	47,637,833
Cost of share issue	-	(4,028,597)	-	-	(4,028,597)
Convertible loan	-	-	14,000	-	14,000
Balance at 31 Aug 2008	1,902,371	49,426,898	168,092	(5,804,345)	45,693,016

	Ordinary share capital £	Share premium £	Other reserves £	Accumulated losses £	Total £
Balance at 1 Sep 2006	469,928	3,179,460	102,390	(3,759,777)	(7,999)
Loss for the year	-	-	-	(64,007)	(64,007)
Issue of shares	365,694	3,704,951	-	-	4,070,645
Convertible loan	-	-	11,445	-	11,445
Share based payments	-	-	40,257	-	40,257
Balance at 31 Aug 2007	835,622	6,884,411	154,092	(3,823,784)	4,050,341

The notes on pages 20 to 49 form an integral part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 August 2008

	Note	2008 £	2007 £
Cash flow from operating activities			
Operating loss		(4,371,443)	(977,127)
Adjustments for:			
Share based payments		-	40,257
Depreciation and amortisation		764,328	86,031
Impairment		1,213,091	-
Foreign exchange		-	(54,281)
Impairment on mine properties and development		175,723	-
Allowance for inventory obsolescence		(56,280)	-
Allowance for bad debts		36,032	-
Mine rehabilitation expense		(794,783)	-
Net cash from operating activities before changes in working capital		(3,033,332)	(905,120)
Increase in inventories		(1,391,129)	-
Increase in receivables		(1,230,152)	(4,174)
(Decrease)/Increase in payables		(1,885,422)	141,265
Net cash used in operating activities		(7,540,035)	(768,029)
Investing activities			
Purchase of property, plant and equipment		(1,089,830)	(12,073)
Payments for mine properties and development		(552,256)	-
Interest received		303,624	9,188
Purchase of investments		-	(3,879,407)
Proceeds from disposal of property, plant and equipment		4,263	3,877
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**27**	(2,455,801)	-
Net cash used in investing activities		(3,790,000)	(3,878,415)
Financing activities			
Proceeds from issuance of shares		15,793,833	4,070,645
Share issue costs		(2,528,597)	-
Interest paid		-	(14,172)
Proceeds from issue of convertible loan note		-	100,000
Proceeds from loan		278,257	-
Net cash generated from financing activities		13,543,493	4,156,473
Net increase/(decrease) in cash and cash equivalents		2,213,458	(489,971)
Cash and cash equivalents at beginning of the year		35,436	525,407
Cash and cash equivalents at end of the year	**21**	2,248,894	35,436

The notes on pages 20 to 49 form an integral part of these financial statements.

Company Cash Flow Statement
For the year ended 31 August 2008

	Note	2008 £	2007 £
Cash flow from operating activities			
Operating loss		(1,980,561)	(23,750)
Adjustment for:			
Investment written off		1,213,091	-
Net cash from operating activities before changes in working capital		(778,514)	(23,750)
Increase in amount due from related companies		(8,747,495)	-
Increase in receivables		(73,260)	(33,805)
Increase in payables		260,444	-
Net cash used in operating activities		(9,338,825)	(57,555)
Investing activities			
Purchase of investments	**27**	(2,717,207)	(4,113,090)
Interest received		11,045	-
Net cash used in investing activities		(2,706,162)	(4,113,090)
Financing activities			
Proceeds from issuance of shares		15,793,833	4,070,645
Share issue costs		(2,528,597)	-
Proceeds from issue of convertible loan note		-	100,000
Net cash generated from financing activities		13,265,236	4,170,645
Net increase cash and cash equivalents		1,220,249	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year	**21**	1,220,249	-

The notes on pages 20 to 49 form an integral part of these financial statements.

1. General information

Vatukoula Gold Mines Plc is registered in England and Wales under number 5059077. The Company changed its name from River Diamonds Plc on 19 August 2008. The Company is governed by its articles of association and the principal statute governing the Company is the Companies Act 1985. The Company's registered office is situated at 5th floor, Carmelite, Victoria Embankment, Blackfriars, London, EC4Y 0LS.

The nature of the Group's and Company's operations and principal activities are set out in the Directors' Report on page 4.

2. Basis of preparation

The principal accounting policies adopted by the Group and Company in the preparation of the financial statements are set out below.

The financial report is presented in Sterling.

Statement of Compliance with IFRS

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC interpretations) as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods being on or after 1 January 2007 and the consequential amendments to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see Note 28).

The Group and Company have not applied the following IFRSs and IFRICs, as they are either not effective as at 31 August 2008 or not applicable to the Group's business.

The Board has reviewed the accounting policies set out in the financial statements and considers them to be most appropriate to the Group's business.

New/Revised International Financial Reporting Standards		**Issued/Revised**	**Effective Date**
IFRS 2	Share-based Payment - Amendment relating to vesting conditions and cancellations	Revised 2008	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations - Comprehensive revision on applying the acquisition method	Revised 2008	Annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs	Revised May 2008	Annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments	Original issuance 2006	Annual periods beginning on or after 1 January 2009

2. Basis of preparation (continued)

Revised International Accounting Standards		Revised	Effective Date
IAS 1	Presentation of Financial Statements - Comprehensive revision including requiring a statement of comprehensive income	2007	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	2008	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs - Comprehensive revision to prohibit immediate expensing	2007	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first-time adoption	2008	Annual periods beginning on or after 1 January 2009.
IAS 28	Investments in Associates - Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3	2008	Annual periods beginning on or after 1 July 2009
IAS 32	Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	2008	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items	July 2008	Annual periods beginning on or after 1 July 2009

The directors have assessed that the adoptions of the above standards and interpretations does not have a material impact on the financial statements.

The preparation of financial statements in conforming with IFRS accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Although these estimates are based on management’s best knowledge of the amount, actual results may ultimately differ from those entries.

The board has reviewed the accounting policies set out below and considers them to be the most appropriate to the Group’s business activities.

3. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial information incorporate the financial statements of the Company and its subsidiaries (the "Group"). Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The results of subsidiaries acquired or disposed during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate except for the acquisition of River Diamonds UK Ltd by Vatukoula Gold Mines Plc which was treated as a merger.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

(b) Going concern

The financial information has been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. In assessing whether the going concern assumption is appropriate, management takes into account all available information for the foreseeable future, in particular for the twelve months from the date of approval of the financial statements. Should the company be unable to continue trading, adjustments would have to be made to reduce the value of the assets to their reasonable amounts, to provide for further liabilities which might arise, and to classify fixed assets as current.

(c) Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Where there is a difference between the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the business combination, any excess cost is recognised in the balance sheet as goodwill and any excess net fair value is recognised immediately in the income statement as negative goodwill on acquisition of subsidiary.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. Summary of significant accounting policies (continued)

(d) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the application of estimates and assumptions on future events, which affects assets and liabilities at the balance sheet date and income and expenditure for the period.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model.

(iii) Income taxes

The Group is subject to income taxes in the United Kingdom and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iv) Intangible assets

Amortisation

Intangible assets (other than goodwill) are amortised over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of assets, changes to the estimates used can result in significant variances in the carrying value.

The Group assesses the impairment of intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

3. Summary of significant accounting policies (continued)

(d) Significant accounting judgements, estimates and assumptions (continued)

(iv) Intangible assets (continued)

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

Allocation

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition and a valuation is subsequently allocated to each intangible asset acquired. The determination of these fair values is based upon management's judgment and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and the selection of an appropriate cost of capital. If these assumptions were to change there would be a material impact to the Group's financial statements.

(v) Allowance for doubtful debts

Each debtor balance is assessed to determine recoverability. Provisions are made for those debtors where evidence indicates that recoverability is doubtful. Amounts are written off when they are deemed delinquent. Any changes to estimates made in relation to debtors recoverability may result immaterially different amounts being reported by the Group's financial statements.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

Bullion sales

- The product is in a saleable form and therefore the quantity and value can be determined with reasonable accuracy;
- The product has been received by the refinery and is no longer under the physical control of the Group;
- The selling price can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred, or to be incurred, can be measured reliably.

Finance revenue

Interest revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(f) The Company's investments in subsidiaries

In its separate financial statements the Company recognises its investments in subsidiaries at cost, less any impairment for permanent diminution in value.

3. Summary of significant accounting policies (continued)

(g) Foreign currency

The presentational functional currency of the Group is Sterling ("£"). Each entity in the Group determines it own functional currency and items included in the financial statements of each entity are measured using that functional currency. The assets and liabilities of these subsidiaries are translated into the presentation currency of Vatukoula Gold Mines Plc at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

All other differences arising on translation are included in income statement except for exchange differences arising on non-monetary assets and liabilities where the changes in fair values are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss.

(h) Goodwill on consolidation

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

(i) Inventories

Ore stock consisting of stocks which further processing is required to convert them to trading stocks, is valued at the lower of cost and net realisable value. Cost is calculated using a weighted average cost model, where inventories are valued at the weighted average cost of the closing inventory. Net realisable value is estimated selling price less the estimated costs necessary to make the sale.

Other inventories include:

(i) Stores comprising plant spares and consumable stores are valued on the basis of weighted average cost after providing for obsolescence.
(ii) Work in progress is valued on the basis of first in first out and includes direct costs, depreciation and amortisation.
(iii) Insurance spares are depreciated over the same remaining life as the equipment with which they are associated.

3. Summary of significant accounting policies (continued)

(j) Intangible assets

Acquired intangible assets which consist of mining rights are valued at cost less accumulated amortisation. Amortisation is calculated using the units of production method.

The assets' residual value and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying value is written down immediately to its recoverable value if the asset's carrying amount is greater than its listed recoverable amount.

(k) Tangible fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on all tangible assets to write down the cost less estimated residual value of each asset over its useful economic life on a units of production method basis at the following annual rate:

Freehold land	Not depreciated
Plant and machinery	Over 3 – 10 years
Motor vehicles	Over 3 years
Fixtures, fittings and equipment	Over 4 years

The depreciation charge for each period is recognised in the income statement, unless it is included in the carrying amount of another asset.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Repairs and maintenance which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

The gain or loss arising from the de-recognition of any items of property, plant and equipment is included in the income statement when the item is de-recognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

(l) Mining and exploration expenditure and mine properties and development

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of the mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets. Mine development assets are reclassified as such at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of mine development assets until they are reclassified as such. Mine development assets are tested for impairment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measure reliably. All other repairs and maintenance are charged to the income statement during the financial period they are incurred.

3. Summary of significant accounting policies (continued)

(m) Provision for mine rehabilitation

A provision for rehabilitation is initially recognised at the present value of expected future cash flows when there exists a constructive obligation for the entity to undertake rehabilitation at the mine site. The increase in the provision for rehabilitation relating to the unwinding of the discount and the depreciation of the rehabilitation asset are recorded as a charge against earnings.

(n) Impairment of intangible and tangible assets excluding goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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 risk specific to the asset. Impairment losses of continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at a revalued amount (in which case the impairment is treated as a revaluation decrease).

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated, a previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(o) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

(i) Trade receivables and other assets

Trade receivables and other assets are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

3. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

(ii) Cash and cash equivalents

For purposes of the consolidated balance sheet and consolidated statement of cash flows, the Group considers all highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less when acquired to be cash equivalents. At 31 August 2008 management believes that the carrying amount of cash equivalents approximates fair value because of the short maturity of these financial instruments. Cash and cash equivalents comprise cash in bank and in hand, and short term deposits with an original maturity of three months or less, net of any outstanding bank overdrafts, all of which are available for use by the Company unless otherwise stated. Cash and cash equivalents are measured at fair value, based in the relevant exchange rates at balance sheet date.

(iii) Investments

Investments included as financial assets are valued at fair value and are held as available for sale. Any impairment will be charged to income statement on recognition.

(iv) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Company's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities, except for derivatives, are recognised initially at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

(v) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(p) Financing costs and interest income

Financing costs comprise interest payable on borrowings and finance lease payments and interest income which is calculated using the effective interest rate method.

(q) Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

(r) Trade payables, provisions and other payables

Trade and other payables are not interest-bearing and are stated at cost. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations, and a reliable estimate of the amount can be made. Provision has been made in the financial statements for benefits accruing in respect of sick leave, annual leave, and long service leave.

3. Summary of significant accounting policies (continued)

(s) Share Capital

Ordinary shares are recorded at nominal value and proceeds received in excess of nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Costs incurred directly to the issue of shares are accounted for as a deduction from share premium, otherwise they are charged to the income statement.

(t) Taxation

Tax on profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

(u) Share-based payments

The Company operates a share option scheme for granting share options, for the purpose of providing incentives and rewards to eligible employees of the Group. The cost of share options granted is measured by reference to the fair value at the date at which they are granted. It is recognised together with a corresponding increase in equity, over the vesting period. The cumulative expense recognised at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of shares that in the opinion of the directors of the Group at that date will ultimately vest.

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Key estimates are made by management.

3. Summary of significant accounting policies (continued)

(w) Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund.

(x) Investments

Fixed and current asset investments are stated at cost less provision for any impairment in value.

(y) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(z) Events after balance sheet date

Post year-end events that provide additional information about the Group's position are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

(aa) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefit will be required to settle the obligation, and a reliable estimate of the amount be made.

(bb) Leased assets

Operating lease

Operating lease rentals are included in the determination of the operating profit or loss for the year in accordance with the contracted lease payment agreement.

(cc) Employee benefits

(i) Defined contribution plan

Obligations for contributions to the Fiji National Provident Fund are recognised as an expense in the income statement as they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the income statement as the related service is provided.

(iii) Long-term employee benefits

Obligations in respect of long-term employee benefits such as long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

3. Summary of significant accounting policies (continued)

(cc) Employee benefits (continued)

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic probability of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be measured reliably.

4. Turnover and segmental analysis

The primary sector results are attributable to the operation of gold production in Fiji and diamond and gold exploration in Brazil. Turnover, operating results and net assets are mainly attributable to activities in this sector for both 2007 and 2008.

The directors consider that the Group's activities represent a single class of business. The analysis of the Group's turnover, gross profit, assets, liabilities, additions to plant, property and equipment and depreciation and amortisation by geographical origin of customers is set out below:

	GROUP	
	2008	**2007**
	£	**£**
Turnover		
United Kingdom	-	-
Brazil	85,736	28,106
Sierra Leone	-	-
Fiji	3,731,640	-
BVI	-	-
	3,817,376	28,106
Gross (loss)/profit		
United Kingdom	-	-
Brazil	77,806	23,990
Sierra Leone	-	-
Fiji	(702,128)	-
BVI	-	-
	(624,322)	23,990
Carrying amount of assets		
United Kingdom	42,467,270	4,149,535
Brazil	607,181	483,279
Sierra Leone	-	6,793
Fiji	20,417,041	-
BVI	16,015	-
	63,507,507	4,639,607
Liabilities		
United Kingdom	11,165,990	361,859
Brazil	11,345	23,815
Sierra Leone	-	3,036
Fiji	7,549,195	-
BVI	-	-
	18,726,530	388,710

4. Turnover and segmental analysis (continued)

	GROUP 2008 £	GROUP 2007 £
Additions to plant, property and equipment		
United Kingdom	-	-
Brazil	22,717	7,809
Sierra Leone	-	4,264
Fiji	1,067,113	-
BVI	-	-
	1,089,830	12,073
Depreciation and amortisation		
United Kingdom	1,716	-
Brazil	108,529	64,524
Sierra Leone	-	21,507
Fiji	654,083	-
BVI	-	-
	764,328	86,031

5. Cost of sales

	GROUP 2008 £	GROUP 2007 £
Bullion assay charges	26,767	-
Mine general and administration	(358,957)	-
Matallurgy	1,564,173	-
Technical services	32,944	-
Resource engineering	68,291	-
Safety security and services	34,317	-
Human resources	296,843	-
Supply and security	(194,578)	-
Mining	2,963,967	-
Others	7,931	4,116
	4,441,698	4,116

6. Operating loss

	GROUP 2008 £	GROUP 2007 £
Operating loss is stated after charging:		
- Depreciation and amortisation	764,283	86,301
- Auditors' remuneration		
audit	37,000	25,000
taxation	4,000	4,000
corporate finance	140,000	-
- Share based payments	-	40,257

7. Employees

The average monthly number of persons (including directors) employed by the Group during the year was:

	GROUP 2008 Number	GROUP 2007 Number
Productive labour	11	11
Office and management	-	8
	11	19

Employment costs:

	GROUP 2008 £	GROUP 2007 £
Wages and salaries	1,014,673	196,200
Pension	-	3,402
	1,014,673	199,602

Directors' remuneration:

	GROUP 2008 £	GROUP 2007 £
Aggregate emoluments (including benefits in kind)	194,000	121,048

8. Interest payable and similar charges

	GROUP 2008 £	GROUP 2007 £
Bank overdraft interest payable	-	14,172

9. Taxation

	GROUP 2008 £	GROUP 2007 £
Current tax charge	-	-
Factors affecting tax charge:		
Loss before tax	(4,067,819)	(982,111)
Tax at 29% (2007: 30%)	(1,179,668)	(294,633)
Effects of:		
- Non deductible expenses	558,285	-
- Temporary differences not recognised	580,370	25,809
- Utilisation of tax losses not previously utilised	-	268,824
- Rate adjustment	41,013	-
	-	-

10. Loss for the year

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group loss includes a loss after taxation of £1,980,560 (2007: £64,007), which is dealt with in the accounts of the parent company.

11. Earnings per share

In accordance with IAS 33 "Earnings per Share", as the Group has reported a loss for the period there is no dilution of earnings disclosed.

	GROUP	
	2008	**2007**
	£	**£**
Loss after tax	(4,067,819)	(982,111)
	2008	**2007**
	Number	**Number**
Basic and diluted weighted average ordinary shares in issue during the period	1,363,426,183	583,857,497
	2008	**2007**
	Pence	**Pence**
Basic and diluted earnings per share	(0.30)	(0.17)

12. Intangible asset

	GROUP	
	2008	**2007**
	£	**£**
Cost		
Mining rights acquired	38,413,593	-
As at 31 August	38,413,593	-

As at 31 August 2008, the directors have carried out an impairment review and confirmed that no impairment charge is required.

A deferred tax liability of £10,755,806 (2007: £nil) arose in respect of the intangible assets recognised on the acquisition made during the period.

The deferred tax liability is in respect of future taxable profits potentially generated from the exploration of the mining rights.

13. Goodwill

	GROUP	
	2008	**2007**
	£	**£**
Cost		
As at 1 September 2007/2006	1,213,091	-
Acquisition of subsidiary – Panguma Diamonds Ltd	-	1,213,091
Written off	(1,213,091)	-
As at 31 August	-	1,213,091

At 31 August 2008, the goodwill was written off as licences previously held by Panguma Diamonds Ltd were not renewed.

14. Property plant and equipment

	Freehold and leasehold land £	Work in progress £	Plant and machinery £	Motor vehicles £	Fixtures, fittings and equipment £	Total £
GROUP						
Cost						
As at 1 September 2007	-	-	554,889	273,850	11,307	840,046
Additions through acquisition of subsidiaries	798,697	2,749,952	8,384,537	-	-	11,933,186
Additions	-	-	1,067,328	22,257	245	1,089,830
Transferred on completion	-	(1,749,292)	1,749,292	-	-	-
Disposals	-	-	(44,061)	-	(7,066)	(51,127)
Exchange difference	25,718	88,548	966,399	92,436	3,913	1,177,014
At 31 August 2008	824,415	1,089,208	12,678,384	388,543	8,399	14,988,949
Accumulated depreciation						
As at 1 September 2007	-	-	296,625	105,752	3,401	405,778
Charge for the year	-	-	394,876	63,970	1,433	460,279
Disposals	-	-	(42,624)	-	(4,240)	(46,864)
Exchange difference	-	-	652,491	49,502	1,301	703,294
At 31 August 2008	-	-	1,301,368	219,224	1,895	1,522,487
Net book value						
At 31 August 2008	824,415	1,089,208	11,377,016	169,319	6,504	13,466,462
At 31 August 2007	-	-	258,264	168,098	7,906	434,268

14. Property plant and equipment (continued)

	Work in progress £	Plant and machinery £	Motor vehicles £	Fixtures, fittings and equipment £	Total £
GROUP					
Cost					
As at 1 September 2006	78,492	446,286	281,754	6,418	812,950
Additions	-	7,809	-	4,264	12,073
Transferred on completion	(78,492)	78,492	-	-	-
Disposals	-	-	(19,494)	-	(19,494)
Exchange difference	-	22,302	11,590	625	34,517
At 31 August 2007	-	554,889	273,850	11,307	840,046
Accumulated depreciation					
As at 1 September 2006	-	265,079	67,515	2,760	335,354
Charge for the year	-	31,546	53,844	641	86,031
Exchange difference	-	-	(15,607)	-	(15,607)
At 31 August 2007	-	296,625	105,752	3,401	405,778
Net book value					
At 31 August 2007	-	258,264	168,098	7,906	434,268
At 31 August 2006	78,492	181,207	214,239	3,658	477,596

15. Available for sale investments

	GROUP 2008 £	2007 £
Cost		
As at 1 September	2,900,250	233,934
Included as cost of acquisition of subsidiary	(2,500,250)	(233,934)
Additions	-	2,900,250
As at 31 August	400,000	2,900,250
Provision for diminution in value		
As at 1 September	-	-
Current provision	-	-
As at 31 August	-	-
Net book value	400,000	2,900,250

Available for sale investments constitute holdings in the following entity:

Name of business	Country of incorporation	Principal activities	% held
Lesotho Diamonds Corporation	Gibraltar	Mining	0.5

In April 2007, the Company acquired 1,212,121 new ordinary shares in Lesotho Diamond Corporation for £400,000.

16. Investment in subsidiary companies

	COMPANY 2008 £	2007 £
Cost		
As at 1 September	4,309,449	196,359
Additions	31,375,207	4,113,090
Balance as at 31 August	35,684,656	4,309,449
Impairment		
As at 1 September	196,358	196,358
Current provision	1,213,091	-
Balance as at 31 August	1,409,449	196,358
Net book value		
Balance as at 31 August	34,275,207	4,113,091

Details of the subsidiaries:

Name of subsidiaries	Country of incorporation	Principal activities	% held
Viso Gero International Inc	BVI	Holding company	100
Vatukoula Gold Pty Ltd	Australia	Holding company	100
Vatukoula Australia	Australia	Holding company	100
Vatukoula Finance Pty Ltd	Australia	Holding company	100
Koula Mining Company	Fiji	Dormant	100
Jubillee Mining Company	Fiji	Dormant	100
Vatukoula Gold Mine Ltd	Fiji	Mining	100
River Diamonds UK Ltd	England & Wales	Mining	100
Panguma Diamonds Ltd	Sierra Leone	Mining	100
São Carlos Mineração Limitada *	Brazil	Mining	100

* The investment in this entity is held by River Diamonds UK Ltd, a 100% owned subsidiary of the Company.

17. Mine properties and development

	GROUP 2008 £	2007 £
Cost		
Balance as at 1 September	-	-
Additions through acquisition of subsidiaries	764,320	-
Additions	552,256	-
Impairment	(175,723)	-
Foreign exchange difference	24,536	-
Balance as at 31 August	1,165,389	-
Amortisation		
Balance as at 1 September	-	-
Current charge	214,825	-
Foreign exchange difference	1,291	-
Balance as at 31 August	216,116	-
Carrying value		
Balance as at 31 August	949,273	-

18. Investments

	GROUP AND COMPANY Unlisted investments £
Cost	
Balance brought forward and carried forward	77,000
Provision	
Balance brought forward and carried forward	76,999
Net book value	
As at 31 August 2008/2007	1

19. Inventories

	GROUP 2008 £	2007 £
Consumables stores	2,572,671	-
Allowances for inventory obsolescence	(286,542)	-
Total consumables stores	2,286,129	-
Insurance spares	275,150	-
Provision for depreciation	(232,341)	-
Total insurance spares	42,809	-
Gold in circuit and gold stock	1,033,970	-
As at 31 August	3,362,908	-

20. Trade and other receivables

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Trade receivables	251,505	-	-	-
Amounts owed by group undertakings	-	-	8,747,495	33,805
Other receivables and prepayments	4,414,871	56,561	1,793,065	-
	4,666,376	56,561	10,540,560	33,805

Trade receivables are amounts due from the sales of gold. The average credit period taken on sales of goods is two weeks. An allowance amounting to £51,094 (2007: £nil) has been made for estimated irrecoverable amounts from the sale of gold.

20. Trade and other receivables (continued)

The following table provides an analysis of trade and other receivables that were past due as at 31 August 2008, but not impaired. The Group believed that the balances are ultimately recoverable.

	GROUP	
	2008	**2007**
	£	**£**
Up to three months	2,981,376	56,561
Up to six months	1,685,000	-
	4,666,376	56,561

21. Cash and cash equivalents

	GROUP		COMPANY	
	2008	**2007**	**2008**	**2007**
	£	**£**	**£**	**£**
Cash at banks and in hand	2,248,894	35,436	1,220,249	-
	2,248,894	35,436	1,220,249	-

22. Share capital

(a) Share capital

	GROUP AND COMPANY	
	2008	**2007**
	£	**£**
Authorised		
3,550,000,000 ordinary shares of 0.1p each (2007: 1,550,000,000 shares of 0.1p each)	3,550,000	1,550,000
Allotted, issued and fully paid		
1,902,371,072 ordinary shares of 0.1p each (2007: 835,622,055 Ordinary shares of 0.1p each)	1,902,371	835,622

On 30 November 2007, the authorised share capital was increased to 3,550,000,000 ordinary shares of 0.1p each.

22. Share capital (continued)

(b) Share issues during the period

	Note	Issue value per share £	Shares	Share capital £	Share premium £
Share issue for cash	**(i)**	0.015	250,000,000	250,000	3,500,000
Warrant exercise	**(ii)**	0.01	3,000,000	3,000	27,000
Warrant exercise	**(iii)**	0.02	7,750,000	7,750	147,250
Warrant exercise	**(iv)**	0.013	8,333,333	8,333	100,000
Share issue for cash	**(v)**	0.06	77,816,666	77,817	4,591,183
Non cash share issue - part consideration for the acquisition of the remaining 80% of Viro Gero International Inc	**(vi)**	0.06	477,633,333	477,634	28,180,366
Non cash share issue – arrangement shares	**(vii)**	0.06	25,000,000	25,000	1,475,000
Warrant exercise	**(viii)**	0.01	3,000,000	3,000	27,000
Warrant exercise	**(ix)**	0.015	13,333,332	13,333	186,667
Share issue for cash	**(x)**	0.0425	130,294,118	130,294	5,407,206
Share issue for cash	**(xi)**	0.0425	70,588,235	70,588	2,929,412
			1,066,749,017	1,066,749	46,571,084

(i) On 11 October 2007, 250,000,000 ordinary shares of 0.1p were issued for cash of 1.5p per share, representing a premium of 1.4p per share.

(ii) On 13 November 2007, 3,000,000 ordinary shares of 0.1p were issued for cash of 1p per share, representing a premium of 0.9p per share.

(iii) On 3 March 2008, 7,750,000 ordinary share of 0.1p were issued for cash of 2p per share, representing a premium of 1.9p per share.

(iv) On 3 March 2008, 8,333,333 ordinary shares of 0.1p were issued for cash of 1.3p per share, representing a premium of 1.2p per share.

(v) On 1 April 2008, 77,816,666 ordinary shares of 0.1p were issued for cash of 6p per share, representing a premium of 5.9p per share.

(vi) On 1 April 2008, the Company acquired the remaining 80% of VGI, as part of the consideration 477,633,333 ordinary shares of 0.1p were issued at 6p per share representing a premium of 5.9p per share.

(vii) On 1 April 2008, 25,000,000 ordinary shares of 0.1p were issued as arrangement fee shares at 6p per share representing a premium of 5.9p per share.

(viii) On 22 May 2008, 3,000,000 ordinary share of 0.1p were issued for cash of 1p per share, representing a premium of 0.9p per share.

(ix) On 22 May 2008, 13,333,332 ordinary share of 0.1p were issued for cash of 1.5p per share, representing a premium of 1.4p per share.

(x) On 5 June 2008, 130,294,118 ordinary shares of 0.1p were issued for cash of 4.25p per share representing a premium of 4.15p per share.

(xi) On 9 June 2008, 70,588,235 ordinary shares of 0.1p were issued for cash of 4.25p per share representing a premium of 4.15p per share.

22. Share capital (continued)

(c) Warrants and options

During the year ended 31 August 2008 the following movements occurred on the warrants and options to purchase 0.1p ordinary shares in Vatukoula Gold Mines Plc.

Exercise price	Number of warrants 1p	Number of warrants 1.3p	Number of warrants 1.5p	Number of warrants 2p	Number of warrants 2.5p	Total
Balance at 1 September 2007	8,000,000	8,333,333	13,333,332	7,750,000	22,500,000	59,916,665
Granted during the year	-	-	-	-	-	-
Exercised during the year	(3,000,000)	(8,333,333)	(13,333,332)	(7,750,000)	-	(32,416,665)
Expired during the year	-	-	-	-	-	-
Balance at 31 August 2008	5,000,000	-	-	-	22,500,000	27,500,000

These options were issued to directors, staff and consultants. The options are exercisable at the Placing Price of 2.5 pence pursuant to and on the terms of the option scheme summarised in the AIM Admission document dated August 2004.

The weighted average exercise price of the warrants exercised during the year was 2.22p.

The total share-based payment expense in the year for the Group was £nil (2007: £40,257).

23. Trade and other payables

	GROUP		COMPANY	
	2008 £	2007 £	2008 £	2007 £
Bank loans and overdrafts	-	5,415	-	-
Trade creditors	4,199,571	162,209	228,589	-
Accruals and deferred income	158,312	132,531	39,856	8,000
	4,357,883	300,155	268,445	8,000

24. Provisions

	GROUP 2008 £	2007 £
Current – Employee entitlements		
Provision for annual leave	115,307	-
Provision for redundancy payment	1,147,898	-
Provision for workers compensation	114,617	-
Other employee related accruals	221,294	-
	1,599,116	-
Non current – Restoration		
Provisions for mine rehabilitation	948,698	-
Provision for Vatukoula Rehabilitation Trust Fund	712,215	-
	1,660,913	-
Total	3,260,029	-

25. Borrowings

	GROUP 2008 £	2007 £
Amount due within the next 12 months:		
- ANZ Banking Group	278,257	-
	278,257	-

The loan was taken to facilitate payment of an insurance premium with brokers Marsh Ltd and insurers, Lloyds of London.

(i) The loan is repayable by monthly instalments of £30,908 and interest is being charged at the rate of 9.50% per annum.

(ii) The loan is secured over the master operating lease agreement over motor vehicles and letter of charge over term deposit funds totalling to £37,976.

26. Convertible loan

On 22 April 2007, the Group issued a fully redeemable convertible loan note for £100,000 repayable in cash by December 2009. The loan note carries a coupon rate of 1% per annum. The loan note will be convertible at £0.012 equating to 8,333,333 shares in Vatukoula Gold Mines Plc. The net proceeds from the issue of the convertible loan has been split between the liability element and an equity component as follows:

	GROUP AND COMPANY 2008 £	2007 £
Nominal value	100,000	100,000
Equity component	(25,445)	(11,445)
Liability component	74,555	88,555

27. Acquisition of Viso Gero International Inc ("VGI")

On 1 April 2008, the Company acquired the remaining 80% of VGI not already held by it from Viso Gero Global Inc. As a result of this acquisition, and the acquisition by VGI of the remaining 6% of Westech Gold Pty Ltd ("Westech"), Vatukoula Gold Mines Plc now owns 100% of VGI and indirectly, through Westech and its indirect subsidiaries, holds a 100% interest in Vatukoula Gold Mine Ltd.

Purchase consideration (see below):

	£
Cash	5,217,207
Shares	28,658,000
Total purchase consideration	33,875,207
Fair value of net assets acquired	(6,217,420)
Intangible fixed assets acquired (mining rights)	(38,413,593)
Deferred tax	10,755,806
Goodwill	-

Acquisition of subsidiaries, net of cash and cash equivalents acquired:

	£
Property, plant and equipment	11,933,186
Mine properties and development	764,320
Trade and other receivables	1,251,747
Cash and cash equivalents	261,406
Inventories	2,004,723
Trade and other payables	(9,997,962)
Net total asset acquired	6,217,420
Mining rights	38,413,593
Deferred tax	(10,755,806)
Total consideration	33,875,207
Payment through shares	(28,658,000)
Cash consideration	5,217,207
Cash payment made in the previous year	(2,500,000)
Cash consideration paid during the year	2,717,207
Cash and cash equivalents acquired	(261,406)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2,455,801

28. Financial instruments and risk management objectives and policies

The accounting policies for financial instruments have been applied to the line items below:

GROUP

	Loans and receivables £	Available for sale £	Total £
2008			
Assets per balance sheet			
Available for sale investments	-	400,000	400,000
Trade and other receivables	4,666,376	-	4,666,376
Cash and cash equivalents	2,248,894	-	2,248,894
	6,915,270	400,000	7,315,270

	Other financial liabilities £	Total £
Liabilities per balance sheet		
Trade and other payables	4,357,883	4,357,883
Borrowings	278,257	278,257
	4,636,140	4,636,140

	Loans and receivables £	Available for sale £	Total £
2007			
Assets per balance sheet			
Available for sale investments	-	2,900,250	2,900,250
Trade and other receivables	56,561	-	56,561
Cash and cash equivalents	35,436	-	35,436
	91,997	2,900,250	2,992,247

	Other financial liabilities £	Total £
Liabilities per balance sheet		
Trade and other payables	294,740	294,740
Overdraft	5,415	5,415
	300,155	300,155

28. Financial instruments and risk management objectives and policies (continued)

	Loans and receivables £	COMPANY Available for sale £	Total £
2008			
Assets per balance sheet			
Trade and other receivables	1,793,065	-	1,793,065
Cash and cash equivalents	1,220,249	-	1,220,249
	3,013,314	400,000	3,413,314

	Other financial liabilities £	Total £
Liabilities per balance sheet		
Trade and other payables	268,444	268,444
	268,444	268,444

	Other financial liabilities £	Total £
2007		
Liabilities per balance sheet		
Trade and other payables	8,000	8,000
	8,000	8,000

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", held for trading assets are measured at fair value through profit and loss. Loans and receivables are measured using the amortised cost method. Available for sale financial instruments are initially recognised at fair value and subsequently remeasured to fair value at each year end, with any change in value recognised directly in equity.

The Group's activities expose it to a variety of financial risks; currency risk, credit risk, liquidity risk and cash flow interest rate risk. The policies for managing these risks are regularly reviewed and agreed by the Board. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments should be undertaken.

(i) Currency rate risk

Loans between companies which are members of the Vatukoula Gold Mines Plc group are made in the operating currency of the lending company. In all other respects, the policy for all group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time.

The Group's revenue derives from the sale of gold bullion and rough and polished diamonds by its Fijian and Brazilian operating subsidiaries respectively. While proceeds of diamond sales are received in Reals and diamonds are sold in US Dollars, with the proceeds being calculated on the basis of the US Dollar sales price and the exchange rate prevailing on the date of the sale. As the group reports in Sterling, reported revenue is affected by the combination of changes in the US Dollar/Reals and Sterling/Reals rates.

28. Financial instruments and risk management objectives and policies (continued)

(i) Currency rate risk (continued)

The Group's expenses in Fiji and Brazil are incurred in Fiji Dollars and Reals respectively. Any weakening in the Fijian Dollar/Reals would result in a reduction in expenses in Sterling terms, which would be to the Group's advantage. There is an equivalent downside risk to the group of strengthening in the Fijian Dollar/Reals which would increase Brazilian operating expenses in Sterling terms.

At 31 August 2008, £1,795,208 (2007: £nil) of receivables were denominated in Sterling, £82,381 (2007: £22,063) of receivables were denominated in Reals and £2,788,788 (2007: £nil) in Fiji Dollars.

The following table illustrates the Group's sensitivity to the fluctuation of the major currencies in which it transacts. A 15% increase has been applied to each currency in the table below, representing management's assessment of a reasonably possible change in foreign exchange rates:

	2008 £	2007 £
Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling	311,518	-
Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against pound sterling	(230,258)	-
Impact on profit after tax on 15% increase in Reals fx rate against Sterling	48,611	103,534
Impact on profit after tax on 15% decrease in Reals fx rate against Sterling	(35,930)	76,525

(ii) Interest rate risk

Interest rate exposure arises mainly from cash holdings. Contractual agreements entered into at floating rates expose the entity to cash flow risk whilst the fixed rate borrowings expose the entity to fair value risk.

The table below shows the Group's financial assets and liabilities split by those bearing fixed and floating rates and those that are non-interest bearing.

	2008			2007		
Class/categories	**Floating rate £**	**Fixed rate £**	**Non Interest bearing £**	**Floating rate £**	**Fixed rate £**	**Non Interest bearing £**
Financial assets						
Trade receivables	-	-	1,822,765	-	-	-
Other receivables	-	-	2,793,612	-	-	56,561
Cash and cash equivalents	2,248,895	-	-	35,436	-	-
Financial liabilities						
Trade payables	-	-	4,199,571	-	-	162,209
Bank overdraft	-	-	-	-	-	5,415
Accruals	-	-	158,312	-	-	132,531

28. Financial instruments and risk management objectives and policies (continued)

(ii) Interest rate risk (continued)

The fair value of all financial instruments is approximately equal to book value due to their short term nature and the fact that they bear interest at floating rates based on the local bank rate.

If interest rates had been 1% higher/lower and all other variables held constant, the Group's profit for the year ended 31 August 2008 would increase/decrease by £3,036 (2007: profit would increase/decrease by £50).

(iii) Credit risk

Credit risk arises from trade receivables and cash and cash equivalents. Credit exposure is measured on a Group basis. The Group's maximum exposure to credit risk relating to its financial assets is given in Note 20.

(iv) Gold price risk

The Group's policy is to sell gold at spot. The Group is exposed to gold price risk through gold price fluctuations.

An increase/decrease of 10% in the spot price of gold at 31 August 2008, with all other variables held constant, would have the following impact on the income statement at 31 August 2008:

	Income statement impact Increase/(Decrease) £
10% increase in the gold spot price	373,164
10% decrease in the gold spot price	(373,164)

(v) Liquidity risk

To ensure liquidity, the Group maintains sufficient cash and cash equivalents to meet its obligations as and when they fall due.

29. Ultimate controlling party

There was no ultimate controlling party during the year.

30. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between other related parties are discussed below.

During the period, the Company paid consultancy fees of £25,000 (2007: £nil) to Promaco Ltd, a company related to J I Stalker, director of Vatukoula Gold Mines Plc.

During the period, the Company paid consultancy fees of £12,000 (2007: £nil) to Isona Services Ltd, a company related to D I G L Strang, director of Vatukoula Gold Mines Plc.

During the period, the Company paid consultancy fees of £4,000 (2007: £nil) to Kimmel Consulting Ltd, a company related to K Morzaria, director of Vatukoula Gold Mines Plc.

31. Commitments

(a) Details of mining leases and special site rights held by the Group are as follows:

(i) On 22 March 2004, the Vatukoula Gold Mines Ltd entered into Special Mining Lease ("SML") agreements with the Government of Fiji to lease a piece of land in the Province of Ba for the purpose of mining minerals. The terms of the lease agreement and details are as follows:

Mining lease title	**Lease number**
Vatukoula Gold Mines Ltd (formerly known as Westech Gold Ltd) under freehold title	54
Majority of the lease is owned by Nosomo Landowners. The remainder of SML is crown Freehold	55
Vatukoula Gold Mines Ltd (formerly known as Westech Gold Ltd) under freehold title	56

Under the current agreement, rent is payable at the rate of F$49,227 per annum.

(ii) The Group has various Special Site Rights ("SSR") that expired between 1990 and 1994. The management believe that an agreement for renewal has been reach in principal and that the risk of non renewal is remote. The expiry of the SSR's between 1990 and 1994 did not prevent the mine from continuing to operate. The SSR's is in relation to water extraction, tailing dam and piping passageway. Currently, rent is payable at the rate of F$750 per annum.

(iii) The Group has mining bonds and undertakings in favour of the director of Mines and is required to pay the Government of Fiji at the rate of 1% of value of the bond per annum.

(iv) Total commitments for future SML and SSR lease rentals, which have not been provided for in the financial statements, are as follows:

	GROUP	
	2008	**2007**
	£	**£**
Not later than one year	59,725	-
Later than one year but not later than two year	-	-
Later than one year and not later than five years	-	-
Later than five years	-	-
Net operating lease liability	59,725	-

(b) Details of operating leases held by the Group are as follows:

(i) The Group has various operating leases with ANZ for motor vehicles. The operating lease is repayable by monthly instalments of F$14,402.

(ii) Total commitments for future motor vehicle lease rentals, which have not been provided for in the financial statements, are as follows:

	GROUP	
	2008	**2007**
	£	**£**
Not later than one year	59,725	-
Later than one year	59,725	-
Later than two	45,916	-
Net operating lease liability	165,366	-

31. Commitments (continued)

(iii) The operating lease is secured over the master operating lease agreement over motor vehicles.

32. Contingent liabilities

(a) The following contingent liabilities are in relation to the Fijian subsidiary.

	GROUP	
	2008	**2007**
	£	**£**
Bank guarantee	37,976	-
Immigration bond	3,798	-
Mining bond	3,452	-
Litigations and claims	188,152	-
Bankers undertaking	210,593	-
	443,971	-

(b) The Fiji Islands Revenue & Customs Authority ("FIRCA") has issued taxation assessments against the Group of F$11.5million. The Group does not believe any amounts are payable and is vigorously defending the claim. No amounts have been provided in the accounts in respect of this claim. As at year end, advance tax payment of F$1.5m has been made in relation to this.

(c) The Group is a plaintiff in several litigations with respect to potential claims of creditors, workers compensation and industrial action. The directors believe these litigations will not have a material effect on the financial statements.

33. Deferred taxation

Movements in deferred taxation during the period are as follows:

	GROUP	
	2008	**2007**
	£	**£**
Deferred taxation arising on acquisition of subsidiary	10,755,806	-
	10,755,806	-

34. Significant events during the year

By a letter agreement dated the 21 February 2008 between FIRCA and the Group, the Group is required to make without prejudice payments out of revenue in respect of a disputed tax assessment and relating penalties and FIRCA would permit further gold exports pending the courts decision in relation to the tax dispute. As the year end, an advance tax payment totalling F$1.5m has been made.

35. Post balance sheet events

On 11 November 2008, David Parton was appointed Chief Executive Officer of Vatukoula Gold Mines Plc.

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