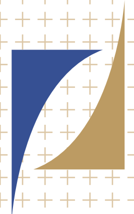
VATUKOULA GOLD MINES
ANNUAL REPORT 2009



A STRONG FOCUS ON REBUILDING INFRASTRUCTURE FOR A FUTURE EFFICIENT OPERATION

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OPERATIONAL HIGHLIGHTS

– 2009 Turnover was £18.8 million; compared to a turnover of £3.8 million in 2008
– The increase in turnover is attributable to a substantial increase in ore treated and higher gold price received
– Inaugural gross profit of £1.4 million as opposed to loss of £0.6 million
– An underground combined Measured and Indicated Mineral Resource of 8.3 million tonnes grading 10.5 g/t for contained gold of 2.8 million ounces
– An Underground Inferred Mineral Resource of 4.7 million tonnes grading 8.6 g/t for contained gold of 1.3 million ounces

THE VATUKOULA MINE HAS PRODUCED 6.9 MILLION OUNCES OF GOLD

OPERATIONAL AND FINANCIAL HIGHLIGHTS

2008/09

Turnover (£m)
2009

18.8

2008

3.8

Gross Profit (£m)
2009

1.4

2008

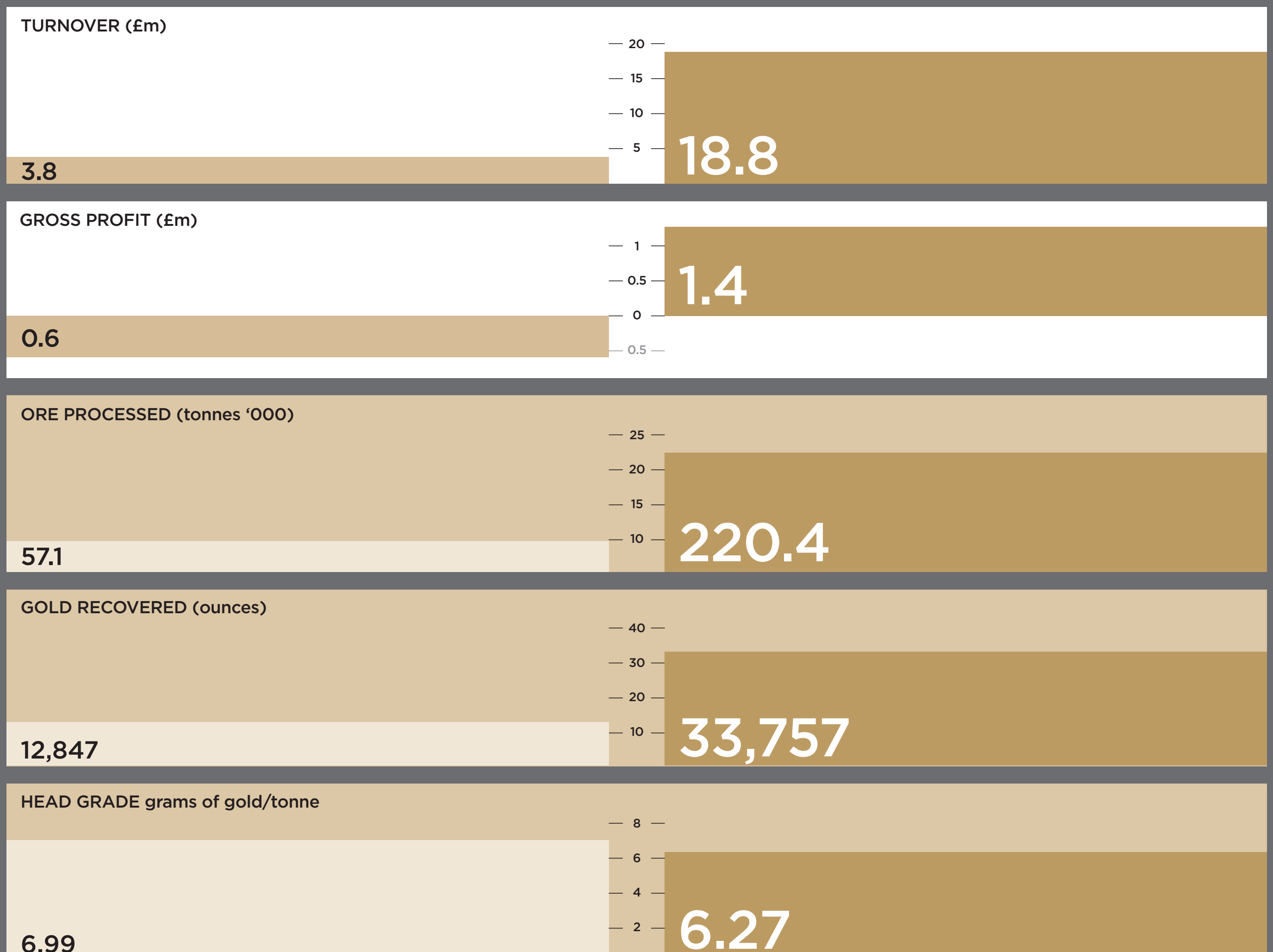
-0.6

Ore Processed (tonnes)

220,439

Gold Recovered (ounces)

33,757



VALUABLE RESERVES

THE VATUKOULA MINE

4.3

MILLION OUNCES OF GOLD RESERVES.

in a Measured, Indicated and Inferred Resource category as estimated by AMC Consultants. A Proven and Probable Reserve of 680,000 ounces gold at a grade of 10.9 grams gold per tonne.

VATUKOULA GOLD MINE. A RICH HISTORY SPANNING OVER 70 YEARS.

LOCATION

The Mine is located in Fiji, an island group in the South Pacific Ocean. Fiji comprises two main islands, Viti Levu and Vanua Levu, with many smaller surrounding Islands. The Mine is located in the northern part of the island of Viti Levu within the Tavua Basin, situated within the Tavua volcano.

GEOLOGY

The Mine is hosted within basaltic rocks of the Tavua Volcano, except for the R1 area which is hosted in the younger Turtle Pool Formation. Mineralization is hosted within quartz carbonate veins and is typically seen as flatmakes, steep shears and shatter zones. Flatmakes are shallow to moderate dipping mineralised fractures, steep shears have a dip of greater than 45 degrees and shatter zones are zones of intersection between one or more flatmakes with two or more major faults or faulted dykes. The main ore bodies are the Prince/Dolphin flatmake, Matanagata flatmake, 2000N flatmake and 166N flatmake. In addition to flatmake mineralization there is the R1 area and Steep Structures that relate to the flatmakes.

NEW GROUNDWORK

CHAIRMAN'S STATEMENT

Dear Shareholders,

As the Global financial crisis developed, the role of gold - previously regarded as a relic of earlier days, rebounded to take its place as an important part in the reserves of most nations. Fortunately China, as well as being the biggest producer of gold in the world, became a significant consumer with individuals purchasing 85 tonnes of the metal during 2009. The Chinese Central Bank also purchased 454 tonnes during the year.

The last year has been a period of consolidation for the Company. It commenced with us naming Dave Paxton as CEO. Dave is not only an experienced mining engineer, but also a noted mining analyst in the City of London. Throughout the year in review Dave has led the team with help from Bert Leathley our general manager in Fiji, Ian Stalker, David Lenigas and our two Canadian Directors John Kearney and John MacPherson. Over the last two years, Kiran Morzaria, our Finance Director, has steered the company into calmer financial waters. Many thanks to you all.

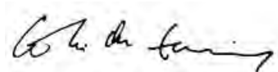
Investors in the City of London have a long memory and during the last few years of operations as the Emperor Gold Mine, management and operational problems caused investors to regard the mine as a "sunset" operation with a limited future.

This prejudice hung over the mine until late in 2008 when the new management was able to dispel it with rising production figures which resulted in a lowering of costs per ounce produced. We aim for this to continue over the current year.

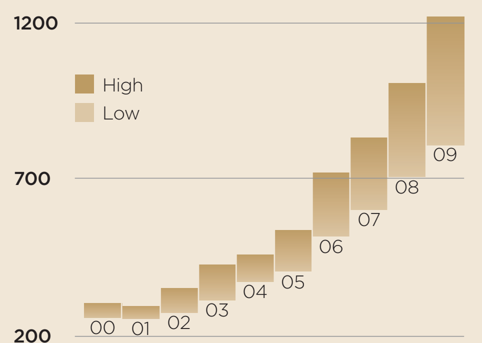
In the year to 31st August 2009 the cash costs were US$910 per oz but by the quarter ending November 2009 they had fallen to US$584 per oz. To maintain that lower cash cost it is important that we can continue with a steady rate of production and achieve our targets. The Vatukoula Gold Mine has many fixed costs directly associated with the production process and as such, the Company will benefit from an overall lower cash cost per ounce of gold produced when we achieve our stated production targets. Dave Paxton will cover the operational progress in his report to shareholders.

Mines can be valued in a variety of ways, for example, so many dollars per ounce of resource or reserve, but it is my belief that the only effective way is to examine the free cash flow that the mine is able to demonstrate and value the mine at a multiple of that cash flow. The U.K. stock exchange is more favourably disposed towards "open pit" mining operations where the economics in the early years of operation are very attractive. Most of the world's great mines are underground mines and the longevity of the Vatukoula ore body, which has so far been mined for over 70 years, should continue to provide profit to investors and employment to the Fijian labour force for many years to come. I am honoured to be associated with this company.

Finally I would like to take this opportunity to thank you, our shareholders, for your continued support throughout the year. I look forward to updating you on the development of the Company throughout the coming year.



COLIN ORR EWING
CHAIRMAN
26 FEBRUARY 2010



THE YEAR IN REVIEW

CHIEF EXECUTIVE'S STATEMENT

212,029

TONNES OF UNDERGROUND ORE MINED IN THE YEAR

at a grade of 7.59 grams of gold per tonne.

33,757

OUNCES OF GOLD PRODUCED IN THE YEAR

Sold at an increasing gold price throughout the year, resulting in an average gold sales price of US$881 per ounce.

Dear Shareholders,

I am pleased to report on the excellent progress made at Vatukoula Gold Mines plc and provide you with a statement of affairs. Thank you for giving me the opportunity to do so.

This financial year was a period of restructuring and development for the mine at Vatukoula, which has operated almost consistently since 1934 and has historically produced approximately seven million ounces of gold. When your company acquired the mine in April 2008, it had been on a care and maintenance programme since December 2006, the only continuous period in the mine's history when it has not been in production.

Review of Operations

For the period in review, the Company produced 33,757 ounces of gold from Vatukoula during the year. The focus of the year, however, was to provide the infrastructure for the mine to operate efficiently in the future. We have introduced new practices to the operation which will, I believe hold the Company in good stead in the years ahead. With good management and given a favourable gold price environment I believe that the Vatukoula Mine has a long future.

After initial operations were started in April 2008, the management team quickly realised that the mine's operating equipment - acquired with the acquisition - required upgrading.

An underground mine is a very harsh environment for any equipment and efficient and reliable equipment is a pre-requisite for sustained operations. However, previous operators - working under constrained conditions due to a weak gold price - failed to ensure essential maintenance of equipment and focused mining operations on production, at the expense of forward planning and development.

Once we had initiated an expansion of underground production, we soon found that the mine and the majority of mine equipment were in urgent need of refurbishment and upgrading. Essential forward planning and development had been curtailed. Essential maintenance on the mobile mine fleet, power generating facilities, underground pumping equipment, underground exploration drilling equipment and parts of the processing plant equipment had been neglected. We put in place an upgrading and refurbishing regime to bring the mine equipment to an acceptable reliability level.

The initial production build up was encouraging, but by the end of November 2008, we realised that ore production - without the associated development - was a short term fix that could not be sustained. This was exacerbated by the shortage of funds available.

Your management took the decision to implement a capital development program including an equipment refurbishment program to accelerate development and place the mine on solid footing for the long term.

This decision was taken at the time of the 2008 economic crisis, making it extremely difficult for Vatukoula to access capital funding. Fortunately, in April 2009, with a positive long term outlook of the gold price, we were able to convince investors of Vatukoula's tremendous long-term potential. We thank those new shareholders for their vision and support. The capital raised (approximately £5.4 million), enabled us to accelerate our development and acquire additional refurbished underground equipment to sustain the mine on a long term basis. We also established procedures to ensure all existing and new equipment is regularly inspected and maintained thus prolonging its service on the mine.

Whilst the funding was being secured, the region surrounding the mine experienced a once-in-a-hundred year rainfall event and over one metre of rain fell in a three day period. The northern side of Fiji suffered devastating floods, with numerous major bridges being destroyed and the mine suffered a severe inrush of water. We believe the preventative measures undertaken by the Mine Management at the start of each wet season, to limit water ingress, were satisfactory. However, the sheer volume of water overwhelmed our defences and the lower levels of the mine were flooded. Crucially, the delivery of diesel, used for power generation at the mine, was impossible following the destruction of the bridges. Matters were confounded by the shortage and condition of our underground pumping equipment and power generating facilities. Mine staff performed exceptionally well to save the mine and only one production day was lost. Dewatering of the lower levels was re-started immediately and areas available for mining were limited to the upper levels. However, the floods put the mine onto the back foot once more.

Part of our refurbishment program has included an upgrade of our pumping facilities and power generating facilities. Our surface and underground protection for a similar event is now monitored on a regular basis and we believe that we are in a much improved position should it occur again.

Your board is committed to exploring all alternate sources of power for the mine to reduce the financial risk in the event of international energy prices significantly increasing in the future. During the year we signed a memorandum-of-understanding with The Fijian Sugar Corporation for the future purchase of power from their proposed Bagasse power project at the Rarawai Mill and we are in discussions with the relevant authorities to provide an alternate source of power for Vatukoula.

New Oxide Project

During the ramp up of production, management considered an alternate source of gold from surface. The mine area contained a known low grade waste dump, which was considered to have over 200,000 tonnes of material. From sampling, we estimated that this dump contained a grade of 1.75 grams of gold per tonne of oxide material. The Vatukoula Processing Plant was designed to treat sulphide ore, as produced from underground sources, not oxide ore, and therefore it was determined that an alternate process was required for this material.

The established on site plant contains two grinding mills: the Mogardshammer and the Smidth and with limited underground production, the mine was only using the larger Mogardshammer mill for grinding.

ENCOURAGING PROGRESS HAS BEEN MADE AT VATUKOULA.

EFFICIENCY
We have gradually improved the operating efficiency of our mobile mining fleet

ACCURACY
Progression in underground drilling has enabled us to perform more accurate and detailed mine planning which will facilitate for more efficient and productive mining moving forward

ACCELERATED DEVELOPMENT
Accelerated development underway with the delivery of new equipment

PREVENTION PLANNING
Pumping and power plant facilities are now in order with additional standby pumps if required. Excess reliable power capacity also available as required

EXLORATION
Initiated a new exploration drilling programme on under-explored properties within the mining lease

The processing plant additionally had a large, underutilised carbon-in-pulp circuit, which is used at Vatukoula to recover residual gold from process waste material, but is ideal for recovery of gold from an oxide source. Mine Management took the decision to re-engineer the smaller Smidth mill so that it was able to treat a separate stream of oxide material from the low grade stockpile. Using infrastructure that was available at the mine, our engineering team built a second loading system and conveyor feed to deliver and treat this oxide material.

Oxide material from the Smidth Mill was diverted to the Carbon-in-Pulp treatment facility for the recovery of the gold from the oxide material. In order to gain greater flexibility, Mine Management engineered the new oxide delivery circuit for the Smidth Mill in such a way that we can treat either sulphide material, or oxide material as required through the Smidth Mill. Once underground production has built up to levels that require the second circuit to treat sulphides, we will be able to switch over as required.

Processing of the oxide ore started in July 2009. We initially estimated the grade of the oxide material to be 1.75 grams of gold per tonne. We have been pleasantly surprised to find that a slightly higher grade has been delivered to the oxide circuit and the low-cost circuit built by the mine engineering staff has proved to be very successful. Once the oxide circuit was operational a new surface drilling programme was initiated and our geological staff uncovered additional in-situ oxide material at surface, which we will be treating in the future.

As we increased gold ore delivery to the main Vatukoula Treatment Plant, we found the process plant equipment in need of maintenance and upgrade. With the plant upgrading process nearing completion, we plan to build in excess capacity to each stage of our ore delivery, from additional underground section, through stockpiles on the surface, to the processing plant. We believe that an underground mine such as Vatukoula, with its erratic ore bodies, requires operating flexibility and we intend to install it at each stage of production.

With mines offering numerous dangers, mine safety is of paramount importance to Vatukoula Gold Mines plc. Over the year we recorded 17 lost time accidents. Vatukoula Gold Mines complies with international industry standards for the health and safety of its staff. That includes initial safety training, regular safety updates and maintaining a safe working environment for the benefit of our entire workforce. The management of Vatukoula strives for a zero lost time accident record.

Our exploration efforts in the year have been focused on the current mine and along with our consultants, we are investigating the potential for increasing production at Vatukoula. We are also committed to undertake exploration of the adjacent properties to uncover any potential available.

Post Period Developments and Outlook

The year under review should be reflected upon in the context of management's strategy to develop the Company for the coming years as a profitable gold producer. Efforts have been made as outlined above and continue to be made to ramp up production to a targeted rate of 60,000 ounces of gold by August 2010 and 100,000 ounces by the beginning of 2011. As we have outlined - this year was focused on developing the mine and sourcing the new equipment that will in the long term facilitate effective and consistent gold production. With production stabilising, we are confident that the Vatukoula mine will produce profitably and the efforts and considerable investment of finance outlaid this year will prove to be worthwhile for both the mine and our shareholders.

To facilitate that development effort post period the Company raised a total of £11million which is being used to increase the underground capital development programme, allowing access to increased mining faces, increasing both the capacity of tonnage delivered from underground and an increase in delivered grade to the mill.

The development programme, which primarily required 13 pieces of underground equipment, is also being supplemented by an underground and surface drilling programme. This will allow the Company to focus on higher grade ore bodies, optimise mine planning and mining techniques.

CHIEF EXECUTIVE'S REPORT
CONTINUED

The Company has also announced the results of an independent assessment of the Company's Mineral Reserves and Mineral Resources as at 31 August 2009, carried out by AMC Consultants Pty Ltd. AMC have determined a combined Measured and Indicated Mineral Resource of 8.3 million tonnes grading 10.5g/t for contained gold of 2.8 million ounces and an Inferred Mineral Resource of 4.7 million tonnes grading 8.6g/t for contained gold of 1.3 million ounces.

Vatukoula Gold Mines also announced results from its initial ten hole exploration programme targeting a new economic resource suitable for surface mining. Initial drilling intersected multiple mineralised structures around old surface operations specifically around the President Dyke where mineralisation remains open along strike and at depth. The Company intends to develop an exploration programme to delineate the extent of the mineralisation with a view to estimating a Mineral Resource and possibly a Mineral Reserve for the oxidised mineralisation.

The Government of Fiji have provided us with extraordinary support and a long term vision for the development of a major asset in Fiji. We thank the Minister of Mines and the Govenment of Fiji for their support and his department for their support in rebuilding Vatukoula to become a significant contributor to the Fijian economy and we look forward to working with the Fijian authorities in the future.

In December 2009 Vatukoula signed the Vatukoula Trust Deed with the Minister for Lands and Mineral Resources of the Republic of Fiji. The Trust Deed formalises a number of key concessions and exemptions to the Company's 100% owned subsidiary Vatukoula Gold Mines Ltd. in Fiji, as well as establishing the Social Assistance Trust.

The Social Assistance Trust will support those members of the Vatukoula community who were previously employed at the mine at the time of the mine closure in December 2006, but who have not been able to find employment.

Vatukoula Gold Mines Ltd. will provide a total of Fijian $6.0 million (£3.0 million), payable over 5 years to the fund. The concessions granted to Vatukoula Gold Mines Ltd. include: a concession on the importation of automotive diesel oil and industrial diesel fuel; an exemption on the payment of export tax for a period of 5 years; an exemption on the payment of fiscal duties for all plant equipment machinery and motor vehicles, for a period of 3 years; an exemption on the payment of Import Excise Duty for a period of 3 years; an exemption on the payment of Corporation tax for a total of 5 years, and the acceleration of depreciation provisions.

Historically the Vatukoula Mine operated with a large Fijian labour component. We believed, in line with international underground mining practices, that a smaller but more focused work force was required and so our work force has been maintained at less than 800 employees. We expect to employ additional Fijian mineworkers once the mine is in full production, but we still aim to maintain a lean, motivated workforce. Our employment of Fijian labour is a major advantage for Vatukoula and they offer a well trained and experienced local workforce, sharing the same motivation as management for sustainable, long term operations at Vatukoula.

We have made major strides in our relationship with the local community by undertaking a refurbishment and upgrading housing program within the Vatukoula community. In addition, Mine Management meets regularly with members of the local community and we actively support all local sports and community projects.

I would like to thank both our expatriate staff in Fiji and the Fijian workforce for the effort they have put in, in often very trying times. Both the management of Vatukoula and I firmly believe in the success of the mine and we intend to provide the tools and guidance to deliver a profitable future for Vatukoula, our Fijian workforce and for the country of Fiji.

In summary, your Board believes that the true value of the existing operations at Vatukoula, with the capital committed, will continue to be realised in future years.

DAVID KARL PAXTON
CHIEF EXECUTIVE OFFICER
26 FEBRUARY 2010

FINANCIAL OVERVIEW

FINANCE DIRECTOR'S REPORT

18.8

MILLION TURNOVER AND A GROSS PROFIT OF 1.4 MILLION.

As highlighted in the Chief Executive Statement, this year has seen some great progress at the Vatukoula Gold Mine, which is reflected in our financial performance during the year. It is important to note that when making comparisons with last years performance, one has to take account that the figures from the year ending August 2008 do not include any financials from the mine prior to our acquisition of the mine on 1 April 2008.

Total revenue for the Group increased to £18.8 million compared to a turnover of £3.8 million in the prior year. This was on the back of a substantial increase in production of 33,757 ounces of gold from 220,439 of ore (2008: 12,847 ounces of gold from 57,117 of ore) and a higher average gold price received of US$881 per ounce.

Vatukoula reported its inaugural gross profit of £1.4 million compared to a loss of £0.62 million in the prior year. Removing the adjustments for movement in Gold in Circuit, ore stock and any credit in relation to charges to mining development this gross profit would be reduced to approximately £0.6 million.

As mentioned earlier, our initial refurbishment programme yielded production benefits earlier in the year. However, this was at the detriment of underground development and as a result, lower grades and ore tonnages were delivered to the mill, which increased our cash cost per ounce to US$910 per ounce.

Losses before depreciation, amortisation and other charges were £1.7 million (2008: loss £1.9 million). This was to be expected given the production levels for the last year and the stage of our production ramp up.

Losses on ordinary activities before taxes were £9.9 million compared to a loss £4 million in the prior year. This loss would have been reduced to £5.7 million, had it not been for non-cash provisions, impairments and share based payments of £4.2 million. A more detailed explanation of these charges is outlined below.

Administration expenses increased to £3.1 million (2008: £1.3 million). This increase can be mainly attributed to mine administration costs for the year, which represents a full year rather than in the 2008 financial statement where only costs from the date of acquisition of the mine (1 April 2008) were accounted for. An increase of approximately £0.27 million in corporate costs (2009: £1 million) is the main increase in our corporates costs of £1.1 million. This is mainly attributable to increases in travel associated with managing the operations and an increase in directors fees as a result of the appointment of additional directors and an increase in some of the directors remuneration.

Depreciation and amortisation over the period totalled £3.9 million (2008 £0.76 million). The majority of this expense (£1.9 million) comes from the Amortization of the mining rights. The Amortization is calculated using the units of production method. The remaining charges are from the depreciation of plant, property and equipment and mine properties and development.

As mentioned above there have been substantial non cash charges over the year which have increased our losses by higher than we would have expected. This includes the following:

– A provision for doubtful debts of approximately £2.7 million, this provision is in relation to the prepayments that the Group was required to make against The Fiji Islands Revenue & Customs Authority tax assessment of F$11.5million. The prepayment ceased in December 2008 and none have been made since this date. However, given the time the court case has been outstanding and that currently there is no date in the court diaries for this matter to be heard it was thought prudent that firstly the Company provide for any prepayments made in relation to this tax assessment and secondly, given the Group does not believe any amounts are payable, no amounts have been provided in the accounts in respect of this claim.

FINANCE DIRECTOR'S REPORT
CONTINUED

- An impairment of £0.4 million of the investment in Global Diamonds Resources ("GDR") an unlisted diamond exploration and mining company, whose primary asset is the Kao Kimberlite pipe in Lesotho and associated mining licenses. Over the financial year, development operations ceased at the mine due to a lack of funding and, on 5 January 2010, the Lesotho government awarded the mining license to another party not associated with GDR. Although GDR are currently investigating the legal options available to it, the Directors of the Company thought appropriate to provide for this investment.

- A share based expense of £1.1 million which is in relation to options and warrants issued during the period to directors, management, consultants and convertible loan note holders, further details of which is to be found in note 21 of these financial statements.

The loss per share was 0.43 pence which is an increase from 0.30 pence in 2008. This was due to the increase in the number of shares outstanding in 2009 and increased losses during the year.

During the year the Company raised approximately £5.4 million via the issue of shares at a price of 0.6 pence per share and the issue of unsecured convertible loan notes. Of this the Company invested £1.7 million on capital expenditure and a further £1.2 million was spent on restocking of stores and reducing the historic trade creditors. The company's cash position reduced over the year to £1.1 million compared to £2.2 million in August 2008. Subsequent to the end of the year the Company raised a further £ 11 million via the issue of 906 million shares at a weighted average price of 1.21 pence per share.

Looking forward to 2010, the Company expects to produce 60,000 ounces of gold and notwithstanding any additional unforeseen changes in mine consumables (particularly fuel oil) cash costs per ounce for the Group are expected to be between US$550 to US$600 per ounce.

KIRAN MOZARIA
FINANCE DIRECTOR
26 FEBRUARY 2010

BOARD OF DIRECTORS

I C Orr-Ewing
Executive Chairman
age 68

D K Paxton
Chief Executive Officer
age 55

K C Morzaria
Finance Director
age 35

D A Lenigas
Executive Director
age 47

J I Stalker
Non-executive Director
age 55

J F Kearney
Non-executive Director
age 58

J A MacPherson
Non-executive Director
age 65

I C Orr-Ewing

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

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 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

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 9 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

Mr Lenigas, 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 Lonrho Plc, Lonzim Plc, Leni Gas & Oil Plc, Solo Oil Plc, Templar Minerals Ltd and is also a non-executive director of the Zest Group Plc.

J I Stalker

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.

J F Kearney

Mr Kearney is the Chairman and President of Canadian Zinc Corporation with over thirty years experience in the mining industry worldwide. With degrees in law, economics and business administration, he has a strong background in corporate development, finance and managing public companies, primarily in the mining field.

J A MacPherson

Mr MacPherson is a Director of and founding chairman of Canadian Zinc Corporation. He has been active in public markets, corporate finance and corporate development for over 30 years. During this time he has led the strategic development of several successful ventures, primarily in the fields of mining and oil and gas. Throughout his career he has served as director of many private and public corporations listed on the Toronto, AMEX and London Stock Exchanges.

DIRECTORS' REPORT

The directors are pleased to present this year's annual report together with the consolidated financial statements for the year ended 31 August 2009.

Principal activities

The principal activity of the Group was the operation of the Vatukoula Gold Mine in Fiji. The principal activity of the Company was that of a holding Company.

Results and dividends

The loss on ordinary activities of the Group for the year ended 31 August 2009, after taxation was £9,381,476 (2008: £4,067,819).

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 and the Operational and Financial review on pages 5 to 12.

The Group is currently reassessing its key performance indicators ("KPIs") as the current year has been a year of transition and will be reporting on them in the forthcoming financial statements.

For the current period and 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 Chief Executive Statement on pages 6 to 10.

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 page 5 and the Financial Review on pages 11 and 12.

Post balance sheet events

At the date these financial statements were approved, being 26th February 2009, the directors were not aware of any significant post balance sheet events other than those set out in Note 33 of the financial statements.

Future developments

A review of our future developments is given in the Chairman's Statement and Chief Executive's Statement on pages 5 to 10.

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 variable rate 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 a 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. As referred to in Note 3 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 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.

Principal risks and uncertainties

The Board annually reviews the key risks facing the business together with making assessment to the controls for managing these risks where possible. The principal risks and uncertainties facing the Group are as follows:

Geological – Geological factors might influence the ability of the Group to extract gold from the Vatukoula mine. These include, in particular, the flooding of mine workings which would hinder the ability to mine.
Market – The Group's business is impacted by the general risks associated with the gold market. Profitability is affected by factors beyond the Group's control, such as fall in the market price of gold.
Licenses, leases and consents – The Group's extraction and processing activities are subject to the grant and continuation of appropriate licenses, leases, permits and planning permissions.

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, K C Morzaria, D A Lenigas, J I Stalker, D K Paxton (appointed 11 November 2008), J F Kearney (appointed 9 July 1009), J A MacPherson (appointed 6 July 2009). The following Directors resigned during the year: D S Strang (resigned 18 December 2008) and N L Herbert (resigned 8 July 2009).

DIRECTORS' REPORT
CONTINUED

Directors' interests

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

	BENEFICIAL HOLDING	
	31 AUGUST 2009	31 AUGUST 2008
I C Orr-Ewing*	22,634,154	22,634,154
D K Paxton	5,000,000	-
K Morzaria	1,797,000	1,797,000
D A Lenigas	1,000,000	1,000,000
J I Stalker	-	-
J F Kearney	-	-
J A MacPherson	-	-

* of which 10,555,367 (2008: 10,555,367) are held beneficially.

Directors also hold warrants over ordinary shares as follows:

	NUMBER OF WARRANTS	
	31 AUGUST 2009	31 AUGUST 2008
I C Orr-Ewing	13,500,000	3,500,000
D K Paxton	50,000,000	-
K Morzaria	18,500,000	3,500,000
D A Lenigas	33,500,000	3,500,000
J I Stalker	30,000,000	-
J F Kearney	-	-
J A MacPherson	-	-

Substantial shareholdings

As at 18 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	%
Canaccord Nominees Limited*	633,209,022	17.34
Roy Nominees Limited	344,613,700	9.44
Pension Financial Services Inc	323,926,900	8.87
Barclayshare Nominees Limited	156,928,060	4.30
Lynchwood Nominees Limited	132,633,821	3.63
Total	1,591,311,503	43.57

* These shares are held by Canaccord Nominees Limited on behalf of and for the benefit of Canadian Zinc Corporation.

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 2009 were 88 days (2008: 144 days).

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 489 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 EU endorsed International Financial Reporting Standards ('IFRS'), interpretations from the International Financial Reporting Interpretations Committee ('IFRIC') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Company law requires directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss for that period. 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, comparable, understandable and prudent;
- ensure the financial statements comply with IFRS;
- 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 books of account 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 2006.

The Directors 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. The directors are also responsible for the maintenance and integrity of the Groups website on the internet. However, information is accessible in many different countries where legislation governing preparation and documentation of financial statements may differ from that applicable in the United Kingdom.

Disclosure of information to auditors

So far as each person who was a director at the date of approving the report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditors are unaware. Having made enquiries of fellow directors and the Group's auditors, each director has taken all the steps that he is obliged to have taken as a director in order to have made himself 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
26 FEBRUARY 2010

CORPORATE GOVERNANCE STATEMENT

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 three 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 Chief Executive Officer 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 8 up to the year ending August 2009. 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 Chief Executive Officer 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. The audit committee has met once during the year. 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. The Remuneration Committee has met once during the year.

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

We have audited the financial statements of Vatukoula Gold Mines Plc for the year ended 31 August 2009 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's)) Ethical Standards for Auditors. This report, including our opinion, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements

A description of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 August 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report of the following:
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us: or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

ROBIN STEVENS
SENIOR STATUTORY AUDITOR
26 FEBRUARY 2010

For and on behalf of

MAZARS LLP
CHARTERED ACCOUNTANTS, (STATUTORY AUDITOR)
TOWER BRIDGE HOUSE
ST KATHARINE'S WAY
LONDON
E1W 1DD

Note: The maintenance and integrity of the Vatukoula Gold Mines Plc website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2009

	Note	2009 £	2008 £
Turnover	4	18,837,252	3,817,376
Cost of sales	5	(17,428,983)	(4,441,698)
Gross profit/(loss)	4	**1,408,269**	**(624,322)**
Administrative expenses		(3,100,814)	(1,285,876)
Depreciation and amortisation		(3,902,680)	(764,283)
Impairment charge		(400,000)	(1,213,091)
Rehabilitation charge		(192,919)	(483,871)
Provision for doubtful debt	19	(2,711,880)	–
Share based payments		(1,090,901)	–
Operating loss	6	**(9,990,925)**	**(4,371,443)**
Other interest receivable and other income	8	130,024	303,624
Interest payable and similar charges	8	(44,658)	–
Loss on ordinary activities before taxation attributable to equity holders		**(9,905,559)**	**(4,067,819)**
Taxation	9	524,083	–
Loss on ordinary activities after taxation		**(9,381,476)**	**(4,067,819)**

Loss per share

		Pence	Pence
Basic	11	(0.43)	(0.30)
Fully diluted	11	(0.43)	(0.30)

All activities relate to continuing operations.

The notes on pages 25 to 50 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 AUGUST 2009

	Note	2009 £	2008 £
Assets			
Non current assets			
Intangible asset	12	36,541,869	38,413,593
Goodwill	32	–	–
Property, plant and equipment	13	13,016,982	13,466,462
Available for sale investments	14	–	400,000
Mine properties and development	16	591,524	949,273
		50,150,375	53,229,328
Current assets			
Investment	17	1	1
Inventories	18	4,681,388	3,362,908
Trade and other receivables	19	1,843,455,	4,666,376
Cash and cash equivalents	20	1,086,004	2,248,894
		7,610,848	10,278,179
Total assets		57,761,223	63,507,507
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	21	2,736,371	1,902,371
Capital reduction		(50,000)	–
Share premium account		53,075,870	49,426,898
Merger reserve		2,166,528	2,166,528
Foreign exchange reserve		736,659	946,718
Other reserves		1,236,974	168,092
Accumulated losses		(20,181,206)	(9,829,630)
Total equity		39,721,196	44,780,977
Current liabilities			
Trade and other payables	22	3,822,113	4,357,883
Provisions	23	1,615,255	1,599,116
Borrowings	24	–	278,257
		5,437,368	6,235,256
Non current liabilities			
Provisions	23	1,869,397	1,660,913
Convertible loan	25	501,674	74,555
Deferred tax liability	31	10,231,588	10,755,806
		12,602,659	12,491,274
Total liabilities		18,040,027	18,726,530
Total equity and liabilities		57,761,223	63,507,507

Approved by the Board and authorised for issue on 26 February 2010 and signed on behalf of the Board of Directors by:

K C MORZARIA DIRECTOR
26 FEBRUARY 2010

The notes on pages 25 to 50 form an integral part of these financial statements.

COMPANY BALANCE SHEET
AS AT 31 AUGUST 2009

	Note	2009 £	2008 £
Assets			
Non current assets			
Investment in subsidiary companies	15	37,679,207	34,275,207
Property, plant and equipment	13	250,000	–
		37,929,207	34,275,207
Current assets			
Trade and other receivables	19	8,845,387	10,540,560
Cash and cash equivalents	20	438,345	1,220,249
		9,283,732	11,760,809
Total assets		47,212,939	46,036,016
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	21	2,736,371	1,902,371
Capital reduction		(50,000)	–
Share premium account		53,075,870	49,426,898
Other reserves		1,236,974	168,092
Accumulated losses		(10,519,886)	(5,804,345)
Total equity		46,479,329	45,693,016
Current liabilities			
Trade and other payables	22	231,936	268,445
Non current liabilities			
Convertible loan	25	501,674	74,555
Total liabilities		733,611	343,000
Total equity and liabilities		47,212,939	46,036,016

Approved by the Board and authorised for issue on 26 February 2010 and signed on behalf of the Board of Directors by:

K C MORZARIA DIRECTOR
26 FEBRUARY 2010

The notes on pages 25 to 50 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 AUGUST 2009

	ORDINARY SHARE CAPITAL £	SHARE PREMIUM £	MERGER RESERVE £	FOREIGN EXCHANGE RESERVE £	OTHER RESERVES £	ACCUMULATED LOSSES £	TOTAL £
Balance at 1 Sep 2008	1,902,371	49,426,898	2,166,528	946,718	168,092	(9,829,630)	44,780,977
Loss for the year	–	–	–	–	–	(9,381,476)	(9,381,476)
Issue of shares	834,000	4,170,000	–	–	–	–	5,004,000
Cost of share issue	–	(521,028)	–	–	–	–	(521,028)
Share option expired	–	–	–	–	(79,900)	79,900	–
Share reduction	(50,000)	–	–	–	–	50,000	–
Adjustment for unpaid shares	–	–	–	–	–	(1,100,000)	(1,100,000)
Exchange adjustment	–	–	–	(210,059)	–	–	(210,059)
Convertible loan	–	–	–	–	57,881	–	57,881
Share based payment	–	–	–	–	1,090,901	–	1,090,901
Balance at 31 Aug 2009	**2,686,371**	**53,075,870**	**2,166,528**	**736,659**	**1,236,974**	**(20,181,206)**	**39,721,196**

	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**

The notes on pages 25 to 50 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 AUGUST 2009

	ORDINARY SHARE CAPITAL £	SHARE PREMIUM £	OTHER RESERVES £	ACCUMULATED LOSSES £	TOTAL £
Balance at 1 Sep 2008	1,902,371	49,426,898	168,092	(5,804,345)	45,693,016
Loss for the year	–	–	–	(3,745,441)	(3,745,441)
Issue of shares	834,000	4,170,000	–	–	5,004,000
Cost of share issue	–	(521,028)	–	–	(521,028)
Convertible loan	–	–	57,881	–	57,881
Share reduction	(50,000)	–	–	50,000	–
Share option expired	–	–	(79,900)	79,900	–
Adjustment for unpaid shares	–	–	–	(1,100,000)	(1,100,000)
Share based payments	–	–	1,090,901	–	1,090,901
Balance at 31 Aug 2009	2,686,371	53,075,870	1,236,974	(10,519,886)	46,479,329

	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

The notes on pages 25 to 50 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2009

	NOTE	2009 £	2008 £
Cash flow from operating activities			
Operating loss		(9,990,925)	(4,371,443)
Adjustments for:			
Share based payments		1,090,901	–
Depreciation and amortisation		3,902,680	764,328
Impairment		400,000	1,213,091
Loss on disposal of property plant and equipment		332,790	–
Impairment on mine properties and development		–	175,723
Allowance for inventory obsolescence		–	(56,280)
Provision for bad debts		2,111,880	36,032
Foreign exchange gains and losses		97,643	–
Mine rehabilitation expense		–	(794,783)
Provision for rehabilitation trust deed		192,919	–
Net cash from operating activities before changes in working capital		**(1,862,112)**	**(3,033,332)**
Increase in inventories		(1,318,480)	(1,391,129)
(Decrease)/increase in receivables		111,040	(1,230,152)
(Decrease) in payables		(1,069,261)	(1,885,422)
Net cash used in operating activities		**(4,138,813)**	**(7,540,035)**
Investing activities			
Purchase of property, plant and equipment		(1,237,406)	(1,089,830)
Payments for mine properties and development		(439,282)	(552,256)
Acquisition of subsidiaries, net of cash and cash equivalents acquired		–	(2,455,801)
Proceeds from disposal of property plant and equipment		–	4,263
Interest received		9,874	303,624
Net cash used in investing activities		**(1,666,814)**	**(3,790,000)**
Financing activities			
Proceeds from issuance of shares		5,004,000	15,793,833
Share issue costs		(521,028)	(2,528,597)
Interest paid		(44,201)	–
Proceeds from issue of convertible loan note		485,000	–
(Repayment)/proceeds from loan		(281,034)	278,257
Net cash generated from financing activities		**4,642,737**	**13,543,493**
Net (decrease)/increase in cash and cash equivalents		(1,162,890)	2,213,458
Cash and cash equivalents at beginning of the year		2,248,894	35,436
Cash and cash equivalents at end of the year	20	**1,086,004**	**2,248,894**

The notes on pages 25 to 50 form an integral part of these financial statements.

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2009

	Note	2009 £	2008 £
Cash flow from operating activities			
Operating loss		(3,745,441)	(1,980,561)
Adjustment for:			
Investment written off		1,543,046	1,213,091
Impairment		609,276	–
Share based payment		1,090,901	–
Net cash from operating activities before changes in working capital		**(502,218)**	**(778,514)**
Decrease/(increase) in receivables		(1,157,149)	(8,820,755)
(Decrease)/increase in payables		(13,396)	260,444
Net cash used in operating activities		**(1,672,763)**	**(9,338,825)**
Investing activities			
Purchase of investments		(3,804,000)	(2,717,207)
Interest received		7,112	11,045
Purchase of property plant and equipment		(250,000)	–
Net cash used in investing activities		**(4,046,888)**	**(2,706,162)**
Financing activities			
Proceeds from issuance of shares		5,004,000	15,793,833
Share issue costs		(521,028)	(2,528,597)
Proceeds from issue of convertible loan note		485,000	–
Finance expense		(30,225)	–
Net cash (used in)/generated from financing activities		**(4,937,747)**	**13,265,236**
Net (decrease)/increase cash and cash equivalents		(781,904)	1,220,249
Cash and cash equivalents at beginning of the year		1,220,249	–
Cash and cash equivalents at end of the year	20	**438,345**	**1,220,249**

The notes on pages 25 to 50 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2009

1. General information
Vatukoula Gold Mines Plc is registered in England and Wales under number 5059077. The Company is governed by its articles of association and the principal statute governing the Company is the Companies Act 2006. 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 14.

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

These financial statements are presented in sterling as this is the functional of the Group and Company.

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 effective, or issued and early adopted as at the date of the statement.

The Group and Company have not applied the following IFRSs and IFRICs, as they are either not effective as at 1 September 2008 or not applicable to the Group's business:

NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS		ISSUED/REVISED	EFFECTIVE DATE
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption	Revised May 2008	Annual periods beginning on or after 1 January 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards – Revised and restructured	Revised November 2008	Annual periods beginning on or after 1 July 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments relating to oil and gas assets and determining whether an arrangement contains a lease	Revised July 2009	Annual periods beginning on or after 1 January 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	Revised January 2010	Annual periods beginning on or after 1 July 2010
IFRS 2	Share-based Payment – Amendment relating to vesting conditions and cancellations	Revised 2008	Annual periods beginning on or after 1 January 2009
IFRS 2	Share-based Payment – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 July 2009
IFRS 2	Share-based Payment – Amendments relating to group cash-settled share-based payment transactions	June 2009	Annual periods beginning on or after 1 January 2010
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 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IFRS 7	Financial instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk	Revised March 2009	Annual periods beginning on or after 1 January 2010
IFRS 8	Operating Segments	Original issue 2006	Annual periods beginning on or after 1 January 2009
IFRS 8	Operating Segments – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010

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NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS		ISSUED/REVISED	EFFECTIVE DATE
FRS 9	Financial Instruments – Classification and Measurement	November 2009	Annual periods beginning on or after 1 January 2013
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	Original issue 2009	Effective immediately on issue
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 1	Presentation of Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IAS 7	Statement of Cash Flows – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IAS 16	Property, Plant and Equipment – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 17	Leases – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IAS 19	Employee Benefits – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 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 23	Borrowing Costs – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 24	Related Party Disclosures – Revised definition of related parties	November 2009	Annual periods beginning on or after 1 January 2011
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	Revised 2008	Annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 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 28	Investments in Associates – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009

NEW/REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS		ISSUED/REVISED	EFFECTIVE DATE
IAS 29	Financial Reporting in Hyperinflationary Economies – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 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 31	Interests in Joint Ventures – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 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 32	Financial Instruments: Presentation – Amendments relating to classification of rights issues	2009	Annual periods beginning on or after 1 February 2010
IAS 36	Impairment of Assets	2004	Business combinations after 31 March 2004
IAS 36	Impairment of Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IAS 38	Intangible Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 38	Intangible Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 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
IAS 39	Financial Instruments: Recognition and Measurement – Amendments for embedded derivatives when reclassifying financial instruments	March 2009	Annual periods ending on or after 30 June 2009
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from April 2009 Annual Improvements to IFRSs	April 2009	Annual periods beginning on or after 1 January 2010
IAS 40	Investment Property – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009
IAS 41	Agriculture – Amendments resulting from May 2008 Annual Improvements to IFRSs	May 2008	Annual periods beginning on or after 1 January 2009

Whilst the revised IAS1, "Presentation of financial statements", will have no impact on the measurement of the groups results or net assets it is likely to result in certain changes in the presentation of the group's financial statements from 2009/10 onwards.

The amendment to IFRS 2 "Share Based Payments" restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit) it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. The amendment is mandatory for periods beginning on or after 1 January 2009 and the group is currently assessing its impact on the financial statements, although it is not expected to be material.

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The group does not anticipate early adopting the revised IFRS 3 "Business Combinations" and so will apply it prospectively to all business combinations on or after 1 July 2009. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include the requirement for acquisition related costs to be expensed and not included in the purchase price; and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of Non-controlling interests (formerly minority interests) with an option to recognise these at fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

IFRS 8 "Operating Segments" requires disclosure based on the information presented to the Board. This is likely to give rise to changes in the presentation of certain business segments. Also, the secondary segment information will be replaced by group-wide analysis of revenues and non-current assets by major geographic area.

IAS 27 "Consolidated and separate financial statements" revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of non-controlling equity investment of the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is a loss of control of a subsidiary, any retained interest will have to be remeasured to fair value, which will impact the gain or loss recognised on disposal. The group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

IFRC 14 is effective from 1 July 2009 and clarifies the requirement of IAS19 "Employee Benefits" paragraph 58 which limits the measurement of a defined benefit asset to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFRIC also addresses when refund or reductions in future contributions should be regarded as available, how a minimum funding requirement might affect the availability of reductions in future contributions and when a minimum funding requirement might give rise to an additional liability. The group is currently assessing the impact on its financial statements from adopting IFRC 14.

The amendments arising from May 2008 and April 2009 Annual Improvement Projects are not considered to have a significant impact on the Group and Company financial statements when adopted in future accounting periods.

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

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 incorporates 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 ("River Diamonds PLC" as at the date acquisition occurred) 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.

(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 (see note 32)

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 (see note 6)

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 (see note 9)

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.

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(iv) Intangible assets (see note 12)
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.

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 (see note 19)
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 irrecoverable. Any changes to estimates made in relation to debtors recoverability may result in 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.

(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 the 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 on a straight line basis at the rate of 37.5% per annum.

Gold in circuit

Gold in circuit are valued at the lower of cost and net realisable value. Cost comprises direct material, labour and transportation expenditure incurred in getting inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure based on weighted average costs incurred during the period in which such inventories were produced. Net realisable value is the amount anticipated to be realised from the sale of inventory in the normal course of business less any anticipated costs to be incurred prior to its sale.

(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 which is calculated over the life span of the mine.

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.

NOTES TO THE FINANCIAL STATEMENTS
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(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.

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

The Group applies the full cost method of accounting for exploration and evaluation costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. All costs associated with mining development and investment are capitalised on a project by project basis pending determination of the feasibility of the project. Such expenditure comprises appropriate technical and administrative expenses but not general overheads.

Such exploration and evaluation costs are capitalised provided that the Group's rights to tenure are current and one of the following conditions is met;

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
(ii) the activities have not reached a stage which permits a reasonable assessment of whether or not economically recoverable resources exist; and
(iii) active and significant operations in relation to the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any exploration and evaluation costs previously capitalised in respect of that area are written off to the income statement.

Impairment assessments are carried out regularly by the directors of the Company. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist.

The recoverability of capitalised mining costs and mining interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Mine properties and development

This represents the accumulated exploration, evaluation, development and acquisition expenditure in relation to areas of interest in which economically recoverable reserves exist.

The capitalised value of mine properties is amortised on a life of mine basis. The life of mine has been calculated on a units of production method based on economically recoverable reserves and resources.

The net carrying value of a mine assets is reviewed regularly and, to the extent to which this amount exceeds its recoverable amount (based on the higher of estimated future net cash flows and the mine's asset's current realisable value) that excess is fully provided against in the financial year in which this is determined.

(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.

(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. 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 on 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. When available for sale assets are considered to be impaired, cumulative gains or losses previously recognised in equity are reclassified to the income statement in the period.

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(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 the 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 flows 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.

(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 an 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 an inflow is virtually certain, an asset is recognised.

(w) 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.

(x) 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.

(y) 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.

(z) 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
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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 2008 and 2009.

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	
	2009 £	2008 £
Turnover		
United Kingdom	–	–
Brazil	38,120	85,736
Fiji	18,799,132	3,731,640
BVI	–	–
	18,837,252	**3,817,376**
Gross profit/(loss)		
United Kingdom	(483,348)	–
Brazil	34,599	77,806
Fiji	1,857,018	(702,128)
BVI	–	–
	1,408,269	**(624,322)**
Carrying amount of assets		
United Kingdom	38,013,581	42,467,270
Brazil	302,377	607,181
Fiji	19,828,228	20,417,041
BVI	117,038	16,015
	58,261,224	**63,507,507**
Liabilities		
United Kingdom	10,965,335	11,165,990
Brazil	8,773	11,345
Fiji	7,065,920	7,549,195
BVI	–	–
	18,040,028	**18,726,530**
Additions to plant, property and equipment		
United Kingdom	–	–
Brazil	–	22,717
Fiji	987,406	1,067,113
BVI		–
	987,406	**1,089,830**
Depreciation and amortisation		
United Kingdom	1,871,724	1,716
Brazil	(155,517)	108,529
Fiji	2,186,473	654,083
BVI	–	–
	3,902,680	**764,328**

5. Cost of sales

	GROUP	
	2009 £	2008 £
Mining	(13,088,869)	(2,963,967)
Metallurgy	(2,995,844)	(1,564,173)
Movement in gold and ore stock	727,915	–
Bullion assay	(92,260)	(26,767)
Technical Services	(142,957)	(32,944)
Resource engineering	(316,405)	(68,291)
Supply and security	(646,197)	194,578
Human resources	(766,381)	(296,843)
Safety training and environment	(82,128)	(34,317)
Mine general administration	(50,167)	358,957
Others	–	(7,931)
Mining charged to mine property and development	24,310	–
	(17,428,983)	(4,441,698)

6. Operating loss

	GROUP	
	2009 £	2008 £
Operating loss is stated after charging:		
– Auditors' remuneration		
Audit services	35,000	37,000
Non-audit services – Taxation	6,000	4,000
Non-audit services – Corporate finance	–	140,000
– Share based payments expense – granted by the company	1,090,901	–
– Depreciation of property, plant and equipment	1,169,768	764,283
– Amortisation of intangible assets	1,871,724	–
– Impairment of intangible assets	–	–
– Impairment of available for sales investments	400,000	–

7. Employees

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

	GROUP	
	2009 NUMBER	2008 NUMBER
Productive labour	641	11
Office and management	33	–
	674	11

Employment costs:

	GROUP	
	2009 £	2008 £
Wages and salaries	3,557,371	1,014,673
Social security	–	–
Pension	256,371	–
	3,813,742	1,014,673

Directors' remuneration:

	GROUP	
	2009 £	2008 £
Aggregate emoluments (including benefits in kind)	433,196	194,000

The highest paid director received remuneration of £125,000.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2009

8. Interest receivable/payable and similar charges

	GROUP	
	2009 £	2008 £
Other interest receivable and other income		
Bank interest	130,024	303,624
	130,024	**303,624**

	GROUP	
	2009 £	2008 £
Interest and bank charges	14,433	–
Interest convertible loan notes	30,225	–
	44,658	–

9. Taxation

	GROUP	
	2009 £	2008 £
Current taxation	–	–
Deferred taxation	524,083	–
Factors affecting tax charge:		
Loss before tax	(9,905,559)	(4,067,819)
Tax at 29% (2008: 29%)	(2,872,612)	(1,179,668)
Effects of:		
– Non deductible expenses	1,359,483	558,285
– Temporary differences not recognised	1,413,260	580,370
– Rate adjustment	99,869	41,013
– Deferred taxation	524,083	–
Current tax (charge)/credit	524,083	–

The deferred taxation credit arises on the release of the deferred tax liability.

Tax is calculated at 29% (2008: 29%), being the effective tax rate for the Group, of the estimated taxable profit for the year. This effective tax rate is based upon rates prevailing in the respective tax jurisdictions, principally Fuji.

10. Loss for the year

The loss for the year dealt within the accounts of Vatukoula Gold Mines Plc was £3,745,441 (2008 £1,980,560). As provided by S408 of the Companies Act 2006, no income statement is presented in respect of Vatukoula Gold Mines Plc.

11. Earnings per share

The calculation of consolidated loss per share is based on the following loss and number of shares:

	GROUP	
	2009 £	2008 £
Loss after tax	(9,381,476)	(4,067,819)

	2009 NUMBER	2008 NUMBER
Basic and diluted weighted average ordinary shares in issue during the period	2,185,136,099	1,363,426,183

	2009 PENCE	2008 PENCE
Basic and diluted earnings per share	(0.43)	(0.30)

Basic loss per share is calculated by dividing the loss for the year from continuing operations of the Group by the weighted average number of ordinary shares in issue during the year.

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive options over ordinary shares. Potential ordinary shares resulting from the exercise of share options have an anti-dilutive effect due to the Group being in a loss position. As a result, diluted loss per share is disclosed as the same value of basic loss per share. The 306.7 million share options issued by the Company and which are outstanding at year end could potentially dilute earnings per share in the future if exercised when the Group is in a profit making position.

12. Intangible asset

	GROUP	
	2009 £	2008 £
Cost		
Balance as at 1 September	38,413,593	–
Mining rights acquired	–	38,413,593
Balance as at 31 August	**38,413,593**	**38,413,593**
Amortisation		
Balance as at 1 September	–	–
Current charge	(1,871,724)	–
Balance as at 31 August	(1,871,724)	–
Carrying value	**36,541,869**	**38,413,593**

This year the directors carried out an impairment review. As in previous years, this was based on an estimate of discounted future cash flows from the development and operation of the Vatukoula Gold Mine operations. The directors have used past experience and an assessment of future conditions, together with external sources of information, to determine the assumptions which were adopted in the preparation of a financial model to estimate the cashflows.

The recoverable amount of the mine is determined by using a net present value calculation. The key assumptions therein are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the mine and the rate used was 10%. The growth rates are based on the directors forecast of the mines maximum output and the rate is 0% from 2010 based on the mine achieving its operating capacity in this period. The directors believe this rate is justified based on the current progress of the mine.

A deferred tax liability of £10,755,806 arose in 2008 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. 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 2008	824,415	1,089,208	12,678,384	388,543	8,399	14,988,949
Additions	250,000	123,356	727,798	–	136,262	1,237,416
Transferred on completion	–	(36,680)	36,680	–	–	–
Disposals	–	–	(452,940)	–	–	(452,940)
Exchange difference	–	–	–	–	–	–
At 31 August 2009	**1,074,415**	**1,175,884**	**12,989,922**	**388,543**	**144,661**	**15,773,425**
Accumulated depreciation						
As at 1 September 2008	–	–	1,301,368	219,224	1,895	1,522,487
Charge for the year	–	88,480	969,584	33,864	77,840	1,169,768
Disposals	–	–	(120,150)	–	–	(120,150)
Exchange difference	–	15,289	149,203	6,278	13,568	184,338
At 31 August 2009	**–**	**103,769**	**2,300,005**	**259,366**	**93,303**	**2,756,443**
Net book value						
At 31 August 2009	**1,074,475**	**1,072,115**	**10,689,917**	**129,177**	**51,358**	**13,016,982**
At 31 August 2008	**824,415**	**1,089,208**	**11,377,016**	**169,319**	**6,504**	**13,466,462**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2009

	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. Available for sale investments

	GROUP	
	2009 £	2008 £
Cost		
As at 1 September	400,000	2,900,250
Included as cost of acquisition of subsidiary	–	(2,500,250)
Additions	–	–
As at 31 August	400,000	400,000
Provision for diminution in value		
As at 1 September	(400,000)	–
Current provision	–	–
As at 31 August	–	–
Net book value at 31 August	**–**	**400,000**

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. The company was subsequently renamed Global Diamonds Resources ("GDR").

The primary asset of GDR is the Kao Kimberlite pipe in Lesotho and associated mining licences. The directors of Vatukoula Gold Mines Plc thought it appropriate to provide fully for this investment following an impairment review.

GDR is an unlisted diamond exploration and mining company whose primary asset is the Kao Kimberlite pipe in Lesotho and associated mining licences. Over the financial year development operations ceased at the mine due to a lack of funding and on the 5 January 2010, the company learnt that the Lesotho government had awarded the mining licence to another party not associated with GDR. Although GDR are currently investigating the legal options available to it, the Directors of the Company thought it was appropriate to provide for this investment.

15. Investment in subsidiary companies

	COMPANY	
	2009 £	2008 £
Cost		
As at 1 September	35,684,656	4,309,449
Additions	3,804,000	31,375,207
Balance as at 31 August	**39,488,656**	**35,684,656**
Impairment		
As at 1 September	1,409,449	196,358
Current provision	400,000	1,213,091
Balance as at 31 August	**1,809,449**	**1,409,449**
Net book value		
Balance as at 31 August	37,679,207	34,275,207

* Additions of £3,804,000 relate to 1,000 ordinary shares of no par value in the capital of Viso Gero International was purchased during the year.

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	Holding Company	100
Panguma Diamonds Ltd	Sierra Leone	Dormant	100
São Carlos Mineração Limitada *	Brazil	Exploration	100

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

16. Mine properties and development

	GROUP	
	2009 £	2008 £
Cost		
Balance as at 1 September	1,165,389	–
Additions through acquisition of subsidiaries	–	764,320
Additions	439,282	552,256
Impairment	–	(175,723)
Foreign exchange difference	–	24,536
Balance as at 31 August	1,604,671	1,165,389
Amortisation		
Balance as at 1 September	216,116	–
Current charge	797,031	214,825
Foreign exchange difference	–	1,291
Balance as at 31 August	1,013,147	216,116
Carrying value		
Balance as at 31 August	591,524	949,273

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17. 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 2008/2009	1

18. Inventories

	GROUP	
	2009 £	2008 £
Consumables stores	3,322,949	2,572,671
Allowances for inventory obsolescence	(259,045)	(286,542)
Total consumables stores	3,063,904	2,286,129
Insurance spares	234,249	275,150
Provision for depreciation	(222,217)	(232,341)
Total insurance spares	12,032	42,809
Gold in circuit and gold stock	1,605,452	1,033,970
As at 31 August	4,681,388	3,362,908

19. Trade and other receivables

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Trade receivables	386,078	251,505	–	–
Amounts owed by group undertakings	–	–	8,524,938	8,747,495
Other receivables and prepayments	4,169,257	4,414,871	820,449	1,793,065
	4,555,335	4,666,376	9,345,387	10,540,560
Less: Provision for doubtful debts	2,711,880	–	500,000	–
	1,843,455	4,666,376	8,845,387	10,540,560

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 (2008: £nil) has been made for estimated irrecoverable amounts from the sale of gold.

The current year provision for doubtful debts includes £2,211,880 in relation to the prepayments that the Group was required to make against The Fiji Islands Revenue & Customs Authority tax assessment of F$11.5million. The prepayment ceased in December 2008 and none have been made since this date. However given the time the court case has been outstanding and that currently there is no date in the court diaries for this matter to be heard it was thought prudent that firstly the Company provide for any prepayments made in relation to this tax assessment.

The Group does not consider it has a significant concentration of credit risks arising from the trade receivables as no amounts represent more than 5% of the total balance at the balance sheet date.

The following table provides an analysis of trade and other receivables that were past due as at 31 August 2009, but not impaired. Subsequent to the year, all trade receivable of over six months have been paid. The Group believe that all the balances are ultimately recoverable.

	GROUP	
	2009 £	2008 £
Up to three months	637,115	2,981,376
Up to six months	324,701	1,685,000
	961,816	**4,666,376**

20. Cash and cash equivalents

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Cash at banks and in hand	1,086,004	2,248,894	438,345	1,220,249
	1,086,004	2,248,894	438,345	1,220,249

At 31 August 2009 management believes that the carrying amount of cash equivalents approximates to fair value because of the short maturity of these financial instruments.

21. Share capital

(a) Share capital

	GROUP AND COMPANY	
	2009 £	2008 £
Authorised 4,250,000,000 Ordinary shares of 0.1p each (2008: 3,550,000,000 shares of 0.1p each)	4,250,000	3,550,000
Allotted, issued and fully paid 2,736,371,072 Ordinary shares of 0.1p each (2008: 1,902,371,072 Ordinary shares of 0.1p each)	2,736,371	1,902,371

On 10 June 2009, the authorised share capital was increased to 4,250,000,000 ordinary shares of 0.1p each.

(b) Share issues during the period

	NOTE	ISSUE VALUE PER SHARE £	SHARES	SHARE CAPITAL £	SHARE PREMIUM £
Share issue for cash	(i)	0.006	634,000,000	634,000	3,170,000
Share issue for cash	(ii)	0.006	200,000,000	200,000	1,000,000
			834,000,000	834,000	4,170,000

(i) On 20 April 2009, 634,000,000 ordinary shares of 0.1p were issued for cash of 0.6p per share, representing a premium of 0.5p per share.
(ii) On 12 June 2009, 200,000,000 ordinary shares of 0.1p were issued for cash of 0.6p per share, representing a premium of 0.5p per share.

(c) Warrants and options

During the year ended 31 August 2009 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 2P	NUMBER OF WARRANTS 2.5P	TOTAL
Balance at 1 September 2008	5,000,000	–	22,500,000	27,500,000
Granted during the year	65,900,000	219,500,000	–	285,400,000
Exercised during the year	–	–	–	–
Expired during the year	(5,000,000)	–	(1,200,000)	(6,200,000)
Balance at 31 August 2009	65,900,000	219,500,000	21,300,000	306,700,000

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

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The options granted during the year to directors, staff and consultants were as follows:

- 43,150,000 options to the mine management and local employees in Fiji. Each option carries the right to subscribe for 1 ordinary share of 0.10 pence each in the capital of the Company at a price of 1 pence, exercisable up to five years after the commencement of employment with the Company;
- 22,750,000 warrants to Brand Securities Ltd as part payment of introductory fees associated with the placing announced on 20 April 2009. Each warrant carries the right to subscribe for 1 ordinary share of 0.10 pence in the capital of the Company at a price of 1 pence, exercisable up to 23 December 2010; and
- 171,000,000 options to the Directors and consultants. Each option carries the right to subscribe for 1 ordinary share of 0.10 pence each in the capital of the Company at a price of 2 pence, exercisable up to five years after the commencement of employment with the Company and;
- 48,500,000 warrants to convertible loan note holders. Each £1 pound loan note carries the right for the note holder to subscribe for 100 ordinary shares of 0.10 pence in the capital of the Company at a price of 2 pence, exercisable for a period of two years from the date of issue of the convertible loan note.

The total share-based payment expense in the year for the Group was £1,090,901 (2008: £nil). And 256,700,000 options are exercisable at the year end.

The following tables lists the inputs used for the option issues which occurred during the year:

Grant date	11/11/2008	24/06/2009
Dividend yield	0	0
Expected volatility	129%	133%
Risk-free interest rate	2.63	2.63
Expected life of options	4	5
Weighted average share	0.02	0.01
Price at grant date	0.01	0.01
Model used	Black Scholes	Black Scholes

The weighted average remaining contractual life of the 306.7 million options outstanding at the balance sheet date is 4 years (2008: nil years). The weighted average share price during the year was 1p (2008: 1p) per share.

The expected volatility of the options reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The expected life of the options is based on historical data available at the time of the option issue and is not necessarily indicative of future trends, which may not necessarily be the actual outcome.

The share option scheme is an equity settled plan and fair value is measured at the grant date of the option.

22. Trade and other payables

	GROUP		COMPANY	
	2009 £	2008 £	2009 £	2008 £
Trade creditors	3,685,705	4,199,571	143,922	228,589
Accruals and deferred income	136,408	158,312	88,014	39,856
	3,822,113	4,357,883	231,936	268,445

23. Provisions

	GROUP	
	2009 £	2008 £
Current – Employee entitlements		
Provision for annual leave	135,178	115,307
Provision for redundancy payment	1,062,169	1,147,898
Provision for workers compensation	75,068	114,617
Other employee related accruals	342,840	221,294
	1,615,255	**1,599,116**
Non current – Restoration		
Provisions for mine rehabilitation	1,055,122	948,698
Provision for Vatukoula Rehabilitation Trust Fund	814,275	712,215
	1,869,397	**1,660,913**
Total	3,484,652	3,260,029

	GROUP	
	2009 £	2008 £
Reconciliation for current provisions		
Balance as at 1 September	1,599,116	-
Additional provision for annual leave	19,871	115,307
(Utilisation)/additional of provision for redundancy payment	(85,729)	1,147,898
(Utilisation)/additional of provision for workers compensation	(39,549)	114,617
Additional other employee related accruals	121,546	221,294
Balance as at 31 August	1,615,255	1,599,116
Non current – Restoration		
Balance as at 1 September	1,660,913	-
Provisions for mine rehabilitation	106,424	948,698
Provision for Vatukoula Rehabilitation Trust Fund	102,060	712,215
Balance as at 31 August	1,869,397	1,660,913
Total	3,484,652	3,260,029

The Vatukoula Rehabilitation Trust Fund was established for the purpose of social assistance for the employees made redundant by the previous mine operator and the local mining community.

24. Borrowings

	GROUP	
	2009 £	2008 £
Current:		
– ANZ Banking Group	–	278,257
	–	278,257

ANZ Banking Group Loan

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

(i) The loan was repayable by monthly instalments of £30,908 and interest was charged at the rate of 9.50% per annum.
(ii) The loan was secured over the master operating lease agreement over motor vehicles and letter of charge over term deposit funds totalling to £37,976.

25. Convertible loans

(i) On 22 April 2007, the Group issued a fully redeemable convertible loan note for £100,000 repayable in cash by December 2009, which during the year was extended to the end of March 2010. 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.
(ii) On 26 June 2009, the Group issued a fully redeemable convertible loan note for £485,000 repayable in cash 5 years after the date of grant. The loan note carries a coupon rate of 11% per annum. The loan note will be convertible at £0.01 equating to 48,500,000 shares in Vatukoula Gold Mines Plc.

The net proceeds from the issue of the convertible loans have been split between the liability element and an equity component as follows:

	GROUP AND COMPANY	
	2009 £	2008 £
Nominal value	585,000	100,000
Equity component	(83,326)	(25,445)
Liability component	501,674	74,555

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2009

26. 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 £
2009			
Assets per balance sheet			
Available for sale investments	–	–	–
Trade and other receivables	1,843,455	–	1,843,455
Cash and cash equivalents	1,086,004	–	1,086,004
	2,929,459	–	2,929,459

	OTHER FINANCIAL LIABILITIES £	TOTAL £
Liabilities per balance sheet		
Trade and other payables	3,822,113	3,822,113
Borrowings	–	–
	3,822,113	3,822,113

	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

	COMPANY		
	LOANS AND RECEIVABLES £	AVAILABLE FOR SALE £	TOTAL £
2009			
Assets per balance sheet			
Trade and other receivables	320,449	–	320,449
Cash and cash equivalents	438,345	–	438,435
	758,794	–	758,794

	LOANS AND RECEIVABLES £	AVAILABLE FOR SALE £	TOTAL £
2008			
Assets per balance sheet			
Available for sale investment	–	400,000	400,000
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 £
2009		
Liabilities per balance sheet		
Trade and other payables	231,936	231,936
	231,936	231,936

	OTHER FINANCIAL LIABILITIES £	TOTAL £
2008		
Liabilities per balance sheet		
Trade and other payables	268,445	268,445
	268,445	268,445

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 by its Fijian operating subsidiary respectively. Proceeds of gold bullion sales are received in US Dollars. As the group reports in Sterling, reported revenue is affected by the combination of changes in the US Dollar/Fijian Dollar and Sterling/Fijian Dollar rates.

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 2009, £1,445,543 (2008: £1,795,208) of receivables were denominated in Sterling, £7,600 (2008: £82,381) of receivables were denominated in Reals and £390,312 (2008: £2,788,788) 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 possible change in foreign exchange rates:

	2009 £	2008 £
Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling	491,750	311,518
Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against pound sterling	539,690	(230,258)
Impact on profit after tax on 15% increase in Reals fx rate against Sterling	34,528	48,611
Impact on profit after tax on 15% decrease in Reals fx rate against Sterling	(38,815)	(35,930)

(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.

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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.

	2009			2008		
CLASS/CATEGORIES	FLOATING RATE £	FIXED RATE £	NON INTEREST BEARING £	FLOATING RATE £	FIXED RATE £	NON INTEREST BEARING £
Financial assets						
Trade receivables	–	–	386,078	–	–	1,822,765
Other receivables			1,457,377	–	–	2,793,612
Cash and cash equivalents	1,086,004	–	–	2,248,895	–	–
Financial liabilities						
Trade payables	–	–	3,685,705	–	–	4,199,571
Bank overdraft	–	–	–	–	–	–
Accruals	–	–	136,408	–	–	158,312

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 2009 would increase/decrease by £10,860 (2008: loss would increase/decrease by £22,488).

(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 19.

(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 25% in the spot price of gold at 31 August 2009, with all other variables held constant, would have the following impact on the income statement at 31 August 2009:

	INCOME STATEMENT IMPACT INCREASE/(DECREASE) £
25% increase in the gold spot price	4,709,313
25% decrease in the gold spot price	(4,709,313)

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

27. Ultimate controlling party
There was no ultimate controlling party during the year.

28. 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 £60,000 (2008: £25,000) 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 £73,000 (2008: £4,000) to Kimmel Consulting Ltd, a company related to K Morzaria, director of Vatukoula Gold Mines Plc.

During the period, Canadian Zinc Corporation, a company related to JF Kearney and J A MacPherson subscribed to 200,000,000 ordinary shares in the Company. These shares were issued for cash at a price of 0.6 pence per share.

29. 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 reached 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 are 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	
	2009 £	2008 £
Not later than one year	17,371	59,725
Later than one year but not later than two year	17,371	–
Later than one year and not later than five years	52,114	–
Later than five years	191,393	–
Net operating lease liability	278,249	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	
	2009 £	2008 £
Not later than one year	127,182	59,725
Later than one year	127,182	59,725
Later than two	12,408	45,916
Net operating lease liability	266,772	165,366

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

30. Contingent liabilities

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

	GROUP	
	2009 £	2008 £
Bank guarantee	34,122	37,976
Immigration bond	3,412	3,798
Mining bond	3,102	3,452
Litigations and claims	–	188,152
Bankers undertaking	186,120	210,593
	226,756	443,971

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(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$7.9m has been made in relation to this The government has recognised the prepayment of the claimed tax liability, however given the period of time these debts have been outstanding, the Company has taken a prudent view and provided for the debts.

(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.

31. Deferred taxation

Movements in deferred taxation during the period are as follows:

	GROUP	
	2009 £	2008 £
Balance at 1 September	10,755,806	–
Utilisation	(524,218)	–
Deferred taxation arising on acquisition of subsidiary	–	10,755,806
	10,231,588	10,755,806

32. Goodwill

	GROUP	
	2009 £	2008 £
Cost		
As at 1 September 08	1,213,091	1,213,091
Impairment	(1,213,091)	(1,213,091)
As at 31 August	–	–

33. Post balance sheet events

Subsequent to the year end the following significant post balance sheet events occurred:

- Between the 29 September and 21 October 2009 the Company placed 156 million shares at 1.282 pence and 750 million shares at 1.2 pence respectively. These placings raised a total of £11 million, which is to be utilised to fund the production increases over the next two years.

- The Company signed the Vatukoula Trust Deed with the Minister for Lands and Mineral Resources of the Republic of Fiji on 7 December 2009. The Vatukoula Trust Deed supersedes the original '10 August Deed' (summarised in the readmission document dated 13 March 2008), signed by the previous operators of Vatukoula Gold Mine. The Trust Deed formalises a number of key concessions and exemptions to the Company's 100% owned subsidiary Vatukoula Gold Mines Ltd in Fiji, as well as establishing the Social Assistance Trust. Vatukoula Gold Mines Ltd will provide a total of Fijian $6.0 million (US$ 3.23 million), payable over 5 years to the fund, with the first amount of Fijian $1.5 million (US$ 0.78 million) payable on the 8 March 2010, and the balance in equal instalments over 4 years on the anniversary of completion.

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