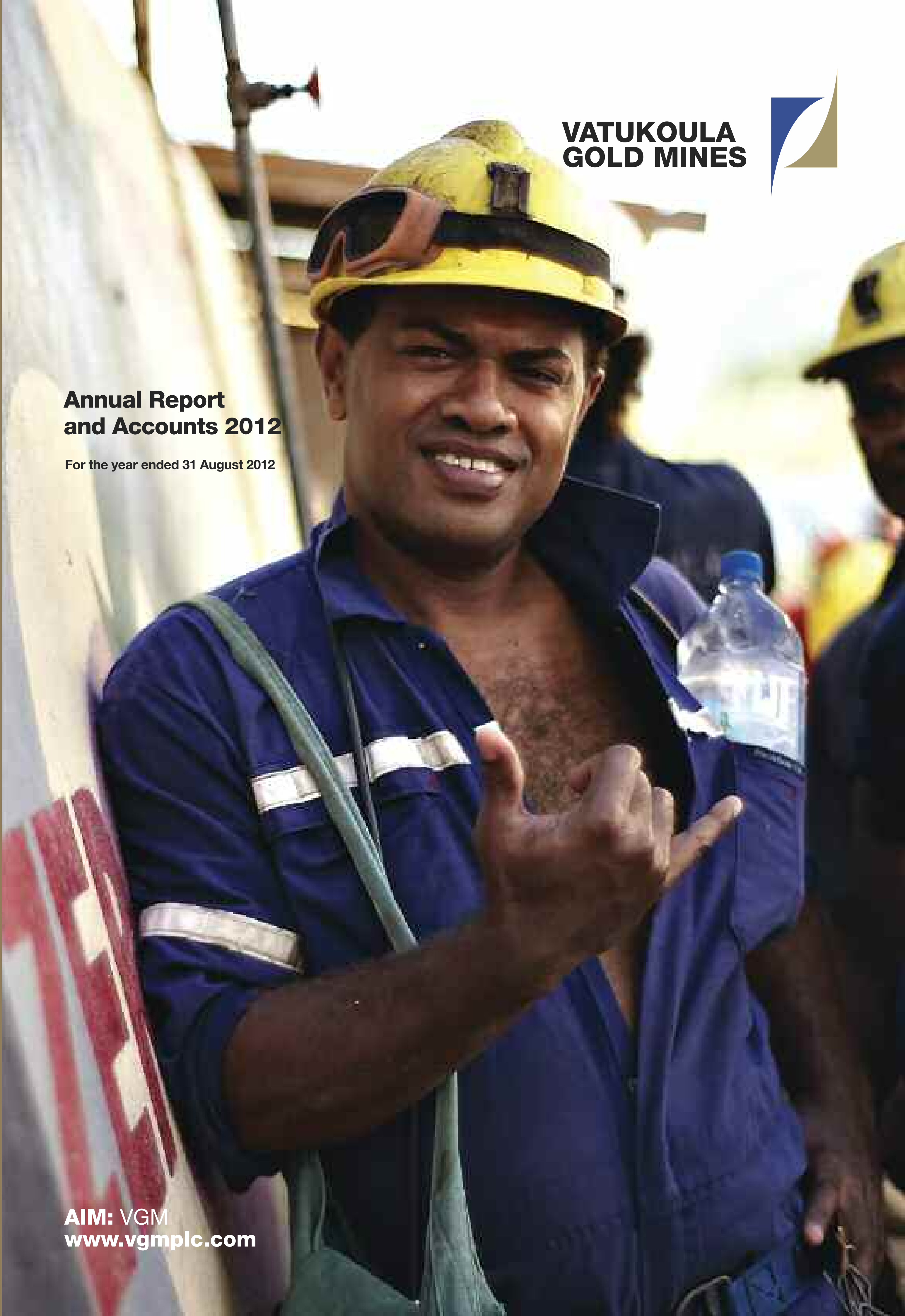


VATUKOULA
GOLD MINES

# Annual Report and Accounts 2012

For the year ended 31 August 2012

**AIM:** VGM
**www.vgmplc.com**

# Vatukoula Gold Mines Plc. (“VGM” or “Group”) explores, discovers, and develops gold mining operations. The Group is primarily focused on its operations on the Pacific Island of Viti Levu, Fiji.



**Forward-looking Statement**

This annual report contains ‘forward-looking information’, which may include, but is not limited to, statements with respect to the future financial and operating performance of VGM, its subsidiaries, investment assets and affiliated companies, its mining projects, the future price of gold, the estimation of mineral resources, the realisation of mineral resource estimates, costs of production, capital and exploration expenditures, costs and timing of the development of new deposits, costs and timing of the development of new ore zones, costs and timing of future exploration, requirements for additional capital, governmental regulation of mining operations and exploration operations, timing and receipt of approvals, licenses, and conversions under The Republic of Fiji and other applicable mineral legislation, environmental risks, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as ‘plans’, ‘expects’, ‘is expected’, ‘budget’, ‘scheduled’, ‘estimates’, ‘forecasts’, ‘intends’, ‘anticipates’ or ‘believes’, or variations (including negative variations) of such words and phrases, or state that certain actions, events or results ‘may’, ‘could’, ‘would’, ‘might’ or ‘will’ be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of VGM and/or its subsidiaries, investment assets and/or its affiliated companies to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements.

Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations and studies; fluctuations in the value of UK Pounds Sterling relative to the United States Dollar, Fijian Dollar, Australian Dollar and other foreign currencies; changes in project parameters as plans continue to be refined; future prices of Gold; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry; political instability, adverse weather conditions, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities.

Although VGM has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may well be other factors that cause actions, events or results to differ from those currently anticipated, estimated or intended.

Forward-looking statements contained herein are made as of the date of this annual report and VGM disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this annual report should be construed as a profit forecast.

# Our Business

**VGM is the owner of the longest producing gold mine in Fiji. Operating for over 75 years, the mine has produced in excess of seven million ounces of gold.**

**VGM acquired the mine in 2008 and aims to reach a sustainable and profitable production level.**

We are currently in our next phase of expansion at the mine, increasing our production from the current base of approximately 50,000 ounces per annum. The mine currently has 4.2 million ounces of Mineral Resources and 700,000 ounces of Mineral Reserves.

The Vatukoula Gold Mine is located in the northern part of Fiji's main island, approximately ten kilometres inland from the coast and within the Tavua Basin. The mine is located at the foot of the hills that make up the Tavua volcanic crater.

The mine operates within three Special Mining Leases which cover a total area of 1,255 hectares. In addition VGM has the right to explore areas outside the current mining leases via Special Prospecting Licenses that cover over 19,000 hectares of the surrounding Tavua volcano.

The Vatukoula Gold Mine is currently both an open pit and underground operation, however in the medium-term it will become predominantly an underground mine.

Underground production is sourced from four mining areas; Smith Shaft, Philip Shaft, R1 Cayzer Shaft and Emperor Decline. The Smith and Philip Shafts, and the Emperor Decline serve as the main accesses to the underground workings for personnel and materials, and are used for ore and waste haulage.

Once the ore is hauled to the surface it is crushed, enriched and refined at our on-site treatment plant, to produce Gold Dore. Gold Dore produced at the mine is typically 80% gold, 19% silver and 1% base metals such as copper and iron. The Gold Dore is sold to the Perth Mint in Australia.

VGM has onsite workshops, assay labs and produces its own power via diesel generators.

Vatukoula Gold Mines Plc. is a UK public company with its headquarters in London. We are listed on the AIM market of the London Stock Exchange under the symbol VGM. The Group reports in Pounds Sterling (£) in accordance with IFRS as adopted by the European Union.

# Operational and Financial Highlights
## 2011/2012

**Turnover**[1]
£54.9m
(2011: £47.9 million)

**Continued capital investment**
£16.1m
(2011: £11 million)

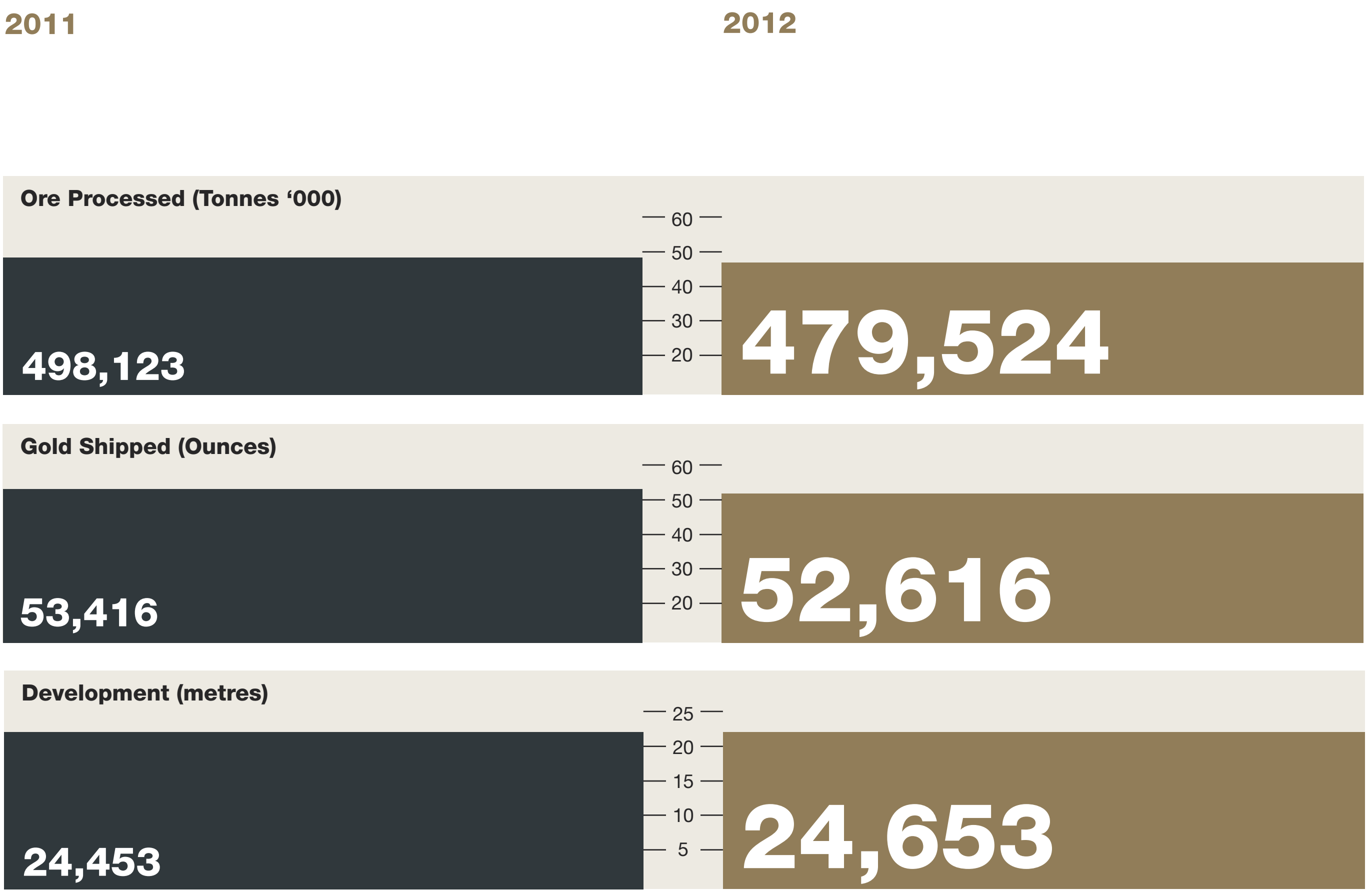
**EBITDA loss**[2]
£1.6m
(2011: Profit of £2.2 million)

**Loss for period**
£7.1m
(2011: £2.3 million)

**Completion of equity placement**[3]
£5.4m

**Cash position at year-end**
£2.4m

[1] Variance driven by higher gold prices.
[2] As a result of increase in input costs.
[3] Through the issue of 9 million shares in April 2012.



## Operational Highlights

- Gold shipped was 52,616 ounces for the year ended August 2012
- Capital development more than doubled compared to last year. This increase is the result of continued investment in mine infrastructure, which will allow us access to high-grade ore bodies, such as the Cayzer / Prince
- Main underground capital development projects are on target:
  - Decline Philip Shaft expected to hole into 20 level during the first quarter of 2013
  - Decline to access Cayzer / Prince on target and we anticipate being able to mine from this orebody in March 2013.

## Resource Development and Exploration

- Measured Mineral Resource base increased by 7% to 7.7 million tonnes at 6.2 grams of gold per tonne (1.5 million ounces)
- Completed Inferred Mineral Resource estimation at the Waikatakata surface deposit, 5.1 million tonnes identified at 0.9 grams of gold per tonne (0.1 million ounces)
- Intersected three new high-grade mineralised structures at Vatukoula, subsequently named the Nielsen Deposit. Significant composite mineralised intersections include:
  - 124.7 grams of gold per tonne over 0.46 metres;
  - 33.60 grams of gold per tonne over 2.86 metres;
  - 25.46 grams of gold per tonne over 1.07 metres; and
  - 39.00 grams of gold per tonne over 0.48 metres.

**We operate in a responsible manner in relation to our people, the environment and the communities that we inhabit. As a business these elements are important in the achievement of our strategic priorities.**

# Our Strategy

**We have a clear strategy: to deliver to our shareholders the full potential of the Vatukoula Gold Mine. We aim to achieve this by focusing on four key strategic priorities:**

| Strategic Priority | Operational Drivers | Targets in 2012 | Achievements in 2012 |
|---|---|---|---|
| **Expand**<br>Current production from the Vatukoula Gold Mine to a targeted sustainable and profitable rate of production. | Develop enough underground access, or development, allowing access to the required mining areas and therefore tonnages and grade. | Achieve a production of 65,000 ounces. | 52,616 ounces shipped. Production was limited by the water ingress in April 2012 and local geological variations which hampered access to some of the orebodies |
| | | Achieve normal and capital development metres of 26,000 metres. | 24,653 metres of operating and capital development carried out. Development was limited by the water ingress in April 2012 and local geological variations which hampered access to some of the orebodies.<br><br>A significant increase in capital development to 4,975 metres compared to 2,307 metres in 2011. |
| **Sustain**<br>The targeted production rate beyond current Mineral Reserves. | Further define the large mineral resource inventory and converting this to Proven and Probable Mineral Reserves to both replace ounces mined and increase the current Mineral Reserve base. | Begin reserve and resource drilling programme with the objective of increasing our Mineral Reserve base. | Over 24,000 resource definition metres drilled in the current year. Increase in Measured Resources of 7%. |
| **Optimise**<br>Our working practices and working relationships to target lower unit costs on a per tonne basis. | Target key operational drivers and costs that have high internal rates of return and low capital costs. | Further negotiations with Fiji Sugar Corporation ("FSC") with the aim of signing a memorandum of understanding. | Final version of memorandum of understanding agreed. The Company is awaiting signature by the FSC.<br><br>Our involvement in this project via an off-take agreement on the power produced from the plant will approximately halve our power costs |
| | | Continue bio-oxidation leach testing. | During the year testing resulted in 94% recoveries. |
| | | Complete tendering process on key consumables at the mine. | Tendering complete on explosives resulting in a 10% saving in unit costs. |
| **Grow**<br>Through greenfield opportunities in the area surrounding the Vatukoula Gold Mine. | Evaluate, define and explore the Special Prospecting Licenses within the Tavua Basin. | Complete Mineral Resource statements on surface deposits. | 5.1 million tonnes at 0.9 grams per tonne identified as Inferred Mineral Resource in the current year. |

# Chairman's Statement

**In December 2011, I wrote that many of the democracies of the World were discovering the benefits of the printing press. This discovery would be beneficial to the price of gold in the medium-term, as gold regained its historic role as a store of value.**

Colin Orr-Ewing
**Non-Executive Chairman**

**Whenever politicians cloak an action with a new description, warning bells ring. Quantitative Easing has become the acceptable name for 'printing money'. What does it mean? Easing means reducing pain or difficulty; quantitative means 'relating to or concerned with quantity'. The complete phrase therefore means 'reducing the pain or difficulty by adjusting the quantity of something', presumably money: a wonderfully opaque description for debasing the value of currency.**

Last year, I reflected that global gold production had not varied very greatly year on year; 4,000 tonnes were mined in 2003 and 4,500 tonnes in 2011. Global reserves of gold total approximately 171,000 tonnes, held by various groups in the commercial, fiscal and investment sectors: jewellery accounts for 50%, the Central Banks 17% and private investors 19%. The re-branding of gold as 'money' is reflected in the records of the Central Banks. From 1990 until 2007, Central Banks were net sellers of gold. Since 2008, they have been net buyers of gold, averaging purchases of about 400 tonnes a year. It is not clear who supervises the accounts of the Central Banks, as some of them, including the Federal Reserve Bank, are still privately owned.

Whilst there has been a tightening in the availability of gold in reserve form, the precious metal ore has become increasingly difficult to find. During the 1990s, it was common to have global discoveries of 100 million ounces per year. In 2009, an additional 19 million ounces were discovered, but this fell to 10 million ounces in 2010 and perhaps 3 million ounces in 2011. With the difficulty of discovering new reserves has come the realisation that the 'low-hanging fruit' has already been discovered and that grades of new discoveries are likely to follow the path of the last few years, trending downwards from 2.2g/t in 2002 to perhaps 1.4 g/t in 2011.

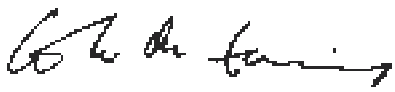
Not only has success with the drill bit proved globally elusive, but the cost of extracting that gold has also climbed dramatically. Cash costs are always used when comparing gold companies' performances, but in reality total costs should be used for peer group comparisons. The average total cost of producing an ounce of gold was over US$1,000 per ounce in 2011 and is likely to be about US$1,300 for 2012. In 2002, the total cost of producing an ounce of gold was US$500. In addition there was a recent study by CIBC that put the replacement cost for an ounce of gold right at US$1,700.

This year has been a difficult one for Vatukoula. Grades extracted from the mine remained static as management pressed ahead to reach the deeper, richer grades in the lower levels of the Philip Shaft. There was more careful allocation of ore going into the mill, with the decline snaking down to Level 20 in Philip Shaft. This is the 'guts' of the mine, where the mine planners have been concentrating development. It has been apparent for some time that the mine would need more investment and since March 2012 management has been in discussion with strategic shareholders in the Far East. A Chinese investment company, Zhongrun Resource Investment Company ("Zhongrun") subscribed for 9 million shares in April 2012.

I am happy to report that post year-end Zhongrun, has taken up a further placement of 20 million shares. Together these investments make Zhongrun the largest shareholder in the Company, with a holding of approximately 25%. Dave Paxton, our CEO, will address this and the general operational record in his own statement.

Moving forward, I am confident that the actions of our Mine Management and Operational Teams took this year, supported by the Board, will help to position your company to meet its production targets.

As we go into 2013, I remain optimistic about the prospects for our industry, and in particular, our company.  Once again, I take this opportunity to thank our hard working and dedicated team and acknowledge the support provided to the company by all our stakeholders and suppliers.



**Colin Orr-Ewing**
**Non-Executive Chairman**
9 January 2013

# Chief Executive Officer's Statement

**During the last twelve months we have made significant operational progress with increased capital development rates and increases in total underground tonnes mined.**

**David Karl Paxton**
**Chief Executive Officer**

**However during the year we faced two periods of heavy rainfall that caused temporary disruptions in production. The rainfall, together with unexpected local geological variations in the Matanagata ore body prevented us from achieving our stated production target.**

To mitigate against disruptions caused by heavy rainfall several initiatives were introduced to increase pumping capacity and to limit inflow into mine workings. The pumping initiatives have exceeded our expectations and will allow access much earlier than previously estimated to some higher-grade areas of the mine that have been flooded for many years.

Despite the heavy rainfall experienced in January and April of this year all our main development drives remain on target.

## Operating and Financial Performance

VGM sold 52,616 ounces of gold in the year at an average cost of US$1,627 per ounce. The main driver to the higher cash cost per ounce was the increased unit cost per tonne. Operating costs on a per tonne basis have increased to US$179 overall; this increase is primarily driven by higher fuel prices and heavy vehicle consumables. Given that on-site diesel generators provide all our power requirements, we are particularly sensitive to medium term increases in fuel prices. 40% of the total increase in mining costs experienced this year was the result of higher diesel prices.

The positive movement of the gold price mitigated some of the effects of higher cost base, with our gross profit for the year being £1.4 million. After administrative expenses, foreign exchange gains and depreciation and amortisation expenses the underlying loss was £6.6 million.

As mentioned before, production was in part limited by the heavy rainfall in February and April 2012, which limited production in the lower Philip shaft area, a high-grade area of the operations. An additional shortfall in production can be attributed to the sterilisation of a planned mining area in the Mantanagata East ore body. Operational development was carried out to access this area, however following grade control drilling and geological mapping, it was established that local geological and structural controls were not suitable for mineralisation and a decision was made to suspend further development and mining in this area of the Mantanagata East ore body.

During the year our Mineral Resource base remained at 4.2 million ounces, however our Mineral Reserves decreased by 50,000 ounces, mainly due to depletion, to 700,000 ounces.

## Development of the Vatukoula Gold Mine

This year has been one of continued development at the Vatukoula Gold Mine, with increases in total underground tonnes mined and substantially more in capital metres developed. We achieved 24,653 metres of total development in the current year, which was slightly lower than the yearly target of 26,000 metres as a result of the heavy rains of February and April 2012.

Total development at Vatukoula includes both in-stope development and infrastructure development. It is infrastructure development, which is comprised of strike drive and capital development that will allow access to new mining areas and ultimately ensure that the mine reaches its long-term production targets. In this regard, we significantly increased our capital development to 4,975 metres and our strike drive development decreased slightly to 4,034 metres in the period under review.

Work on the 18 level Philip Shaft decline remains on target and is expected to hole into the bottom of the Philip Shaft in the first quarter of 2013. This decline will allow the mine to clean out the historical spillage and re-equip the Philip Shaft between 18L and 20L, as well as provide access to the Prince William and 1500 Split orebodies below 18L. Cross-cut development to these orebodies from this decline has already commenced and is ahead of current schedules. Decline development for the high-grade Cayzer/Prince orebody (which has Proven and Probable Gold Reserves totalling 100,000 and 130,000 tonnes at grades of 17.80 g/t and 16.85 g/t respectively) commenced in August and is currently running ahead of schedule to allow access for mining from March 2013.

Any underground mine requires the construction of major infrastructure far in advance of the commencement of production and at the end of the last financial year we stated that it is our intention to continue our capital investment programme at the Vatukoula Gold Mine. This capital investment is expected ultimately to enable the mine to produce at our targeted rate of production on a sustainable and cost-effective basis.

## Sustainable Power

During the period the FSC completed a bankable feasibility study on the proposed power project at the Rarawai Sugar Mill. The project has been designed to produce sufficient power for both the Rarawai Mill and VGM. The capital cost is estimated to be in the region of US$130 million to US$160 million depending on an owner build or construction contractor option.

We believe that a long-term power supply from a source that is not beholden to the international hydrocarbon price would provide a significant benefit to the long-term operations at the Vatukoula Gold Mine, through lowered operating costs. The FSC has stated that the Rarawai Biomasse power project will provide power to VGM at a cost of F$ 0.23 per kWh (US$ 0.12 per kWh). For the current year our total cost of power at Vatukoula was approximately F$0.61 per kWh (US$ 0.34 per kWh).

On 6 March 2012, the FSC formally announced that it will be partnering VGM on the Rarawai Biomasse power project. Vatukoula and the FSC have agreed the terms of a memorandum of understanding and we are awaiting formal signature by the board of the FSC.

## Resource Development and Exploration

During the first quarter of the year our drilling programme focused on the continued exploration programme started in January 2011. The most significant discovery of this programme was the intersection of several mineralised structures which we collectively named the Nielsen Deposit. Drilling on the Nielsen Deposit intersected grades as high as 33.60 grams of gold per tonne over 2.86 metres and represents the first major new discovery at Vatukoula Gold Mines for a considerable period.

After the first quarter all of our drilling capacity was focused on the resource development programme. This drilling targeted both inferred and unclassified mineral resources and will be used in the calculation of the 2013 Mineral Reserve and Resource estimate. The majority of this drilling was carried out on the Matanagata East ore body and was below management expectations, therefore we do anticipate that as a result of this drilling there may be a reduction in mineral resources in the Matanagata East ore body. Drilling was also carried out on the Prince William ore body, these results were again broadly in line with expectations, with some encouraging signs of resource upside potential.

## Post Balance Sheet Events

Subsequent to year-end VGM raised £6 million via the issue of 20 million new ordinary shares. These shares were placed with our strategic shareholder, Zhongrun, which after the issue of these shares has approximately 25% of the enlarged share capital of VGM. VGM has also agreed that Zhongrun will be entitled to propose four nominees for election as Directors, subject to the approval by the Nominating Committee and election by shareholders.

We welcome the continued support of Zhongrun and look forward to further developing our valuable strategic relationship to assist in the development of the Vatukoula Gold Mine.

## Outlook

As is evident from my report we have had limited success in achieving our targets that we set out at the beginning of the year. In particular both our production and development targets were not achieved, as a result of unseasonal weather conditions and local geological variations. However in other aspects we have been successful, including the further definition of Mineral Resources, long term savings achieved with our explosives suppliers and most importantly the capital development achieved during the year which has remained either ahead of, or on schedule.

It is the development that we have achieved in the year that will assist in opening high-grade areas that will sustain production in the longer term. Over the coming first half year (February 2013) this increase in capital development will continue to impact our gold production, subsequent to this production from the Cayzer/Prince ore body will come on stream and production should increase to targeted production levels.

In conclusion, I would like to thank all of the operating staff at the Vatukoula Gold Mine for their commitment, enthusiasm and enormous effort in what has been a challenging year in the development of the business. I would also like to thank the Board for their support, advice and commitment throughout the year.

**The key business objectives and their relation to our strategic priorities for 2013 are:**

### Expand

Achieve normal and capital development metres of 16,500 metres

### Sustain

Continue the reserve and resource drilling programme with the objective of increasing our Mineral Reserve base

### Optimise

Complete signing of memorandum of understanding with FSC

Negotiate a power off take agreement

### Grow

Carry out further drilling on key targets identified during the current year

**David Karl Paxton**
**Chief Executive Officer**
9 January 2013

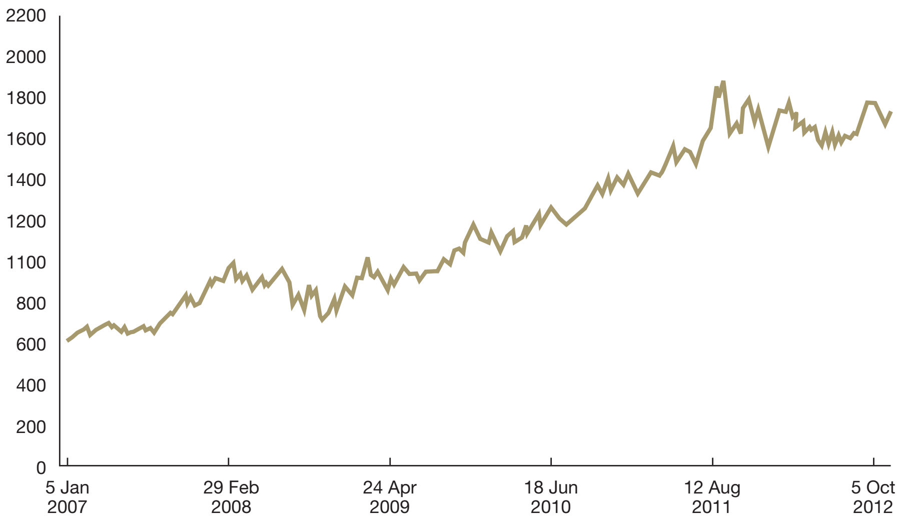
# Market Review

**It has been another strong year of demand for gold; the volume of gold coming into the market has declined, along with average grades extracted through primary mining. It is expected that current high prices will continue in the foreseeable future.**

**Information contained in the following gold sector market outlook is taken from the latest statistics published by the World Gold Council (www.gold.org), the industry body that reports and analyses trends associated with the supply and demand of gold. Such information is accurate at the time of the production of this report.**

At the beginning of 2012, the gold price had increased on a year-by-year basis for the tenth consecutive year. Starting the year at US$1,530 per ounce, following a more than 12 percent price increase seen in the full year 2011, the price of gold has continued to perform strongly through 2012, despite a short-term price drop mid-year, and rose above the US$1,700 per ounce marker at the end of August 2012. The price remains at high levels and currently stands at US$1,645 per ounce (as of 7 January 2013).

**Five-year Gold Price 2007-2012 (US$/oz)**

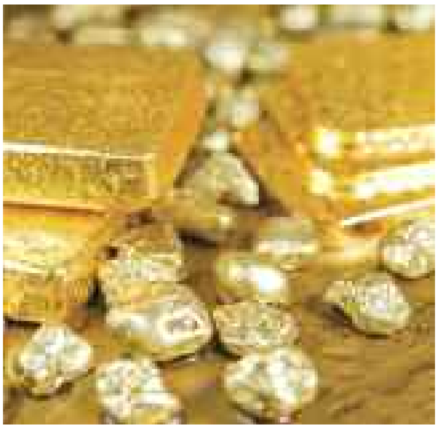



Gold prices in the reporting year opened at US$1,826 per ounce (1 September 2011) and closed at US$1,655 per ounce (31 August 2012). The average gold price (based on mean monthly London Fix pricing) was US$1,672 per ounce.

## Demand

Demand for gold grew to 4,067 tonnes in 2011 (2010: 3,812 tonnes), worth an estimated US$206 billion. The primary driver of growth was the investment sector, with demand from the jewellery and technology sectors remaining resilient in the face of higher growth prices, and central banks making significant volume purchases. Demand for gold bars and coins accelerated, as investors took advantage of gold's status as a long-term insurance and store of value, rather than as a means of speculation. This trend reflects on-going concerns about the financial health of the euro area, continued low real interest rates in several developed economies, positive price expectations and the poor performance of many alternative investments.

Demand in the key China and India markets remained strong, with both countries maintaining their strong cultural links with the precious metal. However, concerns about a Chinese economic slowdown and the increasing maturity of the market, and substantial currency fluctuations in India resulting in domestic gold price swings, tempered growth in demand. Central banks, however, acquired 440 tonnes of gold in 2011, the highest figure reported since 1964. Emerging market central banks sought to diversify their foreign exchange holdings; signatories to the Central Bank Gold Agreement (CBGA) generally did not sell gold holdings.



More recently reported research from the World Gold Council (Q3 2012) confirms that, following a mid-year drop, demand in Q3 totalled 1,085 tonnes (valued at US$58 billion), a 10 percent increase over the previous quarter, but, in value terms, 14 percent lower than the equivalent period in 2011, a period of exceptional demand. Whilst investor purchases of bar and coin dropped markedly, and the jewellery and technology sectors reported moderate declines in demand, purchases made by gold backed exchange traded funds (ETFs) experienced strong inflows (49 percent).

India was the strongest performing market (reporting year-on-year growth rates of 7 per cent in jewellery and 12 per cent in investment demand for Q3 2012). Gold demand in China, however, lost momentum, although there are signs of longer-term strength in the China market.

## Supply

Volumes of gold coming into the market totalled 3,994 tonnes in 2011. This represented a 4 per cent decline compared to 2010's 4,108 tonnes. Primary mined production increased slightly, to 2,810 tonnes, but this was more than offset by a contraction in recycling activity. The 4 per cent rise in primary production was the result of moderate increases in operation at a number of mines, in China, the US, Russia and such African producer countries as Eritrea, Sudan and Burkina Faso. Meanwhile, Indonesia saw a substantial decline in production (-36 percent), as did Australia and South Africa, the latter hampered by labour, energy and infrastructure issues.

The drop off in supply has continued into 2012, with Q3 figures showing a 2 percent contraction compared to year-earlier levels. Lower levels of recycling in industrialised markets continued to restrict supply, the result of an increased acceptance of higher price levels, despite depletion of near-market stocks. The year-on-year 1 percent drop in primary mine production – the largest quarterly fall since Q3 2008 – is the result of disappointing results for a number of gold production operations, lower than expected growth at a number of new or recovering mines and the Q3 strikes in South Africa.

China, Mexico, Russia and Canada reported national gold production increases, but substantial declines occurred elsewhere. Indonesian production continued to fall, primarily the result of changing mine plans at the Grasberg Mine. South African production fell by 9 tonnes, mostly due to strike action, the results of which are expected to spill over into Q4 and potentially beyond.

## Outlook & Pricing

The overarching driver of the gold price, for 2013 and beyond, is the development of the global financial crisis and the levels of debt built up by several Western governments. Continued uncertainty about the state of the global economy, coupled with the trend towards deleveraging (i.e. reduction of debt), fiscal stimulus measures and geopolitical risks relating to such countries as Iran, is expected to bolster the status of gold as an attractive insurance asset or store of value for investors.

For this reason, near-term gold pricing outlooks are generally bullish. Deutsche Bank AG recently raised its outlook for gold in 2013 (to US$2,113 per ounce) and 2014 (US$2,000 per ounce), citing recent moves by central banks to expand their balance sheet as a particularly significant trend. Similar sentiments were voiced in November 2012 by Jamie Sokalsky, Barrick Gold's CEO, who envisaged prices of US$2,000 per ounce and higher for 2013, driven by strong demand fundamentals. Other analysts are more circumspect. HSBC recently raised its average price forecasts for 2013 to US$1,850 per ounce, and to US$1,775 per ounce for 2014. The London Bullion Market Association expects to see prices rise to US$1,849 per ounce by September 2013.

Supported by strong demand fundamentals and static or falling supply, Vatukoula Gold Mines believes that the price of gold will remain at historically high levels for the foreseeable future, with prices for 2013 and 2014 remaining comfortably above the US$1,400 per ounce marker. Gold performs well in scenarios of economic uncertainty and in acute fiscal environments, both as a result of deflation (driven, for example, by global debt reduction) and of inflation (which could occur should public debt levels increase further).

Allocations of gold will therefore remain imperative for many large-scale and smaller investors, funds and central banks, looking for a 'safe haven' investment asset.

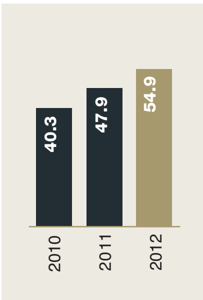
# Key Performance Indicators (KPIs)

**We assess the performance of our business against several KPIs that are aligned to our strategic and operational goals. These KPIs are monitored on a continuous basis and allow us to prioritise operational objectives and measure progress against our strategy.**

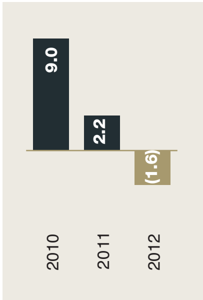
## Financial KPIs

### Data

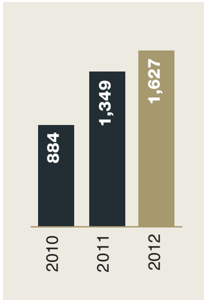
**Turnover (£'000,000)**



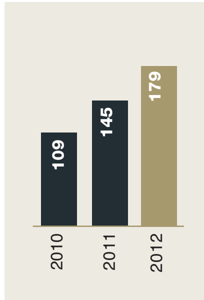

**EBITDA[1] (£'000,000)**



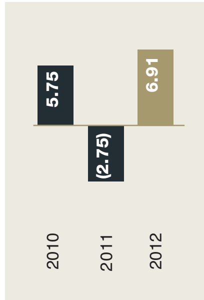

**Cash cost per ounce sold[1] (US$/Oz)**




**Cash cost per tonne mined & milled[1] (US$/tonne)**



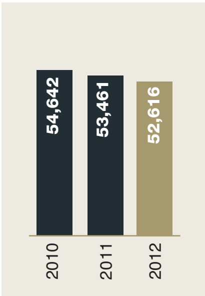
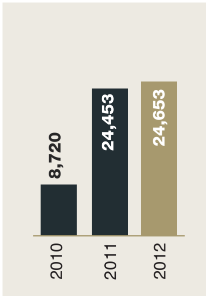
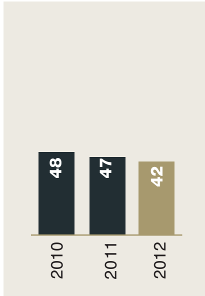
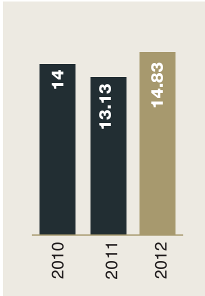

**Operating cash flow per share (pence/share)**




| | Turnover (£'000,000) | EBITDA[1] (£'000,000) | Cash cost per ounce sold[1] (US$/Oz) | Cash cost per tonne mined & milled[1] (US$/tonne) | Operating cash flow per share (pence/share) |
|---|---|---|---|---|---|
| **Definition** (Full definition for non-IFRS measures are provided on page 26.) | **Turnover** volume of gold and silver sold during the period multiplied by the gold and silver price achieved over the period | **EBITDA (earnings before interest, taxes, depreciation, and amortisation)** is the net profit or loss excluding:<br>• finance income:<br>• finance expense:<br>• tax expense<br>• depreciation and amortisation | **Cash cost per ounce sold** is calculated by dividing the aggregate cash costs incurred in our mining operations by the ounces of gold sold. | **Cash cost per tonne mined & milled** is calculated by dividing the aggregate cash costs incurred in our mining operations by the tonnes mined and milled. | **Net cash generated in operating activities** is calculated by dividing the operating cash flow generated or utilised in operations by the weighted average of the number of Ordinary Shares in issue. |
| **Performance in 2012** | **Turnover** totalled £54.9 million in 2012, an increase of 15% on 2011, as a result of increased gold prices. (Further information is set out in the Financial Review on pages 22 to 26) | **EBITDA** was (£1.6) million, a decrease of £3.8 million on the year ending 2011. This reduction was driven by higher unit costs. (Further information is set out in the Financial Review on pages 22 to 26) | **Cash cost per ounce sold** increased to US$1,627 as result of increased unit costs. (Further information is set out in the Financial Review on pages 22 to 26) | **Cash cost per tonne mined & milled** increased from US$145/tonne in 2011 to US$179/tonne in 2012. The majority of this variance was attributable to increases in mining costs. (Further information is set out in the Financial Review on pages 22 to 26) | **Operating cash flow per share** was 6.91 pence in 2012 compared to (2.73) pence in 2011. This change was primarily attributable to increases in creditors and other changes in working capital (Further information is set out in the Financial Review on pages 22 to 26) |
| **Importance** | **Turnover** is a useful indicator to measure our progress towards our targeted production and the effect of changing gold prices on our profitability and operating cash flow. | **EBITDA** is a useful indicator of the Group's ability to generate operating cash flow, which will allow it to fund its sustaining and expansion capital needs. | **Cash cost per ounce sold** allows us to monitor the key drivers that impact on our profitability, revenue per tonne and cost per tonne. | **Cash cost per tonne mined & milled** allows management to track and compare costs on a monthly basis regardless of variances in tonnes mined and milled. | **Operating cash flow per share** is a measure of the Group's ability to generate cash flow from its business. |

[1] EBITDA, Cash cost per ounce sold, Cash cost per tonne mined and milled and Operating cash flow per share are non-IFRS financial performance measures with no standard meaning under IFRS. Refer to "Non-IFRS measures" on page 26 for detailed definitions on each measure.

## Operational KPIs

| | Gold Shipped (Oz) | Total development metres (m) | Total resources per share (oz/1,000 shares) | Lost time injury frequency rate (LTIFR) |
|---|---|---|---|---|
| **Data** |  |  |  |  |
| **Definition** (Full definition for non-IFRS measures are provided on page 26.) | **Gold Shipped** is the Group's total ounces of gold sold during the period. | **Total development metres** represent the aggregate of both capital and normal metres mined over the period. | **Total resources per share** are calculated as the total of the Measured, Indicated and Inferred Resources expressed as contained ounces, divided by the number of shares in issue, using a ratio of 1 ounce per 1,000 shares. | **Lost time injury frequency rate (LTIFR)** is a measure of lost time claims per million hours worked. |
| **Performance in 2012** | **Gold Shipped** totalled 52,616 ounces, compared to 53,461 ounces in the previous year. This reduction was a result of lower ore tonnes being delivered to the mill and lower recovery rates. (Further information is set out in the Chief Executive Officer's Review and Operational Review on pages 10 to 11 and pages 16 to 19. | **Total development metres** were 24,652 metres for the year an small increase of 199 metres over the year ended August 2011. This is a result of the Group's continued development programme. | **Total resources per share** equalled 42 Oz / 1,000 shares. (Further information is set out in the Reserve and Resource Statement on pages 31 to 33. | **Lost time injury frequency rate** increased from 13.13 in 2011 to 14.83 in 2012. This represents a 13% increase in our LTIFR. (Further information is set out in Corporate Responsibility review on page 27. |
| **Importance** | **Gold Shipped** measures our progress to achieving our long term production targets. | **Total development metres** allows us to measure our progress towards having sufficient working areas to achieve our production target. | **Total resources per share** allows us to measure our ability to discover new ore bodies and to replace resource depletion as a result of mining activities. | **Lost time injury frequency rate** aids us to assess the effectiveness of our health and safety programme and controls at our operations. |

# Operational Review

## Substantial development work continued at the Vatukoula Gold Mine in the year under review, with the aim of establishing a long-life operation at targeted gold production levels.

**Operationally we progressed with our development programme, with dramatic increases in capital development metres. We did however face operational challenges that prevented us from reaching our targeted production. Total gold shipped was 52,616 ounces, a 2% decrease on last year's figure.**

### Underground Production

Total tonnes of ore, waste and capital mined for 2012 increased by 12% to 477,089 tonnes compared to 2011. The higher tonnages were driven by increases in capital development, which increased from 2,307 metres to 4,975 metres representing a 116% increase over the twelve months ending 31st August 2012. The ore delivered from underground for 2012 was 304,042 tonnes, a 10% decrease compared to the same period last year. This reduction in ore delivered was due in part to lower strike drive development during the year, which is typically delivered as ore.

The average underground grade for the twelve months was 5.12 grams per tonne, which was higher than the same period last year (5.00 grams per tonne). We had forecast higher grades in the latter half of the year however both the heavy rainfall and local geological variations within the Matanagata ore body prevented us from achieving these targets.

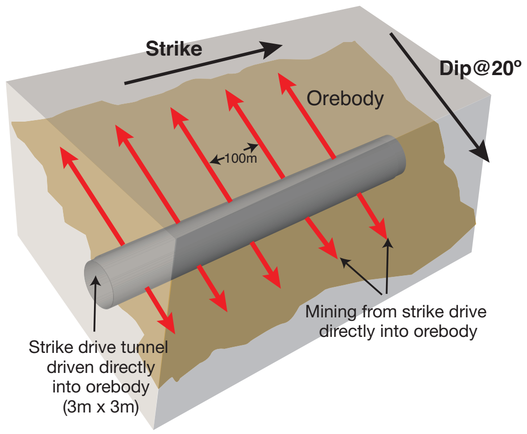
Underground operations remain focused on infrastructure development which should enable the mine to produce at our long-term projected rate. The development program remains on target with all major development ends either ahead of, or on schedule.

### Surface Production

Production from surface oxides and a sulphide waste pile situated near Philip Shaft for the twelve months delivered 176,357 tonnes at a grade of 2.07 grams per tonne. During the year surface operations have switched from a low-grade oxide waste dump to a sulphide waste dump in the Philip Shaft vicinity. The sulphide waste dump material is generally of a higher grade compared to the oxide material, but does impact the overall recovery.


| Operating Results | Year ended 31 August 2012 | Year ended 31 August 2011 | % Variance |
|---|---|---|---|
| **Underground Mining** | | | |
| Total Underground Tonnes Mined (Ore, Waste) | **477,089** | 427,688 | 12% |
| Operating Development Metres | **15,644** | 16,834 | (7%) |
| Strike Drive Development Metres | **4,034** | 5,312 | (24%) |
| Capital Development metres | **4,975** | 2,307 | 116% |
| Total Development metres | **24,653** | 24,453 | 1% |
| **Sulphide Plant** | | | |
| Sulphide Ore delivered (tonnes) | **304,042** | 336,085 | (10%) |
| Sulphide head grade (grams / tonne) | **5.12** | 5.00 | 2% |
| **Oxide Plant** | | | |
| Ore delivered (tonnes) | **176,357** | 160,923 | 10% |
| Oxide head grade (grams / tonne) | **2.07** | 1.39 | 48% |
| **Total (Sulphide + Oxide)** | | | |
| Ore processed (tonnes) | **479,524** | 498,123 | (4%) |
| Average ore head grade (grams / tonne) | **4.24** | 3.78 | 12% |
| Total Recovery (%) | **78.57%** | 81.26% | (3%) |
| Gold produced (ounces) | **53,152** | 52,157 | 2% |
| Gold shipped (ounces) | **52,616** | 53,461 | (2%) |
| **Cash Costs** | | | |
| Total cash cost / shipped ounce(US$) | **1,627** | 1,349 | 21% |
| Total cash cost / tonne (US$) | **179** | 145 | 23% |

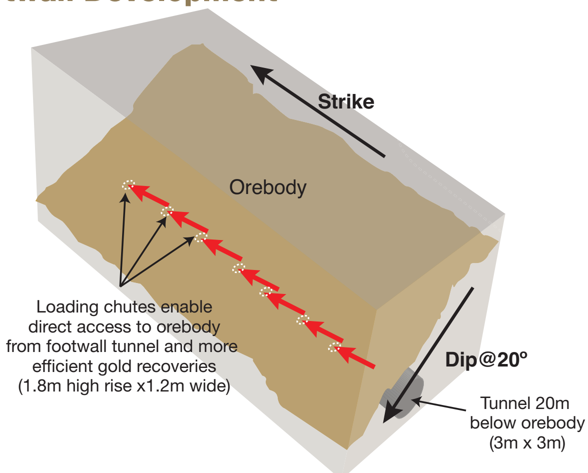
## Strike Drive Development




### Characteristics

- 3m x 3m strike drives follow the plane (strike) of the ore.
- Substantial dilution: on average, one development metre drills out 24 tonnes of material, of which 2.4 tonnes is gold bearing ore.
- Operational development is expensed as it is revenue producing. Most mines capitalise underground mine development where the development is for long-term access.
- Support pillars must be left at either side of drive. As a result, approximately 15% of the ore is left in situ.

## Footwall Development




### Characteristics

- Easier and quicker to develop than strike drive mining.
- No low-grade development ore and no need to leave pillars.
- More of the ore body is mined (approximately 95%).
- Better drill access for ore body evaluation for short- to medium-term mine planning.
- Less double handling of the ore.
- Loading shutes are mined underneath the orebody; mined ore from the stope drops down into the footwall chutes for transport to surface.
- Higher productivity and extraction of gold.

NOT TO SCALE. FOR ILLUSTRATIVE PURPOSES ONLY

### Vatukoula Treatment Plant ("VTP")

During the twelve months, the VTP processed 479,524 tonnes of ore which was a 4% reduction compared to the same period last year (498,123 tonnes).

The average grade increased from 3.78 grams of gold per tonne in the twelve months ending August 2011, to 4.24 grams of gold per tonne in the twelve months ending August 2012. This was driven by higher grades delivered from both underground and surface mining operations.

Recoveries for the twelve-month were 78.3%. This was lower than the comparable period last year as a result of the sulphide nature of the material delivered from the waste dump located near the Philip Shaft.

During the year we have been investigating ways to optimise our processing plant and increase recoveries. In particular we have undertaken bacteria leach test work. During tests at our bacteria leach pilot plant, we had on average recovery rates of 94% from concentrate. This would ultimately lead to an overall recovery of around 85% which is comparable to the current techniques, however considerably costs would be saved in Cyanide consumption.

### Cash Costs

As a result of increases in fuel prices and heavy vehicle consumables our cash cost per ounce of gold shipped increased to US$1,627. Overall cash cost per tonne mined and milled also increased to US$179 (2011: US$145). Further detail on the main drivers that led to these increases are contained within the Financial Review on pages 22 to 26.

### Employees

At the year-end we employed 1,458 individuals as either full-time employees or as casual labour. Of our workforce 797 are involved in direct mining operations, and a further 347 are involved in engineering support services and 78 are involved in the processing of ore. The remainder are involved in administration, finance, information technology, supply, security, and operational health and safety.

# Geological Review

**Exploration is a vital part of our long-term operational sustainability strategy. In the year under review, Vatukoula announced the intersection of three new high-grade mineralised structures, which have been collectively named the Nielsen Deposit.**

**The main objectives of our exploration and resource definition programme are to:**

1. Identify and detail new areas for mining and delineate expansion potential within the VGM Special Mining Lease areas
2. Undertake regional exploration on VGM's Special Prospecting Licenses

This programme is an essential component in the long-term operational sustainability strategy at the Vatukoula Gold Mine. Our overall objective is to increase life-of-mine operations and to improve our understanding of the full extent of gold mineralisation in the Tavua Caldera, using modern-day geological and exploration tools.

The results from these programmes will guide the company in regards to the potential expansion of the current operations. The combination of extensive historical mining data, minimal exploration in recent years and modern exploration techniques provides an exceptional opportunity to make another discovery of economic mineralisation in the Tavua Caldera.

## Resource Definition

We are currently undertaking an extensive diamond drilling campaign designed to better define our significant resource base, with the ultimate goal of increasing reserves at the Vatukoula Gold mine, and placing us in a much stronger position to plan and subsequently execute, our mining plans.

Over the course of the financial year three large capacity diamond drill rigs were deployed on the surface to undertake resource definition activities; two of which are dedicated surface drilling machines, with the third having both surface and underground drilling capabilities, giving the VGM drilling department additional flexibility in drill site selection. Combined surface resource definition drilling over the course of the financial year represented 30 completed holes, totalling 25,415 metres, the bulk of which targeting the Matanagata North East, Matanagata East and Prince William ore bodies.

**Matanagata North East:** 13 holes were completed, targeting existing inferred and unclassified mineral resource, representing 11,041 metres of diamond drilling from surface. Results from this program will be evaluated over the coming months and will be used to build the 2013 resource update. At this point in time, results are considered to be broadly in line with expectations, and have contributed significantly to the understanding of the behaviour of the Matanagata North East ore body. At this stage, only limited surface follow up drilling on Matanagata North East is planned for the coming financial year, with significant surface area of the current resource base on Matanagata North East having already been covered within the past 12 months.

**Matanagata East:** 11 holes completed, targeting existing inferred and unclassified mineral resource, representing 9,175 metres of diamond drilling from surface. As with the drilling conducted on the Matanagata North East ore body, results from this drilling

will be used to construct the 2013 mineral resource. Additional drilling has been planned for the coming year, and a detailed evaluation of results still remains. However, initial results suggest additional geological complexity present within the Matanagata East ore body, and have broadly returned results below expectation. Targeted follow up drilling and detailed desktop evaluation have been planned for the coming financial year, although the current expectation is a reduction in available resource from Matanagata East when the 2013 resource update is completed.

**Prince William:** 6 holes completed, targeting existing inferred and unclassified mineral resource, representing 5,200 metres of surface diamond drilling. Drilling on Prince William from surface has been primarily focussed to the south of Philip Shaft, in zones proximal to current underground development. As with the Matanagata drilling, results will be used to construct the 2013 resource update, with initial results returned at this early stage of the program appearing encouraging, and broadly in line with expectation. Additional drilling has been planned for the coming year and will form the centre point of the resource definition strategy pushing forward, given the large resource base to define and potential for resource upside opportunity.

In addition to the surface resource definition activities, a number of drilling programs staged from underground locations commenced towards the latter stages of this year, and remain in progress to date. Of note, a significant program is currently underway to the north of Philip Shaft from a dedicated drill platform on 17 level Philip, targeting the Prince William and 1500 (the hanging wall of Prince William) ore bodies. Although significant drilling remains within this zone, results returned to date appear extremely encouraging, and indicate resource upside potential for the 2013 resource update. This area will be a key focus point of the resource definition strategy going forward.

## Exploration

**In the first quarter of the year we announced the intersection of three new high-grade mineralised structures at Vatukoula, subsequently named the Nielsen Deposit. These mineralised structures were intersected by three drill holes. Significant composite mineralised intersections include:**

- 124.7 grams of gold per tonne over 0.46 metres;
- 33.60 grams of gold per tonne over 2.86 metres;
- 25.46 grams of gold per tonne over 1.07 metres; and
- 39.00 grams of gold per tonne over 0.48 metres.

Subsequent to the initial discovery we continued to define the mineralised structures at higher levels and along strike. We drilled and completed a further three holes, which all intersected the mineralised structures, and confirmed our interpretation of an open system along strike.

This discovery is contained on the current mining leases as well as on the special prospecting licenses and is located 300 metres north of current mine workings. The drilling has identified up to four mineralised structures. Three of these structures are sub-vertical, which have been intersected between 300 metres and 700 metres below surface (11 and 23 level), and the fourth is a horizontal structure approximately 700 metres below surface. The vertical structures are roughly orientated in a northeast-southwest direction consistent with some of the local and regional controls. The horizontal structure is thought to be a faulted block of a flatmake structure, which is typically mined at Vatukoula.

A total of 4,744 metres over eight exploration holes were drilled during the year. The majority of this drilling was undertaken in the first quarter, with all the rigs being assigned to resource definition drilling in for the remainder of the year.

Exploration drilling will continue once we have spare capacity in our current drilling fleet. This exploration programme will focus on the above mentioned Nielsen deposit and the Prince William Deeps, which has two historic holes with multiple high-grade mineralised intersections.

During last year's exploration programme, drilling was completed on two targets with near-surface potential.

As a result of subsequent interpretative work we have completed a mineral resource assessment on one of the targets and have defined a JORC compliant Inferred Mineral Resource of 5.1 million tonnes at 0.9 grams of gold per tonne, containing 142,000 ounces.

The resource lies approximately 4 km north of the VTP processing plant. The mineralisation strikes northeast over a length of approximately 1 km, dips to the south between 20 and 50 degrees, and extends to a depth of approximately 180 metres. The geology is comprised of andesite, tuff and recent cover units overlying the caldera contact breccia. Basalt units form the footwall to the caldera contact breccia. Stockwork mineralisation occurs within the caldera contact breccias, andesite and tuff units.

# Financial Review

**At £54.9 million, revenues for the year were 15% higher than the previous year's total of £47.9 million, bolstered by substantial increases in gold prices. However, industry-wide cost increases, coupled with challenging operational issues at the mine, resulted in a disappointing overall financial performance.**

**Kiran Morzaria**
**Finance Director**

**The purpose of this review is to provide a detailed analysis of the Group's consolidated 2012 results and the main factors affecting the financial performance. The Financial Review should be read in conjunction with the financial statements and associated notes on pages 41 and 49.**

During the year the Group benefited from the increased gold price which resulted in higher turnover. Overall, however the Group's financial results were adversely affected by the industry wide increase in costs, the continued accelerated development programme and some challenging operational issues encountered during the year. Increased mining costs per tonne and higher volumes of material treated resulted in a loss of £7.1 million and a net operating loss of £0.07 million. The increased costs also affected the cash cost per ounce sold, which increased to US$1,627.

| | Year ended 31 August 2012 | Year ended 31 August 2011 |
|---|---|---|
| Ore processed (tonnes) | **479,524** | 498,123 |
| Average ore head grade (grams/tonne) | **4.24** | 3.78 |
| Recovery (%) | **78.57%** | 81.26% |
| Gold shipped (ounces) | **52,616** | 53,461 |
| Revenue (£'000) | **54,925** | 47,964 |
| EBITDA (£'000) | **(1,547)** | 2,150 |
| Cash generated from/(used in) operating activities (£'000) | **6,257** | (2,312) |
| Loss (£'000) | **(7,070)** | (2,315) |
| Total cash cost/shipped ounce (US$) | **1,627** | 1,349 |
| Average realised gold price (£/ounce) | **1,044** | 897 |
| Average realised gold price (US$/ounce) | **1,643** | 1,439 |

## Revenue

Revenue for the year of £54.9 million was 15% higher than the prior year period of £47.9 million. The Group's year-on-year sales volume decreased by 845 ounces, which adversely affected revenue. However the Group benefited from the large increases in gold prices during the year. The average realised gold price was US$1,643 in 2012, compared to US$1,439 per ounce in 2011.

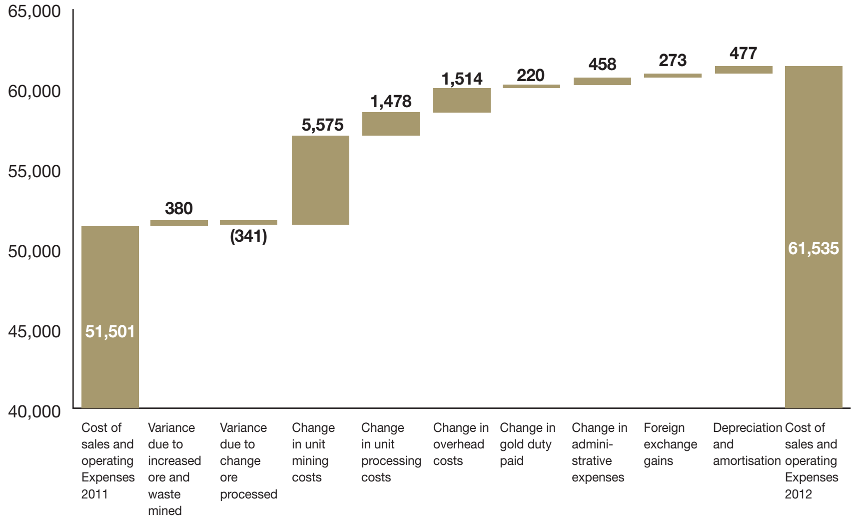
## Commodity Prices

Gold prices have a significant impact on the Group's revenue, net profits and its ability to generate cash flows. In 2012 the price of Gold reached US$1,894 and traded between a range of US$1,539 and US$1,894 per ounce. Market gold prices averaged US$1,672 compared to our average realised gold price of US$1,643 per ounce.

**Cost of Sales and Operating Expenses increased to £61.5 million in 2012 from £51.5 million in 2011. A 20% increase in mining costs elevated the cost of sales and operating expenses by £6 million. This was partly offset by a decrease in the amount of ore and waste mined which reduced the effect of the elevated mining costs to £5.6 million on a like for like basis. The remaining £4.1 million is attributable to:**

- a net increase in unit milling costs, which represented £1.1 million in additional costs,
- a £2.0 million increase in overhead and administrative costs,
- an increase in the value of gold shipped, which elevated the gold duty paid to £0.2 million,
- higher amortisation and depreciation charges of £0.5 million, and

## Cost of Sales & Operating Expenses (£'000)




- a decrease in unrealised foreign exchange gains on intercompany loans of £0.3 million.

A breakdown of the key drivers behind the increase in cost of sales and operating expenses is shown in the graph above.

**As outlined above the variance in unit mining costs represented the key driver to the increase in costs compared to the previous year. The mining costs totalled £35.7 million for the year. This represents an increase of £6 million from the prior year period (£29.7 million). The increase in costs can be mainly attributed to:**

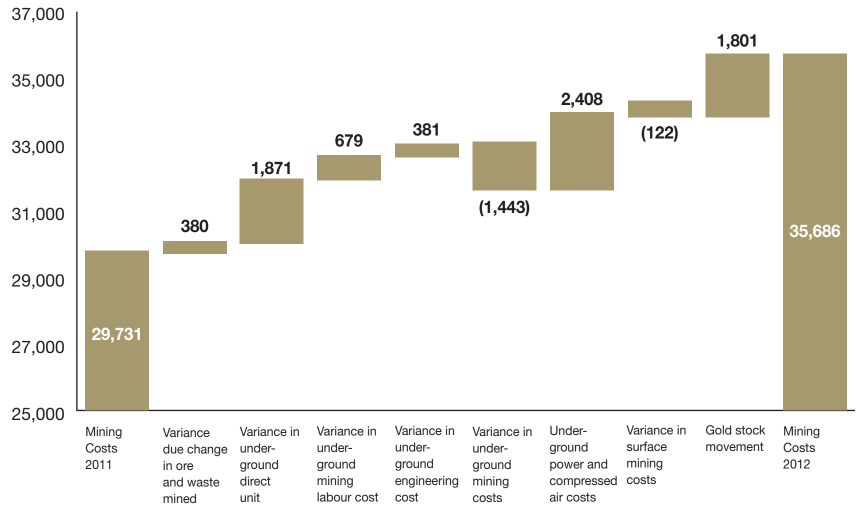
- an increase in underground direct unit costs of £1.9 million which can be mainly attributed to an increased market prices and increased usage of heavy vehicle tyres, oil and lubrication, contractor haulage charges and other mining consumables. This was partly offset by a 24% decrease in explosive costs (10% decrease on a unit cost basis)
- a £0.7 million increase in labour costs. This is a result of increased labour and an implementation of a bonus system
- a £0.4 million increase in engineering and higher maintenance costs on heavy vehicles,
- a £2.4 million increase in power and pumping costs mainly due to higher fuel costs experienced during the year
- expensing the gold in circuit drawn down in the period, which increased compared to the previous year and increased costs by £1.8 million

A detailed breakdown of the mining expenses and the variances year-on-year for the Group are shown in the table below and graph overleaf.

| Cost of Sales & Operating Expenses | Year ended 31 August 2012 (£'000) | Year ended 31 August 2011 (£'000) |
|---|---|---|
| Mining | **(35,686)** | (29,731) |
| Processing | **(10,281)** | (9,144) |
| Overheads | **(5,917)** | (4,403) |
| Gold Duty | **(1,660)** | (1,440) |
| Administrative expenses | **(2,762)** | (2,301) |
| Foreign exchange gains | **1,334** | 1,592 |
| Depreciation and amortisation | **(6,551)** | (6,074) |
| **Total** | **(61,523)** | (51,501) |

# Financial Review continued

## Mining Expenses and the Variances (£'000)




## Cash Costs

Cash costs for the year ending 31 August 2012 were US$1,627 per ounce shipped (2011: US$1,349 per ounce). This increase in cash costs can mainly be attributed to the higher unit costs per tonne of ore mined and lower recovery rates encountered during the year. The drivers for the increased unit cost per tonne mined are explained in the Cost of Sales and Operating Expenses review.

The table below provides reconciliation between cost of sales, operating expenses and cash costs to calculate the cash cost per ounce shipped.

## Administrative Costs

Administrative expenses totalled £2.8 million for the year ended August 2012 which was a 20% increase in costs from the prior year of £2.3 million. The administrative expenses are those costs associated with maintaining the London office and the administrative expenses in Fiji not directly attributable to operating activities. Costs include salaries, office rent, regulatory, audit, legal fees and investor related expenses.

## Exploration and Evaluation Costs

As highlighted in the geological review, the Group embarked on a significant drilling campaign during the year. This was the first such campaign for almost ten years and in this year we incurred £4.2 million compared to the £2.7 million in 2011. All the exploration and evaluation costs were capitalised as an Intangible Asset in accordance with the requirements of IFRS 6 Exploration for and Evaluation of Mineral Assets.

| Mining Expenses | Year ended 31 August 2012 (£'000) | Year ended 31 August 2011 (£'000) |
|---|---|---|
| Variable Direct Mining Costs | **11,592** | 9,623 |
| Total Mining Labour Costs | **3,349** | 2,651 |
| Engineering Costs | **7,868** | 8,608 |
| Other Mining Costs | **11,455** | 9,215 |
| Gold stock movement | **1,422** | (366) |
| Total mining expenses | **35,686** | 29,731 |

| Cash Costs | Year ended 31 August 2012 | Year ended 31 August 2011 |
|---|---|---|
| Mining (£'000) | **(35,686)** | (29,731) |
| Processing (£'000) | **(10,281)** | (9,144) |
| Overheads (£'000) | **(5,917)** | (4,403) |
| Gold Duty (£'000) | **(1,660)** | (1,440) |
| Mine administrative costs (£'000) | **(829)** | (244) |
| Total cash costs of production | **(54,373)** | (44,962) |
| GB£ / US$ foreign exchange rate | **0.64** | 0.62 |
| Gold shipped (ounces) | **52,616** | 53,461 |
| Tonnes mined and milled | **479,524** | 498,123 |
| Total cash costs/shipped ounce (US$) | **1,627** | 1,349 |

### Taxation and Other Expenses

During the year the Group had a tax credit of £1.1 million (2011: £1.6 million). This tax credit arises as a result of the release of the deferred tax liability. The year on year changes are predominantly due to a change in the UK corporation tax rates, which decreased the tax liability in the current year.

Other expenses amounted to £1.8 million in 2012 up from £0.4 million in the previous year. This increase was primarily due to the provision of £1 million against prepayments of more than one year. In addition a charge of £0.6 million (2011: £0.8 million) was incurred as a result of the issue of share options issued to staff and the option issued to Zhongrun, which expired at the end of July.

### EBITDA

EBITDA for the year ended 31 August 2012 was a loss of £1.6 million compared to a gain of £2.2 million in the prior year. This decrease was driven by increases in unit mining costs; this decrease was partly offset by increase in the average gold price achieved during the year.

Reconciliation between net profit for the period and EBITDA is presented below.

### Basic Loss Per Share

Basic loss per share for the year ended 31 August 2012 was 7.81 pence compared to basic loss per share of 2.76 pence for the year ended 31 August 2011. This decrease was driven by the net loss for the year.

| EBITDA | Year ended 31 August 2012 (£'000) | Year ended 31 August 2011 (£'000) |
|---|---|---|
| Loss for the period | **(7,070)** | (2,315) |
| Less income tax credit | **1,075** | 1,618 |
| Plus depreciation and amortisation expense | **(6,551)** | (6,074) |
| Less finance income | **65** | 98 |
| Plus finance expense | **(111)** | (107) |
| EBITDA | **(1,548)** | 2,150 |

# Financial Review continued

## Cash Flow

Net cash generated in operating activities was £6.3 million for year, an increase of £8.6 million on the prior year (cash used of £2.3 million). Prior to working capital the net operating loss was £0.07 million compared to a net operating income of £1.6 million in the previous year. This reduction was due to lower EBITDA. The net operating income before changes in working capital was increased by the changes in working capital which generated £6.3 million (2011 used £3.9 million). These changes in working capital were for the majority driven by an increase in accounts payable. This was in part due to a change in creditor terms in which we moved from prepayments to 30-day payment terms.

Cash flow used in investing activities equated to £16.1 million for the year which represents a 46% increase from the prior year of £11 million. Of the £16.1 million used in investing activities, £7.2 million (2011: £6.5 million) was used in the purchase of plant and equipment and £9.1 million (2011: £4.6 million) was used in underground development and exploration activities. The continued investment in the Vatukoula Gold Mine represents the continued capital expenditure required to achieve our production growth strategy and in the long-term our expansion strategy.

Cash provided by financing activities for the year ended 31 August 2012 was £5.3 million (2011: £7.3 million). The large majority (£5.4 million) of this relates to a placing carried out in April 2012. At 31 August 2012 the Group had cash and cash equivalents of £2.4 million (2011: £6.9 million). In November 2012, and subsequent to the year end, the Company raised a further £6.6 million for the issue of 20 million new ordinary shares.

## Financial Position

Intangible assets increased from £34.1 million in 2011 to £36.8 million in 2012. The increase is primarily attributable to the increase in exploration and evaluation costs which totalled £4.2 million. This increase was partly offset by the amortisation of the intangible mining asset recognised on acquisition of the Vatukoula Gold Mine in April 2008. The net book value of plant property equipment and mine properties development was £37.2 million (2011: £30.5 million). The main capital expenditure drivers being those outlined in the cash flow used in the investing activities section above, these were offset by amortisation and depreciation charges of £6.6 million (2011: £6.1 million).

Total assets increased from £87.3 million in 2011 to £90.7 million in 2012. The increase was for the large part due to an increase in intangible and tangible assets. These increases were offset by lower inventories, trade and other receivables and a £4.5 million decrease in cash and cash equivalents.

Total current liabilities for the year ended 31 August 2012 were £12.3 million, an increase of £5.8 million from the balance of £6.5 million in 2011. This increase is primarily driven by the increase in trade creditors as outlined in the cash flow section above. Non-current liabilities decreased to £10.4 million from £12.3 million in the previous year. This decrease is mainly due to the £1.0 million release of the deferred tax liability recognised on the acquisition of the Vatukoula Gold Mine in April 2008.

**Kiran Morzaria**
**Finance Director**
9 January 2013

**Non-IFRS Measures**
The Group has identified certain measures in this report that are not measures as defined under IFRS. Non-IFRS financial measures disclosed by the directors and management are provided to shareholders as additional information in order to provide them with an alternative method of assessing the Group's financial condition and operating results. These measures are not in accordance with, or a substitute for IFRS, and may be different from or inconsistent with non-IFRS measures used by other companies. These measures are explained below.

**Average realised gold price** is a non-IFRS financial measure and is calculated by dividing the total revenue for the year by the total ounces sold during the year and converting the GB£ value to US$ at the average foreign exchange rate over the year.

**EBITDA** is a non-IFRS measure. The group calculates EBITDA as (loss)/profit for the period excluding:

- Income tax credits or expense
- Finance expense
- Finance income
- Depreciation and amortisation charges; and
- Goodwill impairment charges

EBITDA is intended to provide additional information to investors and analysts. It does not have a standard definition under IFRS and other companies may calculate EBITDA differently. Refer to page 25 as part of the financial review section for a reconciliation of profit to EBITDA. EBITDA should not be considered a substitute or in isolation for measures of performance as prepared in accordance with IFRS, as it excludes the impact of cash costs of financing activities and taxes and the changes of working capital balances,

**Cash cost per ounce sold / per tonne mined and milled are** non-IFRS financial measures. Cash costs include all costs associated with mining and processing the unit of measure, inclusive of all costs absorbed into inventory, as well as royalties, production taxes and mine overheads/administrative costs. The cash costs exclude foreign exchange gains, depreciation and amortisation expenses, impairment charges, inventory obsolesces, rehabilitation charges, doubtful debts and share based payments. These cash costs are aggregated and divided by either ounces of gold shipped or the tonnes mined and milled to reach the relevant non-IFRS financial measure.

**Operating cash flow per share** is a non-IFRS financial measure and is calculated by dividing the Net cash (used) / generated in operating activities by the weighted average number of Ordinary Shares in issue.

# Corporate Responsibility

**We believe that to operate effectively and profitably VGM needs to establish mutually beneficial relationships within the community that we operate. We need to maintain these relationships to help us ensure a stable operating environment and allow access to our exploration assets.**

## Community Relations

**The Vatukoula Gold Mine has under previous owners had some issues with its community relations. Over the course of 2012 there has been an improvement in the relationships between our Company and our local stakeholders. The key areas of focus for this improvement have been:**

**a)** regular engagement with the local communities, allowing open and frank discussions and respecting stakeholders concerns,
**b)** maximising the communities' opportunity to benefit from employment and local procurement; and
**c)** developing a long-term plan to assist local communities to pursue their own socio-economic priorities.

Some of the main material contributions we make to the local community are; the provision of subsidised power and water, sponsorship of local sporting clubs and events; renovation or construction of staff housing and the contribution of F$6 million for the establishment of the Vatukoula Social Assistance Trust Fund ("VSATF").

Management expects that the commencement of the provision of assistance from the Vatukoula Social Assistance Trust Fund is imminent, the Trust implementation documents having been approved by the Cabinet of the Government of Fiji. The trustees are expected to administer the F$6million dollars of assistance contributed by the Group for the benefit of those employees still redundant after the former owners of the Vatukoula Gold Mine ceased operations in December 2006.

Under principles stipulated by VGM, it is intended that the VSATF function as a model for current and future mining operations throughout Fiji in terms of planning for the sustainable livelihoods of mine workers after mine closure or downsizing.

## Health and Safety

Safety is a top priority for mine management. During the year under review we experienced a Lost Time Injury Frequency Rate ("LTIFR") of 14.8 per 1 million man hours. To improve on the mine's safety performance a number of initiatives are underway. A dedicated manager has been appointed to lead the safety, health, environment and training teams. Dedicated safety and training superintendents are in the process of being locally recruited. We are working with Australia based external training providers for the provision of specialised training materials and software to recognised standards and a review of all policies, procedures and standards is in progress on the mine. The mine has also introduced a bonus scheme for local employees, a major component of which is safety performance.

Safety in the workplace is regarded as a top priority at all times. We insist that all our employees work according to stringent safety practices and we are all working toward our target of a zero LTIFR.

## Environment

Over the year we have developed a comprehensive environmental policy that is to be implemented across our operation. A study by an independent engineer reviewed our policies and procedures and carried out a gap analysis against relevant local legislation, the IFC Performance Standards, IFC EHS General Guidelines and the IFC Mining Sector Guidelines. Although the Company was either Compliant or Materially Complaint with these standards, it has identified areas for improvement in the coming year.

One of the key consumables at the mine is energy which currently is provided by fossil fuels, andwe have been examining opportunities to reduce our reliance on diesel power generation. In particular we are looking to establish an off-take agreement or joint venture with the FSC.

# Risk Management

## Principal risks and uncertainties

**The Board annually reviews the key risks facing the business and assesses the controls for managing these risks, where possible. The principal risks and uncertainties facing the Group are as follows:**

### Strategic Risk

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| **Reserve and resource estimates**<br>The Group's mineral reserves and resources are estimates based on several assumptions, including geological, mining, metallurgical and other technical factors. There can be no assurance that the anticipated tonnages or grades will be achieved. | The Group continually monitors and reconciles the production targets and mine plans against mineral reserve and resource figures. Our mineral reserve and resources are updated annually and are prepared to the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. | High | The Group's Mineral Reserve and Resource statement are set out on pages 31 to 33. |
| **Single asset risk**<br>All of the Group's revenue is derived from production at the Vatukoula Gold Mine in Fiji. In order to ensure continued production and expansion to the current operations, the Company need to build in additional capacity and develop further growth opportunities. | The Group's management has implemented an accelerated development programme to develop spare capacity in the underground mining infrastructure and in addition is assessing the wider prospecting licenses it holds. The Group will also asses other opportunities outside of Fiji if they are presented to the Group. | High | A review of our operational and exploration activities and potential organic growth opportunities are set out in the Operational and Geological Review on pages 16 to 19 and pages 20 to 21. |

### Financial Risks

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| **Commodity prices**<br>The Group's financial performance is dependent on the price of gold and diesel. Adverse movements in gold price and diesel price movements could have a material impact on the Group's results and operations. | The executive board constantly monitors the commodity prices and its potential effects on operating cash flow and profitability. The Group's strategy, however, is to provide maximum exposure to Gold hence no hedging strategies have been employed. Long-term diesel hedging will come from the biomass power station fixing our largest cost. | High | Further information is set out in the Market Review on pages 12 to 13 and the Financial Review on pages 22 to 26. |
| **Costs and capital expenditure**<br>The Group operates in an industry that has experienced shortages in consumables and capital equipment and as such prices can vary significantly year on year. These variations may adversely affect operating cash flow and the Group's financial position. | The Group's management is constantly reviewing variation in both activity costs and the consumables driving them. We will seek to further mitigate these costs by entering into long-term supply contract where possible. In addition management carry out cash flow analysis and sensitivities to mitigate liquidity risk. | Medium | Further information is set out in the Financial Review on pages 22 to 26. |

## Operational Risks

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| **Business interruption** Assets used in operations may break down and current insurance policies may not cover against all forms of risks due to certain exclusions. | The Group has implemented a maintenance system which should go some way to mitigate these risks. In addition we are carrying out a full risk assessment on this issue, and will investigate if insuring against some of these risks will be economic. | High | Further information is available in the Operations review on pages 16 to 19. |
| **Reserve and resource depletion** The Group's future profitability and operating margins depend upon its ability to replenish reserves with geological characteristics to enable mining at competitive costs. | The Group has identified key areas of resource and reserve definition and further exploration areas within its current licenses. It has begun both programmes. | High | Further information is available in the Geological Review on pages 20 to 21. |

## Personnel Risks

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| Loss of key senior management and personnel, in particular highly skilled engineers and geologists. | The Group seeks to provide competitive compensation arrangements. Inclusive of options packages. | Medium | Not Applicable |
| The lack of availability of suitably skilled individuals in the vicinity of the Group's operations. | The Group recruits internationally, and as above provide competitive compensation packages. | Medium | Not Applicable |
| Failure to maintain good labour relations with workers and /or unions may result in work slowdown, stoppage or strike. | A labour relations officer has been appointed and ensures employees needs and requirements are heard and if appropriate, met. The Group also has an open dialogue with key stakeholders inclusive of worker unions. | High | Not Applicable |

## Risk Management continued

### Personnel Risks continued

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| **Health and safety**<br>Group employees who work in the mines may be exposed to health and safety risks. Failure to manage these risks may results in a work slowdown, stoppage or strike and/or may damage the reputation of the Group and hence its ability to operate. | The Group takes the Health and Safety of employees and contractors very seriously, and monitors, reviews and improves health and safety initiatives on a regular basis. | High | Further information is available in the Corporate Responsibility section page 27. |
| **Environmental**<br>The Group may be liable for losses arising from environmental hazards associated with the Group's activities and production methods, or may be required to undertake extensive remedial clean-up action or pay for governmental remedial clean-up actions. | The Group has an environmental department with an allocated budget for environmental purposes. The current polices have been recommended by an external third party and their implementation will be audited. Water quality is monitored on a regular basis, and we will monitor air quality in the near future. | High | Further information is available in the Corporate Responsibility section on page 27. |

### External Risks

| Risk | Mitigation/Comment | Potential Impact | Further Information |
|---|---|---|---|
| **Political, legal and regulatory developments**<br>Future changes to the environment, which may include increases in taxes and / or royalties may result in additional expense, restrictions on operations and delay the development of future projects. | We liaise with the government and relevant departments in Fiji on many aspects of our day to day operations and are proactive in our approach. In addition, we monitor the political landscape to see if there are likely changes in policy that are likely to impact the Group's operations. | Medium | Not Applicable |
| **Community relations**<br>Under previous ownership the Group's operation in Fiji has historically received criticisms from external independent organisations. | The Group has a community relations department that maintains an on-going dialogue with local communities. Currently, we are reviewing all our community programmes. We expect from this review to develop a long term sustainable development programme. | High | Further information is available in the Corporate Responsibility section on page 27. |

# Reserves and Resources

**We believe that to operate effectively and profitably VGM needs to establish mutually beneficial relationships within the community that we operate.**



## Mineral Resource Statement

The Vatukoula Gold Mine (VGM) Mineral Resource estimate is classified and reported in Table 1 below, in accordance with the 2004 JORC Code.[1]

The 2012 Mineral Resource estimate is compared to the 2011 Mineral Resource in Table 2.

**Overall, the Mineral Resource has decreased by 50,000 ounces compared to 2011 Mineral Resources. These changes are attributable to:**

- reductions due to depletion of the models between faces – 80,000 ounces of gold.
- reductions due to reinterpretation of previously modelled mineralised structures – 110,000 ounces of gold.
- inclusion of the Waikatakata Mineral Resource of 140,000 ounces.

## Underground Mineral Resource

AMC Consultants Pty Ltd (AMC) completed a Mineral Resource estimate for the VGM using geological and assay data available at 31 May 2012. The data supplied by VGM allowed AMC to generate a constrained grade model and estimate a Mineral Resource. AMC estimated the Mineral Resources using the end of July 2012 surveyed face positions. The Mineral Resources at 31 August 2012 were estimated by subtracting the production for the month of August 2012.

The VGM Mineral Resource estimate is classified into Measured, Indicated, and Inferred Mineral Resources based on the current drillhole spacing, quality of the drilling information and confidence in the

### Table 1: VGM Mineral Resources at 31 August 2012

| | Measured | | | Indicated | | | Inferred | | |
|---|---|---|---|---|---|---|---|---|---|
| Mineral Resource | Tonnes (Mt) | Grade (g/t Au) | Contained Gold (Moz) | Tonnes (Mt) | Grade (g/t Au) | Contained Gold (Moz) | Tonnes (Mt) | Grade (g/t Au) | Contained Gold (Moz) |
| Underground | 3.2 | 12.9 | 1.3 | 3.7 | 10.3 | 1.2 | 4.0 | 9.7 | 1.3 |
| Waikatakata | - | - | - | - | - | - | 5.1 | 0.9 | 0.1 |
| Tailings | 4.5 | 1.5 | 0.2 | 0.7 | 1.3 | 0.03 | - | - | - |
| **Total** | **7.7** | **6.2** | **1.5** | **4.4** | **8.9** | **1.2** | **9.1** | **4.8** | **1.4** |

Note: Values are rounded and may not add correctly in this table.

### Table 2: Comparison with 2011 Mineral Resources

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| Classification | Tonnes (Mt) | Grade (g/t Au) | Contained Gold (Moz) | Tonnes (Mt) | Grade (g/t Au) | Contained Gold (Moz) |
| Measured Resource | 7.7 | 6.2 | 1.5 | 7.4 | 6.0 | 1.4 |
| Indicated Resource | 4.4 | 8.9 | 1.2 | 4.4 | 8.8 | 1.3 |
| Inferred Resource | 9.1 | 4.8 | 1.4 | 4.6 | 9.7 | 1.5 |
| **Total Mineral Resource** | **21.2** | **6.2** | **4.2** | **16.4** | **8.0** | **4.2** |

[1] Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

## Reserves and Resources continued

geological controls on the gold mineralisation and grade continuity. The Mineral Resource estimate includes Measured and Indicated Mineral Resources that will convert to Ore Reserves on application of modifying factors.

The information in this statement of underground Mineral Resources is based on information compiled by Mr John Tyrrell, who is a Member of the Australasian Institute of Mining and Metallurgy and a full-time employee of AMC Consultants Pty Ltd. Mr Tyrrell has sufficient relevant experience to be a Competent Person as defined by the JORC Code. Mr Tyrrell consents to the inclusion of this information in the form and context in which it appears. Mineral Resources listed as being prepared by AMC were estimated under the direct supervision of Mr Tyrrell.

**The following notes highlight assumptions used to generate the VGM underground Mineral Resource estimate:**

- The Mineral Resource models use geological and assay data available at 31 May 2012.
- Samples were prepared and analysed at the on-site Vatukoula laboratory using fire assay using a 25 g charge with atomic absorption spectrometry (AAS) finish.
- The mineralised envelope was defined using geological logging and assay information from diamond drillholes. A grade variable (the product of the horizontal or vertical intercept width and grade expressed as m.g/t Au) was used to interpret the mineralised envelope using a nominal cut-off of 1m.g/t Au.
- Extrapolation of the interpreted mineralised structures was limited to 50 m between section lines and 25 m at the end of each section.
- The estimation method used 3D wireframe and block modelling projected to a 2D plane, with ordinary kriging interpolation. The grade variable was estimated using parameters derived from modelled semi-variograms and geostatistical analysis. The intercept width was estimated separately and the grade back-calculated. Top-cuts were applied to the grade variable to limit the influence of outlier values.
- In situ density data was available from drillhole sampling. Densities were assigned to each of the modelled structures based on the averages from all available samples.
- A cutoff of 4 m.g/t Au and a gold grade cut-off 2 g/t Au were applied to the r resource models to obtain the reported Mineral Resources.
- The Mineral Resource models were depleted for mining to 31 August 2012, using surveyed mine outlines to 31 July 2012 and production figures for August 2012.
- The metallurgical response for the orebodies is well understood from actual production. No recovery factors were applied to the Mineral Resource estimate.

### Waikatakata Mineral Resource

The information for the Waikatakata Mineral Resource is based on information compiled by Mrs Rachael Birch, who is a Member of the Australasian Institute of Mining and Metallurgy and a full-time employee of AMC Consultants Pty Ltd. Mrs Birch has sufficient relevant experience to be a Competent Person as defined by the JORC Code. Mrs Birch consents to the inclusion of this information in the form and context in which it appears. No previous Mineral Resource has been reported for Waikatakata.

**The following notes highlights assumptions used to generate the Waikatakata Mineral Resource estimate:**

- The Waikatakata Mineral Resource estimate was completed in October 2011 using 11 diamond drillholes and 133 reverse circulation drillholes for a total drilled length of 4,338 m. A twin drillhole programme was completed in 2011. Four twin diamond drillholes were drilled into the broader Waikatakata area
- The Mineral Resource estimate is based on the interpretation of mineralised zones using a nominal lower gold cut-off grade of 0.3 g/t Au. The interpretation was constrained within the contact breccia, andesite, and tuff units and between 8,400 m E and 9,500 m E
- All twin drill core samples were prepared and assayed at the VGM site laboratory. All samples were analysed for gold by fire assay on a 50 g charge with AAS finish
- Drillhole samples were composited to a dominant length of 1 m. Residual composites (less than 1 m) were retained for estimation
- A global bulk density value of 2.5 t/m3 was assigned to the model
- Estimation of gold was completed using ordinary kriging with estimation parameters derived from modelled semi-variograms

## Tailings Mineral Resource

The Tailings Mineral Resource estimate is an estimate developed by CSA Global (CSA). In March 2008, CSA compiled an independent Competent Persons Report titled "An Independent Competent Persons report for River Diamonds Plc. covering the Vatukoula Gold Mine in Fiji, the Panguma Prospect in Sierra Leone and the Rio Novo Gold Prospect in Brazil" (CSA CPR), for inclusion in the application for readmission to trading on the Alternative Investment Market (AIM) of the London Stock Exchange.

The CSA CPR reported the 2006 Mineral Resources, including the Tailings Mineral Resource, according to the JORC Code. No further estimates or data are available at the time of this report. AMC cannot verify the estimate and allocate a low reliability to the estimate.

The Tailings Mineral Resource is 0.2 Moz, and approximately 10% of the total Measured and Indicated Mineral Resources at VGM. AMC considers that the Tailings Mineral Resource may provide an opportunity to improve the output of the operation, but is not material to the total Mineral Resources. VGM plans to review the tailings resource in conjunction with the results of exploration programmes to determine the preferred means to extract the contained gold. VGM production plans do not include the Tailings Mineral Resource pending this review and conversion of Mineral Resources to Ore Reserves.

## Ore Reserve Statement

The 2012 Ore Reserve estimate is based on the 2011 Mineral Resource estimate.

Based on the mine design generated by AMC and within the Measured and Indicated Mineral Resource portions of the underground VGM deposits, AMC estimated a Proved and Probable Ore Reserve of 2.7 Mt at 7.9 g/t Au for contained gold of 0.70 Moz using a gold price of US$1400/oz with a 4.48 g/t Au cut-off.

The method used to determine the 2012 Ore Reserve estimate required stopes to be split into panels to allow some stopes to be partially mined, such that only the panels with an ore reserve classification were considered. Access development to the ore reserve stopes was added to the mine plan if the panel met the Ore Reserve classification. The VGM Ore Reserve estimate is classified and reported in Table 3 in accordance with the JORC Code.

The reduction in 2012 Ore Reserve estimate from the 2011 Ore Reserve estimate is mainly attributable to mining depletion over the past year.

Mineral Resources were converted to Ore Reserves recognising the level of confidence in the Mineral Resource estimate and reflecting any modifying factors. Ore Reserves are included in the Mineral Resources estimate.

**The metal prices, grades, recoveries and costs were used to identify mineable blocks to be included in the Ore Reserve estimate. The metal prices and exchange rate used in the Ore Reserve estimate are:**

- Gold: US$1400/oz
- Exchange Rate: F$1.00 = US$0.54.

The underground Ore Reserve estimates comprise the portions of the Measured and Indicated Mineral Resources for which the appropriate mine planning has been undertaken and can be economically mined. The Ore Reserves are derived from the Mineral Resources by application of cut-off grades, stoping heights, dilution factors and extraction ratio.

The Proved Ore Reserve estimate is based on Mineral Resources classified as Measured Resource, while the Probable Ore Reserve estimate is based on Mineral Resources classified as Indicated Resource after consideration of all mining, metallurgical, social, environmental, statutory, and financial aspects of the project.

The Ore Reserve statement is based on information compiled by Mr Kevin Oborne under the direct supervision of Mr David Lee. Mr Kevin Oborne is a Member of the Australasian Institute of Mining and Metallurgy and Mr Lee is a Fellow of the Australasian Institute of Mining and Metallurgy and both are full-time employees of AMC Consultants Pty Ltd. Mr Lee has sufficient relevant experience to be a Competent Person as defined by the JORC Code.

**The following notes highlight assumptions used to estimate the VGM Ore Reserve estimate:**

- Cut-off grade of 4.48 g/t Au.
- Minimum stope mining width of 1.18 m.
- 10% stope and development mining dilution.
- 95% mining recovery in development headings.
- 85% mining recovery in stopes.

AMC estimated the Ore Reserves using the end of August 2012 surveyed face positions.

**Table 3: VGM Ore Reserves at 31 August 2012 compared with 2011 Ore Reserves**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| **Classification** | **Tonnes (Mt)** | **Grade (g/t Au)** | **Contained Gold (Moz)** | **Tonnes (Mt)** | **Grade (g/t Au)** | **Contained Gold (Moz)** |
| Proved Ore Reserve | 0.6 | 9.7 | 0.18 | 0.6 | 9.4 | 0.19 |
| Probable Ore Reserve | 2.2 | 7.5 | 0.52 | 2.3 | 7.5 | 0.55 |
| **Total Ore Reserve** | **2.8** | **7.9** | **0.70** | **2.9** | **7.9** | **0.74** |

Note: Values are rounded and may not add correctly in this table.

# Board of Directors

### I C Orr-Ewing

**Non-Executive Chairman, age 70**

Mr Orr-Ewing has been involved in the natural resources sector for 37 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. He was deeply involved in the oil industry from 1971 through to 1987 with numerous companies in the North Sea, Libya, Nigeria and Algeria.

### D K Paxton

**Chief Executive Officer (CEO) age 58**

Mr Paxton is a professional engineer with over 36 years' experience in the mining industry, starting with mine production at Gold Fields 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.

### K C Morzaria

**Finance Director, age 38**

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 13 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.

### D A Lenigas

**Non-Executive Director, age 51 (Resigned in January 2012)**

Mr Lenigas has over 25 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 the Chairman of. Leni Gas & Oil Plc., Solo Oil Plc., and is also a non-executive director of Rare Earth Minerals Plc.

### J I Stalker

**Non-Executive Director, age 61 (Resigned in January 2013)**

Mr Stalker is the Chief Executive Officer of Brazilian Gold Corporation, a Toronto-listed gold mining company. He has over thirty years of development and operational mining experience in Europe, Africa and Australia. He has worked his way up from operational roles in the base and precious metals arenas to executive positions in some of the largest mining companies in the world. Mr. Stalker was CEO of Berkeley Resources Ltd, CEO of UraMin Inc. ("UraMin"), and a Vice President of Gold Fields Ltd., the fourth largest gold producer in the world at the time.

### J F Kearney

**Non-Executive Director, age 61**

Mr Kearney is the Chairman and President of Canadian Zinc Corporation with over 30 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

**Non-Executive Director, age 70**

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 and company financial statements for the year ended 31 August 2012.

## Principal activities

The principal activity of the Group was the operation of the Vatukoula Gold Mine in Fiji as described on page 3 of the Business Review. The principal activity of the Company was that of a holding Company for its subsidiary undertakings, which are set out in Note 16 of the financial statements.

## Results and dividends

The loss on ordinary activities of the Group for the year ended 31 August 2012 after taxation was £7.1 million (2011: loss of £2.3 million).

The directors do not recommend the payment of a dividend (2011: nil).

## Business review

A review of the current and future development of the Group's business is given in the business review section of this report on pages 3 to 40.

Given the nature of the business and industry the key performance indicators are based on financial and operational objectives set at the beginning of the year. Performance in relation to these is highlighted on pages 14 and 15.

The Business Review sets out a comprehensive review of the development and performance of VGM's business for the year ended 31 August 2012 and the future developments. The Business Review is set out on pages 3 to 40 of this annual report. All information detailed in these pages is incorporated by reference into this Directors' Report and is deemed to form part of this Directors' Report.

## Corporate Governance Statement

The corporate governance statement set out on page 39 is incorporated by reference into this Directors' Report and is deemed to form part of this Directors' Report.

## Post balance sheet events

At the date these financial statements were approved, being 28 December 2012, 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 Review by the Chief Executive Officer on pages 10 to 11.

## 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 use derivative financial instruments to manage any of these risks nor is hedge accounting applied.

The Group depends on the Vatukoula Gold Mine for a substantial portion of its revenue and cash flow and, therefore, the Group's business will be harmed if VGM's revenues are adversely affected. A review of this risk is given in our Risk Management section on pages 28 to 30.

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. Further details of the Group's exposure to risks arising from financial instruments held are provided in note 26.

### Liquidity risk

The Group actively manages its working finance to ensure the Group has sufficient funds for current operations. 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. The Group does not have any variable rate debt and therefore it is not exposed to interest rate cash flow risk on its debt.

### Foreign exchange risk

The Group operates in Fiji and Brazil. The board has assessed its exposure, the details of which are provided in note 26(i). This situation is monitored on a regular basis, and as such the directors do not currently consider it necessary to enter into forward exchange contracts.

## Directors' Report continued

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

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

### Directors
**The following directors have held office during the year:**

I C Orr-Ewing
D K Paxton
K C Morzaria
D A Lenigas (Resigned 4th January 2012)
J I Stalker (Resigned 2nd January 2013)
J F Kearney
J A MacPherson

### Directors' interests
**Directors' interests, including family interests in the ordinary shares, were as follows:**

| Beneficial Holding | 31 August 2012 | 31 August 2011 |
|---|---|---|
| I C Orr-Ewing* | 522,683 | 517,774 |
| D K Paxton | 175,000 | 135,000 |
| K Morzaria | 47,280 | 40,940 |
| D A Lenigas (Resigned 4th January 2012) | 20,000 | 20,000 |
| J I Stalker (Resigned 2nd January 2013) | - | - |
| J F Kearney | - | - |
| J A MacPherson | - | - |

* of which 211,107 (2011: 211,107) are held beneficially.

**Directors also hold options over ordinary shares as follows:**

| Number of Options | 31 August 2012 | 31 August 2011 |
|---|---|---|
| I C Orr-Ewing | 300,000 | 300,000 |
| D K Paxton | 1,000,000 | 1,000,000 |
| K C Morzaria | 700,000 | 700,000 |
| D A Lenigas (Resigned 4th January 2012) | 700,000 | 700,000 |
| J I Stalker (Resigned 2nd January 2013) | 700,000 | 700,000 |
| J F Kearney | 400,000 | 400,000 |
| J A MacPherson | 400,000 | 400,000 |

### Political and charitable donations
The Group made no charitable or political donations during the year (2011: nil).

## Substantial shareholdings

**As at 20 November 2012 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 5p | % |
|---|---|---|
| HSBC Global Custody Nominee (UK) | 29,000,000 | 24.67% |
| *Canaccord Nominees Limited | 12,673,380 | 10.78% |
| Roy Nominees Limited | 7,811,344 | 6.64% |
| Vidacos Nominees Limited | 5,830,600 | 4.96% |
| BNY Mellon Nominees Limited | 5,060,575 | 4.30% |
| Ferlim Nominees Limited | 4,395,371 | 3.74% |
| **Total** | **64,771,270** | **55.09%** |

* 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. It does not follow any specific code or standard on payment practice. However, it is the company's policy to agree appropriate terms and conditions for its transactions with suppliers, to ensure that the suppliers are made aware of those terms and, provided the supplier has complied with its obligations, to abide by the terms of payment agreed. In the current year the company moved to a 30-day payment terms, from prepayment terms in 2011. Trade creditor days of the Group for the year ended 31 August 2012 were 69 days (2011: 33 days).

## Related Party Transactions

Details of related party transactions during the year are set out at note 28 to the financial statements.

## 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. Further details are provided in note 3.

## 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 of IFRS Interpretations Committee 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 the 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.

The 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 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 Group's 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.

## **Directors' Report** continued

### Disclosure of information to auditors

So far as each person who was a director at the date of approving the report is aware, all relevant audit information, being information needed by the auditor in connection with preparing the report, has been provided or made available to the auditor. Having made enquiries of fellow directors, 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.

**K C Morzaria**
**Director**
9 January 2013

# Corporate Governance Statement

### Compliance with UK Corporate Governance Code

The directors recognise the value of the Combined Code on Corporate Governance that was issued in September 2012 by the Financial Reporting Council and whilst under AIM rules full compliance is not required, the directors believe that the Company applies the Main Principles insofar as is practicable and appropriate for a public company of its size.

Outlined below is a summary of how the company applies the Main Principles set out in the UK Corporate Governance Code.

### Board of Directors

The board of directors comprises two executive directors, and four non-executive directors, one of whom is the Chairman. 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.

### Board Meetings

In addition to ad hoc meetings arranged to discuss particular transactions and events and the AGM, the full board met seven times during the year ending 31 August 2012. 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 of three non-executive directors. Its terms of reference indicate at least two regular meetings per year. The audit committee has met once during the current 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 of three 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

**For the year ended 31 August 2012**

## Independent auditor's report to the members of Vatukoula Gold Mines Plc.

We have audited the financial statements of Vatukoula Gold Mines Plc. for the year ended 31 August 2012 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 39, 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 and express an opinion on 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 is made solely to 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 the scope of an audit of financial statements is provided on the APB's web-site at
**www.frc.org.uk/apb/scope/private.cfm**

## 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 of the parent company's affairs as at 31 August 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs 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 in respect of the following matters where the Companies Act 2006 requires us 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.

**Richard Metcalfe (Senior Statutory Auditor)**
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD

9 January 2013

# Consolidated Statement of Comprehensive Income

| For the year ended 31 August 2012 | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Turnover** | 4 | 54,925 | 47,964 |
| Cost of sales | 5 | (53,544) | (44,718) |
| **Gross profit** | | **1,381** | **3,246** |
| **Operating expenses** | | | |
| Administrative expenses | | (2,762) | (2,301) |
| Foreign exchange gains | | 1,334 | 1,592 |
| Depreciation and amortisation expense | | (6,551) | (6,074) |
| **Underlying operating loss** | | **(6,598)** | **(3,537)** |
| Inventory obsolescence write back | 17 | 47 | 179 |
| Gain on disposal of assets | | 27 | - |
| Provision for mine rehabilitation | | 45 | - |
| Provision for doubtful debt (expense) / write back | 18 | (993) | 242 |
| Share based payments expense | 20 | (627) | (808) |
| **Operating loss** | **6** | **(8,099)** | **(3,924)** |
| Interest receivable and other income | 8 | 65 | 98 |
| Interest payable and similar charges | 8 | (111) | (107) |
| **Net loss before taxation** | | **(8,145)** | **(3,933)** |
| **Taxation** | **9** | **1,075** | **1,618** |
| **Loss for the period** | | **(7,070)** | **(2,315)** |
| **Attributable to:** | | | |
| Owners of the Parent | | (7,070) | (2,315) |
| Non Controlling interest | | - | - |
| | | **(7,070)** | **(2,315)** |
| **Other comprehensive income** | | | |
| Currency translation differences | | 440 | 178 |
| **Total comprehensive loss** | | **(6,630)** | **(2,137)** |
| **Attributable to:** | | | |
| Owners of the Parent | | (6,630) | (2,137) |
| Non Controlling interest | | - | - |
| **Loss per share** | | **Pence** | **Pence** |
| Basic | 11 | (7.81) | (2.76) |
| Diluted | 11 | (7.81) | (2.76) |

All activities relate to continuing operations.

The notes on pages 49 to 84 form an integral part of these financial statements.

# Consolidated Statement of Financial Position

| As at 31 August 2012 | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | 36,841 | 34,057 |
| Property, plant and equipment | 13 | 25,713 | 23,533 |
| Mine properties and development | 14 | 11,515 | 6,955 |
| **Total non-current assets** | | **74,069** | **64,545** |
| **Current assets** | | | |
| Inventories | 17 | 7,771 | 8,034 |
| Trade and other receivables | 18 | 6,383 | 7,794 |
| Cash and cash equivalents | 19 | 2,437 | 6,892 |
| Total current assets | | 16,591 | 22,720 |
| **Total Assets** | | **90,660** | **87,265** |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 10,053 | 4,229 |
| Provisions | 22 | 1,073 | 664 |
| Borrowings | 23 | - | 5 |
| Vatukoula Social Assistance Trust Fund | 24 | 1,189 | 1,558 |
| **Total current liabilities** | | **12,315** | **6,456** |
| **Non-current Liabilities** | | | |
| Provisions | 22 | 3,320 | 4,141 |
| Convertible loan | 25 | 317 | 341 |
| Vatukoula Social Assistance Trust Fund | 24 | 15 | 13 |
| Deferred tax liability | 32 | 6,758 | 7,776 |
| **Total non-current liabilities** | | **10,410** | **12,271** |
| **Shareholders' Equity** | | | |
| Share capital | 20 | 4,828 | 4,378 |
| Share premium account | | 81,659 | 76,709 |
| Merger reserve | | 2,167 | 2,167 |
| Foreign exchange reserve | | 1,022 | 582 |
| Other reserves | | 2,882 | 2,358 |
| Accumulated losses | | (24,623) | (17,656) |
| **Total shareholders' equity** | | **67,935** | **68,538** |
| **Total liabilities and shareholders' equity** | | **90,660** | **87,265** |

**Approved by the Board and authorised for issue on 9 January 2013 and signed on behalf of the Board of Directors by:**

**K C Morzaria**
**Director**
9 January 2013

The notes on pages 49 to 84 form an integral part of these financial statements.

# Company Statement of Financial Position

| As at 31 August 2012 | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investment in subsidiary companies | 16 | 49,495 | 46,729 |
| Property, plant and equipment | 13 | - | 250 |
| Available for sale investments | 15 | - | - |
| **Total non-current assets** | | **49,495** | **46,979** |
| **Current assets** | | | |
| Trade and other receivables | 18 | 24,432 | 17,032 |
| Cash and cash equivalents | 19 | 270 | 4,774 |
| **Total current assets** | | **24,702** | **21,806** |
| **Total Assets** | | **74,197** | **68,785** |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 193 | 197 |
| **Non-current Liabilities** | | | |
| Convertible loan | 25 | 317 | 341 |
| **Shareholders' Equity** | | | |
| Share capital | 20 | 4,828 | 4,378 |
| Share premium account | | 81,659 | 76,709 |
| Other reserves | | 2,882 | 2,358 |
| Accumulated losses | | (15,682) | (15,198) |
| **Total shareholders' equity** | | **73,687** | **68,247** |
| **Total liabilities and shareholders' equity** | | **74,197** | **68,785** |

**Approved by the Board and authorised for issue on 9 January 2013 and signed on behalf of the Board of Directors by:**

**K C Morzaria**
**Director**
9 January 2013

The notes on pages 49 to 84 form an integral part of these financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

**As at 31 August 2012**

| | Ordinary share capital £'000 | Share premium £'000 | Merger reserve £'000 | Foreign exchange reserve £'000 | Share based payment reserve £'000 | Equity component of convertible loan note £'000 | Accumulated losses £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 Sep 2011** | **4,378** | **76,709** | **2,167** | **582** | **2,313** | **45** | **(17,656)** | **68,538** |
| Loss for the year | - | - | - | - | - | - | (7,070) | (7,070) |
| Other comprehensive income | | | | | | | | |
| – Currency translation differences | - | - | - | 440 | - | - | - | 440 |
| Total comprehensive income | - | - | - | 440 | - | - | (7,070) | (6,630) |
| Issue of shares | 450 | 4,950 | - | - | - | - | - | 5,400 |
| Cost of share issue | - | - | - | - | - | - | - | - |
| Share option expired | - | - | - | - | (103) | - | 103 | - |
| Share based payments | - | - | - | - | 627 | - | - | 627 |
| **Balance at 31 August 2012** | **4,828** | **81,659** | **2,167** | **1,022** | **2,837** | **45** | **(24,623)** | **67,935** |

**Share premium:** The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital.

**Merger reserve:** The merger reserve represents shares that have been issued at a premium to their nominal value on acquisition of another company.

**Foreign exchange reserve:** The foreign exchange reserves represents the exchange gains or losses resulting from translating foreign currency amounts to the reporting currency during the consolidation of the accounts of the Group companies.

**Share based payment reserve:** The share-based payment reserve represents cumulative amounts charged to the Statement of Comprehensive Income in respect of share based payment arrangements, where it has not yet been settled by means of an award of shares.

**Equity component of convertible loan note:** The equity component of the convertible loan notes represents the remaining equity component of convertible notes which has not yet been converted into shares.

**Accumulated losses:** The accumulated losses represent profits and losses retained in previous and current period.

The notes on pages 49 to 84 form an integral part of these financial statements.

# Consolidated Statement of Changes in Shareholders' Equity

**As at 31 August 2012**

| | Ordinary share capital £'000 | Share premium £'000 | Merger reserve £'000 | Foreign exchange reserve £'000 | Share based payment reserve £'000 | Equity component of convertible loan note £'000 | Accumulated losses £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 Sep 2010** | **4,031** | **69,699** | **2,167** | **404** | **1,539** | **53** | **(15,378)** | **62,515** |
| Loss for the year | - | - | - | - | - | - | (2,315) | (2,315) |
| Other comprehensive income – Currency translation differences | - | - | - | 178 | - | - | - | 178 |
| Total comprehensive income | - | - | - | 178 | - | - | (2,315) | (2,137) |
| Issue of shares | 344 | 7,372 | - | - | - | - | - | 7,716 |
| Cost of share issue | - | (385) | - | - | - | - | - | (385) |
| Share option expired | - | - | - | - | (18) | - | 18 | - |
| Convertible loan | 3 | 23 | - | - | - | (8) | 19 | 37 |
| Share based payments | - | - | - | - | 792 | - | - | 792 |
| **Balance at 31 August 2011** | **4,378** | **76,709** | **2,167** | **582** | **2,313** | **45** | **(17,656)** | **68,538** |

**Share premium:** The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital.

**Merger reserve:** The merger reserve represents shares that have been issued at a premium to their nominal value on acquisition of another company.

**Foreign exchange reserve:** The foreign exchange reserves represents the exchange gains or losses resulting from translating foreign currency amounts to the reporting currency during the consolidation of the accounts of the Group companies.

**Share based payment reserve:** The share-based payment reserve represents cumulative amounts charged to the Statement of Comprehensive Income in respect of share based payment arrangements, where it has not yet been settled by means of an award of shares.

**Equity component of convertible loan note:** The equity component of the convertible loan notes represents the remaining equity component of convertible notes which has not yet been converted into shares.

**Accumulated losses:** The accumulated losses represent profits and losses retained in previous and current period.

The notes on pages 49 to 84 form an integral part of these financial statements.

# Company Statement of Changes in Shareholders' Equity

**As at 31 August 2012**

| | Ordinary share capital £'000 | Share premium £'000 | Share based payment reserve £'000 | Equity component of convertible loan note £'000 | Accumulated losses £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2011** | **4,378** | **76,709** | **2,313** | **45** | **(15,198)** | **68,247** |
| Loss for the year | - | - | - | - | (587) | (587) |
| Total comprehensive income | - | - | - | - | (587) | (587) |
| Issue of shares | 450 | 4,950 | - | - | - | 5,400 |
| Cost of share issue | - | - | - | - | - | - |
| Share option expired | - | - | (103) | - | 103 | - |
| Convertible loan | - | - | - | - | - | - |
| Share based payments | - | - | 627 | - | - | 627 |
| **Balance at 31 August 2012** | **4,828** | **81,659** | **2,837** | **45** | **(15,682)** | **73,687** |

| | Ordinary share capital £'000 | Share premium £'000 | Share based payment reserve £'000 | Equity component of convertible loan note £'000 | Accumulated losses £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 September 2010** | **4,031** | **69,699** | **1,539** | **53** | **(12,843)** | **62,479** |
| Loss for the year | - | - | - | - | (2,392) | (2,392) |
| Total comprehensive income | - | - | - | - | (2,392) | (2,392) |
| Issue of shares | 344 | 7,372 | - | - | - | 7,716 |
| Cost of share issue | - | (385) | - | - | - | (385) |
| Share option expired | - | - | (18) | - | 18 | - |
| Convertible loan | 3 | 23 | - | (8) | 19 | 37 |
| Share based payments | - | - | 792 | - | - | 792 |
| **Balance at 31 August 2011** | **4,378** | **76,709** | **2,313** | **45** | **(15,198)** | **68,247** |

**Share premium:** The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital.

**Share based payment reserve:** The share-based payment reserve represents cumulative amounts charged to the Statement of Comprehensive Income in respect of share based payment arrangements, where it has not yet been settled by means of an award of shares.

**Equity component of convertible loan note:** The equity component of the convertible loan notes represents the remaining equity component of convertible notes which has not yet been converted in shares.

**Accumulated losses:** The accumulated losses represent profits and losses retained in previous and current period.

The notes on pages 49 to 84 form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

| For the year ended 31 August 2012 | Notes | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Operating loss for the period:** | 6 | **(8,099)** | **(3,924)** |
| Adjustments for: | | | |
| Share based payments | 20 | 627 | 808 |
| Depreciation and amortisation | | 6,551 | 6,074 |
| (Gain) / Loss on disposal of property plant equipment | | (27) | 5 |
| Reversal of allowance for inventory obsolescence | 17 | (47) | (179) |
| Foreign exchange gains | | (429) | (1,202) |
| Provision for doubtful debts | 18 | 993 | (242) |
| Provision for mine rehabilitation | 22 | (45) | - |
| Movements in Employment Provisions | 22 | 411 | 235 |
| **Net operating (loss) / income before changes in working capital** | | **(65)** | **1,575** |
| Payment to Vatukoula Social Assistance Trust Fund | 24 | (397) | - |
| Decrease / (increase) in inventories | 17 | 492 | (1,577) |
| Decrease / (increase) in receivables | 18 | 561 | (2,079) |
| Increase / (decrease) in accounts payable | 21 | 5,666 | (231) |
| **Net cash generated / (used) in operating activities** | | **6,257** | **(2,312)** |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | 12 | (4,164) | (2,667) |
| Purchase of property plant and equipment | 13 | (7,245) | (6,532) |
| Payments for mine properties and development | 14 | (4,952) | (1,898) |
| Proceeds from disposals of property plant and equipment | | 233 | - |
| Interest received | 8 | 65 | 94 |
| **Net cash used in investing activities** | | **(16,063)** | **(11,003)** |
| **Cash flows before financing** | | **(9,806)** | **(13,315)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares | 20 | 5,400 | 7,716 |
| Costs of issue of shares | | - | (385) |
| Interest paid | | (88) | (18) |
| Repayment of borrowings | 23 | (5) | (45) |
| **Net cash provided by financing activities** | | **5,307** | **7,268** |
| **Net decrease in cash and cash equivalents** | | **(4,499)** | **(6,047)** |
| Cash and cash equivalents at beginning of the year | 19 | 6,892 | 12,849 |
| Effect of foreign exchange on cash and cash equivalents | | 44 | 90 |
| **Cash and cash equivalents at the end of the year** | **19** | **2,437** | **6,892** |

The notes on pages 49 to 84 form an integral part of these financial statements.

# Company Statement of Cash Flows

| For the year ended 31 August 2012 | Notes | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Operating loss for the year:** | **6** | **(2,178)** | **(2,408)** |
| Adjustments for: | | | |
| Share based payments expense | 20 | 360 | 128 |
| **Net operating income before changes in working capital** | | **(1,818)** | **(2,280)** |
| Increase in receivables | 18 | (8,060) | (10,670) |
| Decrease in accounts payable | 21 | (4) | (121) |
| **Net cash used in operating activities** | | **(9,882)** | **(13,071)** |
| **Cash flows from investing activities** | | | |
| Interest received | 8 | 53 | 62 |
| **Net cash provided by investing activities** | | **53** | **62** |
| **Cash flows before financing** | | **(9,829)** | **(13,009)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of shares | 20 | 5,400 | 7,716 |
| Costs of issue of shares | | - | (385) |
| Interest paid | | (75) | - |
| **Net cash provided by financing activities** | | **5,325** | **7,331** |
| **Net decrease in cash and cash equivalents** | | **(4,504)** | **(5,678)** |
| Cash and cash equivalents at beginning of the year | 19 | 4,774 | 10,452 |
| **Cash and cash equivalents at the end of the year** | **19** | **270** | **4,774** |

The notes on pages 49 to 84 form an integral part of these financial statements.

# Notes to the Financial Statements

## 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 company is listed on the AIM market of the London Stock Exchange.

The nature of the Group's and Company's operations and principal activities are set out in the Directors' Report on page 35.

## 2. Basis of preparation

The consolidated financial statements of Vatukoula Gold Mines Plc. and all its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Pounds Sterling (GBP) and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

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. Group revenues are in US dollars. Given that the Fijian dollar is not widely used as a reporting currency and that the parent company is listed in the United Kingdom it is deemed appropriate for the presentation currency of the Group to be in sterling.

**Statement of Compliance with IFRS**

The Group's and Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and interpretations) as adopted by the European Union.

**New accounting standards**

The Group and Company adopted IFRS 7 'Financial Instruments: Disclosures'– Transfers of Financial Assets'. There was no impact from the adoption of this standard as the Group did not transfer any financial instruments during the year.

There was no material effect of other IFRS's, IAS's and IFRIC's that came into effect in the year, as these new or amended standards, amendments and interpretations did not apply to operations of the Group and the Company.

The Group and the Company have not applied the following standard, amendments and interpretations that are applicable and have been issued, but are not yet effective.

| New/Revised International Financial Reporting Standards | | Issued | Effective Date |
|---|---|---|---|
| **IAS 1** | Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented | June 2011 | Annual periods beginning on or after 1 July 2012 |
| **IAS 24** | Related Party Disclosure – Revised definition of related parties | November 2009 | Annual periods beginning on or after 1 January 2011 |
| **IFRS 12** | Income Taxes – Limited scope amendment (recovery of underlying assets) | December 2010 | Annual periods beginning on or after 1 January 2012 |
| **IFRS 13** | Fair Value measurement | Original issue May 2011 | Annual periods beginning on or after 1 January 2013 |

## Notes to the Financial Statements continued

### 2. Basis of preparation continue

| New/Revised International Financial Reporting Standards | | Issued | Effective Date |
|---|---|---|---|
| **IFRS 10** | Consolidated Financial Statements | Original issue May 2011 | Annual periods beginning on or after 1 January 2013 |
| **IAS 19** | Employee benefits – Amended standards resulting from the post-Employee benefits and termination benefits projects | Amended June 2011 | Annual periods beginning on or after 1 January 2013 |
| **IAS 27** | Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) | May 2011 | Annual periods beginning on or after 1 January 2013 |
| **IAS 28** | Investments in Associates – Reissued as IAS28. Investments in Associates and Joint Ventures (as amended in 2011) | May 2011 | Annual periods beginning on or after 1 January 2013 |
| **IFRS 10** | Consolidated Financial Statements – Amendment: Investment Entities | Original issue September 2012 | Annual periods beginning on or after 1 January 2014 |
| **IFRS 11** | Joint arrangements | Original issue May 2011 | Annual periods beginning on or after 1 January 2014 |
| **IFRS 12** | Disclosure of interests in other Entities | Original issue May 2011 | Annual periods beginning on or after 1 January 2014 |
| **Improvements to IFRSs** | Amendments to various standards and interpretations affecting the scope, recognition, measurement, presentation and/or disclosure | May 2011 | Annual periods beginning on or after 1 January 2013 |
| **IFRIC20** | Stripping costs in the production phase of a surface mine | | Annual periods beginning on or after 1 January 2013 |
| **IFRS 9** | Financial Instruments' | October 2009 | Annual periods beginning on or after 1 January 2015 |

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial applications.

## 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.

With the exception of foreign exchange variances on inter-company finance balances, 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.

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 Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review section of this report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review. In addition note 26 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments and it its exposure to credit and liquidity risk.

In assessing the Group's going concern the Directors have taken into account the above factors, including the financial position of the Group and in particular its cash position, the current gold price and market expectation for the same over the medium term, and the Group's capital expenditure and financing plans.

The Group's forecasts and projections, taking account of reasonable possible changes in gold price, mining costs and the concentration of the gold in the ore delivered to the mill; show that the Group should be able to operate using its current cash position. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### (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. Acquisition costs incurred are expensed and included in administrative expenses. 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 statement of financial position as goodwill and any excess net fair value is recognised immediately in the profit or loss as negative goodwill on acquisition of subsidiary. The non-controlling interest in the acquiree is initially measured at the non-controlling interest proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

**Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements:

1. Income taxes (see note 9)

The Group is subject to income taxes in the United Kingdom, Fiji and Brazil. Significant judgement 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

# Notes to the Financial Statements continued

## 3. Summary of significant accounting policies continued

**2. Mineral Resources and Reserves**

Quantification of mineral resources requires a judgement on the reasonable prospects for eventual economic extraction. Quantification of ore reserves requires a judgement on whether mineral resources are economically mineable. These judgements are based on the assessment of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors involved, in accordance with the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. These factors are a source of uncertainty and changes could result in an increase or decrease in mineral resources and ore reserves. This would in turn affect certain amounts in the financial statements such as amortisation, rehabilitation provisions which are calculated on a projected life of mine figures.

**3. Provisions and Contingent Liabilities (notes 22 & 31)**

Judgements are made as to whether a past event has led to a liability that should be recognised in the financial statements or disclosed as a contingent liability. Quantifying any such liability often involves judgements and estimations. These judgements are based on a number of factors including the nature of the claim or dispute, the legal process and potential amount payable, legal advice received, previous experience and the probability of a loss being realised. Several of these factors are a source of estimation uncertainty.

**4. Inventory Valuations**

Valuations of gold stockpiles, gold in circuit and gold within the fine ore bin requires estimations of the amount contained in, and the recovery rates from, the various work in progress gold circuits. These estimations are based on analysis of samples and prior experience. A judgement is also applied when the gold in circuit will be recovered and what gold price should be applied in calculating the net realisable value; these are both sources of uncertainty.

**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 reporting 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:

**5. Share-based payment transactions (see note 20)**

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. The Black-Scholes model is particularly sensitive to volatility calculation. Therefore any change in the methodology of the calculation of volatility will impact the amount expensed as share based payments on the statement of comprehensive income.

The value expensed on the statement of comprehensive income is £627,000 (2011: £808,000)

**6. 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. In particular it would affect, the value of the intangible asset and rehabilitation provisions.

The carrying value at the reporting date of the intangible assets is £36,841,000 (2011: £34,057,000)

## 3. Summary of significant accounting policies continued

### 7. Mine Rehabilitation Provisions

Such provisions require a judgement on likely future obligations, based on assessment of technical, legal and economic factors. The ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes in the relevant legal requirements, the emergence of new restoration techniques and changes to the life of mine. Changes to any of these costs will affect amounts in the financial statement such as the mine asset and the provision for mine rehabilitation.

The carrying value at the reporting date of the mine rehabilitation provision is £3,247,000 (2011: £4,092,000)

### 8. Allowance for doubtful debts (see note 18)

Each receivable 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 materially different amounts being reported by the Group's financial statements. In particular any changes will affect trade and other receivable as well as the statement of comprehensive income.

The carrying value at the reporting date of the provision for doubtful debts is £3,913,000 (2011: £2,861,000)

### (e) Revenue recognition

Revenue is recognised when persuasive evidence exists that all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

### Bullion sales

The transfer of risks and rewards for the sale of the gold bullion is assessed as taking place when the physical possession is passed to the customer upon collection of the gold bullion from the mining premises. The customer does not have any right of return subsequent to the physical transfer, and accordingly at this point revenue is recognised.

### 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) Turnover and Segmental Analysis

The reportable segments identified make up all of the Group's external revenue, which is derived primarily from the sale of gold. The reportable segments are an aggregation of the operating segments within the Group as prescribed by IFRS 8. The reportable segments are based on the Group's management structures and the consequent reporting to the Chief Operating Decision Maker, the Board of Directors. Our sector results are attributable to unallocated head office corporate costs, gold production & exploration costs, and other costs. These reportable segments also correspond to geographical locations such that each reportable segment is in a separate geographic location, i.e.; unattributed head office costs – UK, gold mining – Fiji, other activities – Brazil.

Income and expenses included in profit or loss for the year are allocated directly or indirectly to the reportable segments. Expenses allocated as either directly or indirectly attributable comprise: cost of sales, gold duty and administrative expenses.

Non-current segment assets comprise the non-current assets used directly for segment operations, including intangible assets, property, plant and equipment and mine properties and development.

Current segment assets comprise the current assets used directly for segment operations, including inventories, trade receivables, other receivables and pre-payments.

Inter-company balances comprise transactions between operating segments making up the reportable segments. These balances are eliminated to arrive at the figures in the consolidated accounts.

### (g) 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. Differences arising from changes in fair values of intercompany loans receivable are treated as an increase in the investment in the subsidiary.

## Notes to the Financial Statements continued

### 3. Summary of significant accounting policies continued

**(h) Foreign currency**

The consolidated financial statements are presented in Pounds Sterling ("£"), which is the parent company's functional currency and the Group's presentation currency. 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 reporting date and their Statements of Comprehensive Income 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 profit or loss 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 profit or loss 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 Statements of Comprehensive Income as part of the profit or loss.

**(i) Goodwill on acquisition**

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.

**(j) Inventories**

Ore stock, consisting of stocks on 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 stated at the lower of cost and net realisable value. Insurance spares are critical spare parts to equipment, that although may not be required on a regular basis are kept in inventory because, should a particular piece of equipment fail it would materially adversely affect production.

**Gold in circuit**

Gold in circuit is 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.

**(k) Intangible assets**

Acquired intangible assets, which consist of mining rights and intangible computer software, 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. As at 31 August 2012, the estimated remaining life span of the mine is 8 years. This is the entire period over which currently the mine is being amortised.

## 3. Summary of significant accounting policies continued

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; or
(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 profit or loss. Amortisation does not take place until production commences in these areas. Once production commences, amortisation is calculated on the unit of production method, over the remaining life of the mine.

Impairment assessments are carried out regularly by the directors. 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.

The assets' residual value and useful lives are reviewed and adjusted if appropriate, at each reporting 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.

**(l) Tangible assets**

**(i) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and the estimated future cost of closure and rehabilitation of the facility. 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 or straight line basis. The estimated useful lives are as follows:

| | |
|---|---|
| Freehold land | Not depreciated |
| Plant and machinery | Over 3 – 10 years |
| Mine Asset | Life of mine basis |
| Motor vehicles | Over 3 years |
| Fixtures, fittings and equipment | Over 4 years |
| Work in progress | Not depreciated |

The depreciation charge for each period is recognised in the Statement of Comprehensive Income.

Assets in the course of construction are capitalised in the Work in Progress account. The cost comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use, at which point it is transferred to property, plant and equipment and depreciation commences.

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 profit or loss 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.

## Notes to the Financial Statements continued

### 3. Summary of significant accounting policies continued

**(ii) Mine properties and development ("MPD")**
This represents the accumulated exploration, evaluation, development and acquisition expenditure in relation to areas of interest in which economically recoverable reserves exist.

Development costs that can be capitalised fall into the following categories:

- **Initial Capital Development**
  This includes, but is not restricted to the following:

  – Shaft sinking
  – Station (plant) development & underground workshops
  – Pump station and dams
  – Ore and waste pass systems

- **Primary Capital Development**
  This is the development carried out on each level in the exploration and exploitation of a mining area or orebody. It includes, but is not restricted to the following:

  – Cross cuts, haulages and drives to the orebody
  – Initial rises on the orebody to effect the first holdings to facilitate production
  – Main airways

- **Secondary Capital Development**
  This is the development carried out within an area in which the primary development has been completed and which is critical to the continued operation of the mine or mining area. It includes, but is not restricted to the following:

  – Airways, crosscuts and drives
  – Pump stations

The capitalised value of mine properties is depreciated 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 depreciation for the period is calculated using the following:

$$\frac{\text{Recovered gold ounces during the period}}{\text{Economically recoverable reserves and resources at the start of the period}} \quad \text{X} \quad \text{Net book value to date plus costs capitalised during the period}$$

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. When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of closure and rehabilitation activities is recognised in property, plant and equipment and depreciated accordingly. The increase in the provision for rehabilitation relating to the unwinding of the discount on the provision to the date of settlement of the provision and the depreciation of the rehabilitation asset are recorded within profit or loss.

**(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).

## 3. Summary of significant accounting policies continued

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 profit or loss 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.

#### a. Trade and other receivables and other assets

Trade and other 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 statement of comprehensive income when there is objective evidence that the asset is impaired.

#### b. Cash and cash equivalents

For purposes of the consolidated statement of financial position 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 at bank and in hand, and short term deposits with an original maturity of three months or less, all of which are available for use by the Group unless otherwise stated.

#### c. 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 profit or loss in the period.

#### d. 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 Group's financial liabilities include trade and other payables, bank loans, other borrowings, convertible loans and obligations under finance leases. All financial liabilities, 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.

#### e. 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.

#### f. 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 accruals basis to the Statement of Comprehensive Income 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.

#### g. Trade payables, provisions and other payables

Trade payables are not interest-bearing and are stated at cost. Other payables which are interest-bearing are measured at fair value. 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. Provisions are measured at fair value. Provision has been made in the financial statements for benefits accruing in respect of sick leave, annual leave, and long service leave.

#### h. Compound Financial Instruments

Compound financial instruments issued by the group comprise convertible loan notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

## Notes to the Financial Statements continued

### 3. Summary of significant accounting policies continued

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

**(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 reporting 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) 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 Statement of Comprehensive Income.

**(s) Taxation**

Tax on profit or loss for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income 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 reporting 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.

**(t) 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.

Non-market performance and service conditions are included in the assumptions about the number of options expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to the original estimate, if any, in the statement of comprehensive income with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transactions costs are credited to share capital (nominal value) and share premium.

## 3. Summary of significant accounting policies continued

**(u) 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.

**(v) Leased assets**

**Operating lease:** Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

**Finance lease:** Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

**(w) Employee benefits**

a. Short-term benefits

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

b. 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.

c. 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. Benefits falling due more than 12 months if the reporting date are discounted to their present value.

## Notes to the Financial Statements continued

### 4. Turnover and Segmental Analysis

All turnover in the Group in the current and prior year is derived from the sales to the one customer, which is included in the Gold mining segment.

| 2012 | Unattributed Head Office Costs £'000 | Gold Mining £'000 | Other Activity £'000 | Total £'000 |
|---|---|---|---|---|
| **Turnover** | - | 54,925 | - | 54,925 |
| Mining | - | (35,686) | - | (35,686) |
| Processing | - | (10,281) | - | (10,281) |
| Gold duty | - | (1,660) | - | (1,660) |
| Overheads | - | (5,917) | - | (5,917) |
| Cost of sales | - | (53,544) | - | (53,544) |
| **Gross Profit** | - | 1,381 | - | 1,381 |
| Administrative expenses | (1,769) | (829) | (164) | (2,762) |
| Foreign exchange gains | - | 1,334 | - | 1,334 |
| Depreciation and amortisation | (1,971) | (4,560) | (20) | (6,551) |
| **Underlying operating loss** | (3,740) | (2,674) | (184) | (6,598) |
| Impairment | - | - | - | - |
| Inventory obsolescence write back | - | 47 | - | 47 |
| Gain on disposal of assets | - | 27 | | 27 |
| Rehabilitation credit | - | 45 | - | 45 |
| Provision for doubtful debt | - | (993) | - | (993) |
| Share based payments | (360) | (267) | - | (627) |
| **Operating loss** | (4,100) | (3,815) | (184) | (8,099) |
| Interest receivable and other income | 53 | 12 | - | 65 |
| Interest payable and similar charges | (51) | (54) | (6) | (111) |
| **Net loss before taxation** | (4,098) | (3,857) | (190) | (8,145) |
| Taxation | 1,075 | - | - | 1,075 |
| **Loss for the period** | (3,023) | (3,857) | (190) | (7,070) |
| **Other Segment Items** | | | | |
| Additions to intangible assets | - | 4,164 | - | 4,164 |
| Additions to property, plant, and equipment | - | 7,245 | - | 7,245 |
| Additions to mine properties and development | - | 4,952 | - | 4,952 |
| Current assets | 502 | 15,856 | 233 | 16,591 |
| Non currents assets | 29,437 | 44,447 | 185 | 74,069 |
| Current liabilities | (192) | (12,114) | (9) | (12,315) |
| Non current liabilities | (7,074) | (3,336) | - | (10,410) |

## 4. Turnover and Segmental Analysis continued

| 2011 | Unattributed Head Office Costs £'000 | Gold Mining £'000 | Other Activity £'000 | Total £'000 |
|---|---|---|---|---|
| **Turnover** | - | 47,964 | - | 47,964 |
| Mining | - | (29,731) | - | (29,731) |
| Processing | - | (9,144) | - | (9,144) |
| Gold duty | - | (1,440) | - | (1,440) |
| Overheads | - | (4,403) | - | (4,403) |
| Cost of sales | - | (44,718) | - | (44,718) |
| **Gross profit** | - | 3,246 | - | 3,246 |
| Administrative expenses | (1,880) | (244) | (177) | (2,301) |
| Foreign exchange gains | - | 1,592 | - | 1,592 |
| Depreciation and amortisation expense | (2,447) | (3,595) | (32) | (6,074) |
| **Underlying operating (loss) / profit** | (4,327) | 999 | (209) | (3,537) |
| Inventory obsolescence write back | - | 179 | - | 179 |
| Rehabilitation charge | - | - | - | - |
| Provision for doubtful debt write back | - | 242 | - | 242 |
| Share based payments expense | (128) | (680) | - | (808) |
| **Operating (loss) / profit** | (4,455) | 740 | (209) | (3,924) |
| Interest receivable and other income | 63 | 26 | 9 | 98 |
| Interest payable and similar charges | (45) | (59) | (3) | (107) |
| **Net (loss) / profit before taxation** | (4,437) | 707 | (203) | (3,933) |
| Taxation | 1,618 | - | - | 1,618 |
| **(Loss) / profit for the period** | (2,819) | 707 | (203) | (2,315) |
| **Other Segment Items** | | | | |
| Additions to intangible assets | - | 2,667 | - | 2,667 |
| Additions to property, plant, and equipment | - | 6,521 | 11 | 6,532 |
| Additions to mine properties and development | - | 1,898 | - | 1,898 |
| Current assets | 5,122 | 17,555 | 43 | 22,720 |
| Non currents assets | 31,351 | 32,946 | 248 | 64,545 |
| Current liabilities | (197) | (6,250) | (9) | (6,456) |
| Non current liabilities | (8,116) | (4,155) | - | (12,271) |

# Notes to the Financial Statements continued

## 5. Cost of sales

| Group | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| Mining | (35,686) | (29,731) |
| Metallurgy | (10,281) | (9,144) |
| Gold duty | (1,660) | (1,440) |
| Bullion assay | (147) | (141) |
| Technical Services | (823) | (421) |
| Resource engineering | (1,030) | (1,028) |
| Supply and security | (726) | (623) |
| Human resources | (88) | (78) |
| Community & Housing | (1,256) | (1,112) |
| Safety training and environment | (491) | (292) |
| Mine general administration | (1,356) | (708) |
| | **(53,544)** | **(44,718)** |

## 6. Operating loss

| Group | 2012<br>£'000 | 2011<br>£'000 |
|---|---|---|
| **Operating loss is stated after charging:** | | |
| – Auditors' remuneration | | |
| Audit-related assurance services - Current year | 86 | 97 |
| Audit-related assurance services - Prior year under provision | 25 | 128 |
| Taxation compliance services | 12 | 10 |
| Non-audit services - Interim review | 10 | 10 |
| Non-audit services - Other | 2 | 5 |
| Auditors' remuneration payable to subsidiary auditors | 29 | 24 |
| – Share based payments expense granted by the Company | 627 | 808 |
| – Depreciation of property, plant and equipment | 3,991 | 3,140 |
| – Depreciation of mining properties and development | 566 | 432 |
| – Amortisation of intangible assets | 1,994 | 2,502 |
| – Operating lease expenses: motor vehicles | 41 | 135 |
| – Operating lease expenses: mining | 17 | 34 |

## 7. Employees

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

| Group | 2012 Number | 2011 Number |
|---|---|---|
| Productive labour | 1,261 | 1,013 |
| Office and management | 197 | 137 |
| | **1,458** | **1,150** |

| Employment costs | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Wages and salaries | 10,518 | 7,926 |
| Social security | 624 | 509 |
| Share based payments expense | 627 | 808 |
| | **11,769** | **9,243** |

| Directors' remuneration | 2012 £'000 | 2011 £'000 |
|---|---|---|
| I C Orr-Ewing | 60 | 60 |
| D K Paxton | 167 | 170 |
| K C Morzaria | 128 | 119 |
| D A Lenigas * | 8 | 45 |
| J I Stalker | 59 | 97 |
| J F Kearney | 24 | 24 |
| J A MacPherson | 25 | 24 |
| | **471** | **539** |

* D A Lenigas stepped down as an executive director in April 2011, and was appointed as a non-executive director. On 4th January 2012, D A Lenigas resigned as a director.

Directors remuneration in 2012 solely consisted of salaries, and as at 31 August 2012 (2011: nil) there were no directors accruing benefits under a money pension scheme. No options were granted to directors during the year, and no options were exercised by the directors.

## 8. Interest receivable/payable and similar charges

| Interest receivable and other income | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Bank interest | 65 | 94 |
| Other | - | 4 |
| | **65** | **98** |

| Interest payable and similar charges | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Interest and bank charges | 14 | 18 |
| Interest on convertible loan notes | 51 | 45 |
| Unwinding of discount for mine rehabilitation | 46 | 44 |
| | **111** | **107** |

## Notes to the Financial Statements continued

### 9. Taxation

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Current taxation | - | - |
| Deferred taxation - effect of change in tax rate | (622) | (1,006) |
| Deferred taxation - current year | (453) | (612) |
| | **(1,075)** | **(1,618)** |
| **Factors affecting tax charge:** | | |
| (Loss) / profit before tax | (8,145) | (3,933) |
| Tax at 27.17% (2011: 27.17%) | (2,050) | (1,069) |
| Effects of: | | |
| - Non deductible expenses | 595 | 161 |
| - Tax losses for which no deferred income tax was recognised | 556 | 556 |
| - Rate adjustment | (1,691) | (998) |
| - Tax effect of income not subject to income Tax | 1,515 | (268) |
| | **(1,075)** | **(1,618)** |

The deferred taxation credit arises on the release of the deferred tax liability (note 32).

The Finance Act 2012, which was substantively enacted on 17 July 2012, has reduced the main corporation tax rate to 24% from 1 April 2012 and to 23% from 1 April 2013. The further decrease to 21% or lower from 1 April 2014 is not expected to be substantively enacted until a future Finance Bill is approved. This reduction has not been taken into account when calculating deferred tax assets and liabilities at present. The changes are not expected to have a material cash impact on the Company.

The Group has estimated tax benefits in respect of tax losses of £1,704,000 (2011: £4,595,000), of which £565,000 will fully expire within 4 years, and other net deferred tax benefits in respect of temporary differences of £1,764,000 (2011: £685,000) which have not been recognised as a deferred tax asset.

### 10. Loss for the year

The Company's loss for the year dealt within the accounts of Vatukoula Gold Mines Plc. was £587,094 (2011: £2,391,889). As provided by S408 of the Companies Act 2006, no Statement of Comprehensive Income is presented in respect of Vatukoula Gold Mines Plc.

### 11. Loss per share

**(a) Basic**

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

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Loss after tax** | **(7,070)** | **(2,315)** |
| | **2012 Number** | **2011 Number** |
| **Basic weighted average ordinary shares in issue during the period** | **90,509,159** | **84,015,905** |
| | **2012 Pence** | **2011 Pence** |
| **Basic loss per share** | (7.81) | (2.76) |

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.

## 11. Loss per share continued

**b. Diluted**

All potential shares were anti-dilutive as the Group was in a loss market position. As a result diluted loss per share for the years ended 31 August 2012 and 31 August 2011 is disclosed as the same value as basic loss per share. The diluted weighted average ordinary shares in issue during the period was 90,509,159 (2011: 84,015,905).

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Loss after tax | (7,070) | (2,315) |
| Interest expense on convertible loan note (net of tax) | - | - |
| **Loss used to determine diluted earnings per share** | **(7,070)** | (2,315) |

| | 2012 Number | 2011 Number |
|---|---|---|
| Basic weighted average ordinary shares in issue during the period | 90,509,159 | 84,015,905 |
| Adjustments for: | | |
| Assumed conversion of convertible loan note | - | - |
| Share options / warrants | - | - |
| **Diluted weighted average ordinary shares in issue during the period** | **90,509,159** | **84,015,905** |

| | 2012 Pence | 2011 Pence |
|---|---|---|
| **Diluted (loss) / earnings per share** | **(7.81)** | (2.76) |

Subsequent to the year end, the company issued an additional 20,000,000 new ordinary shares in a private placing.

## Notes to the Financial Statements continued

### 12. Intangible assets

| Group | Mining Rights £'000 | Computer software £'000 | Exploration expenditure £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 September 2011 | 38,414 | 243 | 2,769 | 41,426 |
| Additions | - | - | 4,164 | 4,164 |
| Disposals | - | - | (111) | (111) |
| Transferred from property, plant and equipment | 307 | 299 | - | 606 |
| Exchange difference | - | 9 | 111 | 120 |
| **As at 31 August 2012** | **38,721** | **551** | **6,933** | **46,205** |
| **Amortisation** | | | | |
| As at 1 September 2011 | 7,313 | 56 | - | 7,369 |
| Current charge | 1,971 | 23 | - | 1,994 |
| Exchange difference | - | 1 | - | 1 |
| **As at 31 August 2012** | **9,284** | **80** | **-** | **9,364** |
| **Carrying value as at 31 August 2012** | **29,437** | **471** | **6,933** | **36,841** |

| Group | Mining Rights £'000 | Computer software £'000 | Exploration expenditure £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| As at 1 September 2010 | 38,414 | 140 | 36 | 38,590 |
| Additions | - | - | 2,667 | 2,667 |
| Transferred from tangible assets | - | 97 | 27 | 124 |
| Exchange difference | - | 6 | 39 | 45 |
| **As at 31 August 2011** | **38,414** | **243** | **2,769** | **41,426** |
| **Amortisation** | | | | |
| As at 1 September 2010 | 4,866 | - | - | 4,866 |
| Current charge | 2,447 | 55 | - | 2,502 |
| Exchange difference | - | 1 | - | 1 |
| **As at 31 August 2011** | 7,313 | 56 | - | 7,369 |
| **Carrying value as at 31 August 2011** | **31,101** | **187** | **2,769** | **34,057** |

### 12. Intangible assets continued

The Mining rights represent the mining rights acquired on the acquisition of the Vatukoula Gold Mine in April 2008. The amortisation of the Mining Rights is calculated on a unit of production basis, based on forecast production and the total Mineral Reserves. At the current production, reserves and gold price, the economic useful life is expected to be 7 years. This rate will vary from year to year and is dependent on the mineral reserves which are reassessed every year. Amortisation is included in depreciation and amortisation in the Statement of Comprehensive Income.

The directors believe that there have been no indicators of impairment for the year ended 31 August 2012 (and 31 August 2011).

A deferred tax liability of £10,757,000 arose in 2008 in respect of the intangible assets recognised on the acquisition in the prior periods. The deferred tax liability is in respect of future taxable profits potentially generated from the exploration of the mining rights (Note 32).

The Exploration expenditure is an internally generated intangible asset, and represents costs associated with the exploration and evaluation of mineral deposits on our mining and special prospecting licenses and are capitalised in accordance with IFRS 6. The directors believe that there have been no indicators of impairment for the year ended 31 August 2012 (and 31 August 2011).

The Computer Software expenditure represents the costs associated with the purchase of specialised mining and inventory software.

### 13. Property, plant and equipment

| Group | Freehold and leasehold land £'000 | Work in progress £'000 | Plant machinery £'000 | Motor vehicles £'000 | Mine assets £'000 | Fixtures fittings and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 1 September 2011 | 1,165 | 201 | 28,087 | 370 | 2,869 | 148 | 32,840 |
| Additions | - | 7,245 | - | - | - | - | 7,245 |
| Transferred on completion | 90 | (4,607) | 4,517 | - | - | - | - |
| Disposals | - | - | (122) | - | - | - | (122) |
| Changes in estimates | - | - | - | - | (932) | - | (932) |
| Transferred to intangible | (250) | (299) | - | - | - | - | (549) |
| Exchange difference | 19 | 32 | 984 | (29) | 61 | (3) | 1,064 |
| **As at 31 August 2012** | **1,024** | **2,572** | **33,466** | **341** | **1,998** | **145** | **39,546** |
| **Accumulated depreciation** | | | | | | | |
| As at 1 September 2011 | - | - | 8,643 | 251 | 315 | 98 | 9,307 |
| Charge for the period | 13 | - | 3,835 | 2 | 139 | 2 | 3,991 |
| Disposals | - | - | (27) | - | - | - | (27) |
| Exchange difference | - | - | 570 | (15) | 9 | (2) | 562 |
| **As at 31 August 2012** | **13** | **-** | **13,021** | **238** | **463** | **98** | **13,833** |
| **Net book value** | | | | | | | |
| **At 31 August 2012** | **1,011** | **2,572** | **20,445** | **103** | **1,535** | **47** | **25,713** |
| At 31 August 2011 | 1,165 | 201 | 19,444 | 119 | 2,554 | 50 | 23,533 |

## Notes to the Financial Statements continued

### 13. Property, plant and equipment continued

| Group | Freehold and leasehold land £'000 | Work in progress £'000 | Plant machinery £'000 | Motor vehicles £'000 | Mine assets £'000 | Fixtures fittings and equipment £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 1 September 2010 | 1,134 | 2,881 | 18,399 | 405 | 3,086 | 148 | 26,053 |
| Additions | - | 6,521 | 1 | 10 | - | - | 6,532 |
| Transferred on completion | - | (9,172) | 9,172 | - | - | - | - |
| Disposals | - | - | - | (53) | - | (1) | (54) |
| Revaluation | - | - | - | - | (331) | - | (331) |
| Transfer to Mine Properties and development | - | - | (946) | - | - | - | (946) |
| Transferred to intangible | - | (97) | - | - | - | - | (97) |
| Exchange difference | 31 | 68 | 1,461 | 8 | 114 | 1 | 1,683 |
| **As at 31 August 2011** | **1,165** | **201** | **28,087** | **370** | **2,869** | **148** | **32,840** |
| **Accumulated depreciation** | | | | | | | |
| As at 1 September 2010 | - | - | 4,793 | 287 | 154 | 96 | 5,330 |
| Charge for the period | - | - | 2,976 | 8 | 153 | 3 | 3,140 |
| Disposals | - | - | - | (48) | - | (1) | (49) |
| Transfer to Mine Properties and development | - | - | (32) | - | - | - | (32) |
| Transferred to intangible | - | - | 27 | - | - | - | 27 |
| Exchange difference | - | - | 879 | 4 | 8 | - | 891 |
| **As at 31 August 2011** | **-** | **-** | **8,643** | **251** | **315** | **98** | **9,307** |
| **Net book value** | | | | | | | |
| **At 31 August 2011** | **1,165** | **201** | **19,444** | **119** | **2,554** | **50** | **23,533** |
| **At 31 August 2010** | 1,134 | 2,881 | 13,606 | 118 | 2,932 | 52 | 20,723 |

| Company | Freehold land £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| As at 1 September 2011 | 250 | 250 |
| Transfers to investments in subsidiaries | (250) | (250) |
| **As at 31 August 2012** | **-** | **-** |
| **Accumulated depreciation** | | |
| As at 1 September 2011 and as at 31 August 2012 | - | - |
| **Net book value** | | |
| **At 31 August 2012** | **-** | **-** |
| **At 31 August 2011** | **250** | **250** |
| **Cost** | | |
| As at 1 September 2010 and as at 31 August 2011 | 250 | 250 |
| **Net book value** | | |
| **At 31 August 2011** | **250** | **250** |
| **At 31 August 2010** | **250** | **250** |

## 14. Mine properties and development

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Cost** | | |
| Balance as at 1 September | 8,695 | 5,614 |
| Additions | 4,952 | 1,898 |
| Transfers from Property, Plant and Equipment | - | 946 |
| Foreign exchange difference | 218 | 237 |
| **Balance at end of period** | **13,865** | **8,695** |
| **Depreciation** | | |
| Balance as at 1 September | 1,740 | 1,227 |
| Current charge | 566 | 432 |
| Transfers from Property, Plant and Equipment | - | 32 |
| Foreign exchange difference | 44 | 49 |
| **Balance at end of period** | **2,350** | **1,740** |
| **Carrying value** | | |
| Balance at end of period | **11,515** | **6,955** |

During the current year the company invested £4,952,000 (2011: £1,898,000) in underground capital development.

## 15. Available for sale investments

| | | Group | | Company |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Cost** | | | | |
| As at 1 September | 400 | 477 | 400 | 400 |
| Written off | - | (77) | - | - |
| As at 31 August | 400 | 400 | 400 | 400 |
| **Provision for diminution in value** | | | | |
| As at 1 September | (400) | (477) | (400) | (400) |
| Written off | - | 77 | - | - |
| As at 31 August | (400) | (400) | (400) | (400) |
| **Net book value at 31 August** | **-** | **-** | **-** | **-** |

Available for sale investments constitute holdings in the following entities:

| 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"). Operations ceased at the mine due to a lack of funding on the 5th of January 2010. During the prior year GDR has gone into liquidation and therefore the Directors of the Company thought it was appropriate to continue to provide fully for this investment.

## Notes to the Financial Statements continued

### 15. Available for sale investments continued

In the year ended 31 August 2003, River Diamonds Ltd, a wholly owned subsidiary of Vatukoula Gold Mines Plc. purchased £77,000 of new ordinary shares in Cambrian Forestry Products. In 2004 the Company provided fully for this investment as it was undergoing restructuring. On 14 April 2009 Cambrian Forestry Products was dissolved.

These investments were initially measured at cost. This is because the directors consider that its fair value cannot be measured reliably as the investments are not quoted on an active market.

### 16. Investment in subsidiary companies

| Company | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Cost** | | |
| As at 1 September | 48,539 | 39,489 |
| Transfers from property, plant and equipment | 250 | - |
| Additions in the year: Share based payments to subsidiary companies | 267 | 664 |
| Additions in the year: Equity capital contribution | 2,249 | 8,386 |
| **Balance as at 31 August** | 51,305 | 48,539 |
| **Impairment** | | |
| As at 1 September | 1,810 | 1,810 |
| Charge for the year | - | - |
| **Balance as at 31 August** | 1,810 | 1,810 |
| **Net book value** | | |
| **Balance as at 31 August** | **49,495** | **46,729** |

Details of the subsidiaries:

| Name of business | 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 |
| Jubilee 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.

Investments in subsidiary companies are measured at cost, less accumulated provisions for impairments.

## 17. Inventories

| Group | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Consumables stores | 5,990 | 5,003 |
| Allowances for inventory obsolescence | (278) | (430) |
| Total consumables stores | 5,712 | 4,573 |
| Insurance spares | 22 | 249 |
| Allowances for obsolescence | (22) | (249) |
| Total insurance spares | - | - |
| Gold in circuit and gold stock | 2,059 | 3,461 |
| **As at 31 August** | **7,771** | **8,034** |

A reversal of a write-down of inventories amounted to £46,726 (2011: £178,811). Inventory previously been written off has been reassessed as useful for production.

## 18. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Trade receivables | 2,131 | 2,088 | - | - |
| Amounts owed by group undertakings | - | - | 24,260 | 16,735 |
| Prepayments | 3,050 | 3,917 | 120 | 57 |
| Other receivables | 5,115 | 4,650 | 552 | 740 |
| | 10,296 | 10,655 | 24,932 | 17,532 |
| Less: Provision for doubtful debts | (3,913) | (2,861) | (500) | (500) |
| | **6,383** | **7,794** | **24,432** | **17,032** |

Trade receivables are amounts due from the sales of gold. The average credit period taken on sales of goods is two weeks (2011: two weeks).

The provision for doubtful debts includes £2.5 million (2011: £2.5 million) in relation to the prepayments against the claimed tax liabilities of F$ 11.5 million by The Fiji Islands Revenue & Customs Authority. 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 the Company provide for any prepayments made in relation to this tax assessment. The Fiji Islands Revenue & Customs Authority has recognised the prepayment of the claimed tax liability.

The Group has significant concentration of credit risk with its single customer in respect of bullion sales. The Group has credit risk management policies in place and exposure to credit risk is monitored on an ongoing basis. Management generally adopts conservative strategies and tight control in credit policy.

The following table provides an analysis of trade and other receivables that were past due as at 31 August 2011, but not provided for, followed by those past due and impaired. Subsequent to the year, all trade receivables of over 93 days have been paid. The Group believe that all the balances are ultimately recoverable.

# Notes to the Financial Statements continued

## 18. Trade and other receivables continued

| | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| **Not impaired** | | | | |
| Due 0-31 days | 3,807 | 2,743 | 52 | 241 |
| Past due 32-62 days | 265 | 244 | - | - |
| Past due 63 – 92 days | 23 | 568 | - | - |
| Past due more than 93 days | 158 | 322 | - | - |
| | 4,253 | 3,877 | 52 | 241 |
| **Impaired** | | | | |
| Past due more than 93 days | 2,994 | 2,861 | 500 | 500 |
| Provision for doubtful debts | (2,994) | (2,861) | (500) | (500) |
| | - | - | - | - |
| | **4,253** | **3,877** | **52** | **241** |

The credit quality of the Group's customers is monitored on an ongoing basis and assessed for impairment where indicators of such impairment exist.

The movement in provision for doubtful debts has been credited to the Statement of Comprehensive Income, after eliminating a foreign exchange gain arising on consolidation to the amount of £59,000.

## 19. Cash and cash equivalents

| | Group 2012 £'000 | Group 2011 £'000 | Company 2012 £'000 | Company 2011 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 2,437 | 6,892 | 270 | 4,774 |
| | **2,437** | **6,892** | **270** | **4,774** |

At 31 August 2012 management believes that the carrying amount of cash equivalents approximates to fair value because of the short maturity of these financial instruments.

## 20. Share capital

**(a) Share capital**

| | Group and Company 2012 £'000 | Group and Company 2011 £'000 |
|---|---|---|
| **Allotted, issued and fully paid** | | |
| 96,558,339 ordinary shares of 5p each<br>(31 Aug 2011: 87,558,339 ordinary shares of 5p each) | 4,828 | 4,378 |

## 20. Share capital continued

### (b) Share issues during the year

| | Date | Issue value per Share £ | Par value per Share £ | Share premium per Share £ | Shares | Share Capital £ | Share premium £ | Value of shares issued for cash £ |
|---|---|---|---|---|---|---|---|---|
| **Shares issued for cash** | | | | | | | | |
| Issue for cash | 03/05/2012 | 0.60 | 0.05 | 0.55 | 9,000,000 | 450,000 | 4,950,000 | 5,400,000 |
| | | | | | **9,000,000** | **450,000** | **4,950,000** | **5,400,000** |

### (c) Warrants and options

During the year ended 31 August 2012 the following movements occurred on the warrants and options to purchase 5p ordinary shares in Vatukoula Gold Mines Plc.

| Exercise Price | Average exercise price per share | Number of options £0.50 | Number of options £0.60 | Number of options £0.70 | Number of options £0.77 | Number of options £0.88 | Number of options £0.90 | Number of options £0.95 | Number of options £0.97 | Number of warrants and options £1.00 | Number of options £1.39 | Number of options £1.75 | Number of warrants £3.00 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 September 2011 | 1.1 | 863,000 | - | - | - | 235,000 | 400,000 | 365,000 | 700,000 | 4,200,000 | 484,112 | - | - | 7,247,112 |
| Granted during the period | 0.8 | - | - | 360,000 | 9,000,000 | - | - | - | - | - | - | 800,000 | - | 10,160,000 |
| Exercised during the period | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Expired during the period | 0.8 | - | - | - | (9,000,000) | - | - | - | - | - | - | - | - | (9,000,000) |
| **Balance at 31 August 2012** | **1.1** | **863,000** | **-** | **360,000** | **-** | **235,000** | **400,000** | **365,000** | **700,000** | **4,200,000** | **484,112** | **800,000** | **-** | **8,407,112** |

| Exercise Price | Average exercise price per share | Number of options £0.50 | Number of warrants £0.60 | Number of options £0.70 | Number of options £0.77 | Number of warrants £0.88 | Number of options £0.90 | Number of options £0.95 | Number of options £0.97 | Number of warrants and options £1.00 | Number of options £1.39 | Number of options £1.75 | Number of warrants £3.00 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 September 2010 | 1.1 | 1,378,000 | 280,518 | - | - | - | 400,000 | - | - | 5,490,000 | - | - | 841,858 | 8,390,376 |
| Granted during the period | 1.1 | - | - | - | - | 235,000 | - | 365,000 | 700,000 | - | 484,112 | - | - | 1,784,112 |
| Exercised during the period | 0.8 | (515,000) | (280,518) | - | - | - | - | - | - | (1,290,000) | - | - | - | (2,085,518) |
| Expired during the period | 3.0 | - | - | - | - | - | - | - | - | - | - | - | (841,858) | (841,858) |
| **Balance at 31 August 2011** | **1.1** | **863,000** | **-** | **-** | **-** | **235,000** | **400,000** | **365,000** | **700,000** | **4,200,000** | **484,112** | **-** | **-** | **7,247,112** |

## Notes to the Financial Statements continued

### 20. Share capital continued
**(c) Warrants and options** continued

The following main conditions apply to all options and warrants currently on issue and granted during the year.

Management options vest over 3 years from date off grant, however should the grantee resign or be dismissed prior to the first anniversary of his or her employment the options will cease. Directors' options vest immediately and there are no performance conditions associated with the options.

Warrants were granted to professional advisors in lieu of services. All the warrants vested immediately on grant.

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

- On 8 February 2012 – 360,000 options to the mine management in Fiji. Each option carries the right to subscribe for 1 ordinary share of £0.05 each in the capital of the Company at a price of £0.70, exercisable up to five years after the commencement of employment with the Company; and
- On 8 February 2012 – 800,000 options to strategic advisors. Each option carries the right to subscribe for 1 ordinary share of £0.05 each in the capital of the Company at a price of £1.75, exercisable up to 3 years after the grant date of the option; and
- On 24 April 2012 – 9,000,000 options to a strategic investor. Each option carries the right to subscribe for 1 ordinary share of £0.05 each in the capital of the Company at a price of £0.77. The options expired on 23 July 2012.

The total share-based payment expense in the year for the Group was £627,388 (2011: £807,592 ), and 7,480,445 (2011: 6,347,112) options are exercisable at the year end. No options were forfeited during the year (2011: NIL)

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

| | | | |
|---|---|---|---|
| Grant date | 08/02/2012 | 08/02/2012 | 24/04/2012 |
| Dividend yield | 0% | 0% | 0% |
| Expected volatility | 65% | 65% | 65% |
| Risk-free interest rate | 1.75% | 2.75% | 1.75% |
| Expected life of options | 5 years | 3 years | 3 months |
| Exercise price | £0.70 | £1.75 | £0.77 |
| Price at grant date | £0.89 | £0.89 | £0.52 |

The model used to arrive at the fair value of all the options granted during the year was the Black Scholes option pricing model. The weighted average fair value of the options granted during the current year was determined as £0.05 per option.

The weighted average remaining contractual life of the 8.4 million options outstanding at the balance sheet date is 2.3 years (2011: 3.4 years). The weighted average share price during the year was £0.59 (2011: £1.59) 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 and the warrants on issue is an equity settled plan and fair value is measured at the grant date of the option.

### 21. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Trade payables | 9,828 | 4,066 | 51 | 80 |
| Accruals and other payables | 225 | 163 | 142 | 117 |
| | **10,053** | **4,229** | **193** | **197** |

## 22. Provisions

| | Group 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Current** | | |
| Provision for annual leave | 272 | 224 |
| Provision for workers compensation | 137 | 63 |
| Other employee related provisions | 664 | 377 |
| | 1,073 | 664 |
| **Non current** | | |
| Provision for mine rehabilitation | 3,247 | 4,092 |
| Provision for Long Service Leave | 73 | 49 |
| | 3,320 | 4,141 |
| | **4,393** | **4,805** |

| Group | Employee related provisions £'000 | Mine rehabilitation £'000 | Long service leave £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 September 2011 | 664 | 4,092 | 49 | 4,805 |
| Additional provisions made during the period | 2,795 | - | 77 | 2,872 |
| Reversed during the period | (2,406) | (46) | (55) | (2,507) |
| Unwinding of discount | - | 46 | - | 46 |
| Changes in estimates | - | (932) | - | (932) |
| Exchange difference | 20 | 87 | 2 | 109 |
| **Balance at 31 August 2012** | **1,073** | **3,247** | **73** | **4,393** |

| Group | Employee related provisions £'000 | Mine rehabilitation £'000 | Long service leave £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 September 2010 | 528 | 4,220 | - | 4,748 |
| Additional provisions made during the period | 190 | - | 49 | 239 |
| Reversed during the period | (4) | - | - | (4) |
| Unwinding of discount | - | 44 | - | 44 |
| Changes in estimates | - | (331) | - | (331) |
| Exchange difference | (50) | 159 | - | 109 |
| **Balance at 31 August 2011** | **664** | **4,092** | **49** | **4,805** |

## Notes to the Financial Statements continued

### 22. Provisions continued

Employee related provisions include a provision for unpaid annual leave based on Fijian labour legislation, and a provision for legally required workers compensation relating to work injuries.  Based on current estimates, these are expected to realise in approximately 10 years.

The provision for mine rehabilitation represents the current mine closure plan. The present value of the estimated cost is capitalised as property, plant and equipment. Over time the discounted liability will be increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. The provision for Mine Rehabilitation is expected to be expensed over the life of mine which is currently 7 years (2011: 11 years). The life of mine is dependent on the economic viability of extracting the contained Mineral Resources and may vary on a year by year basis dependant on the mining / processing costs and the price of Gold. In addition the quantum of the provision may vary on a year by year basis dependant on the costs associated with executing the Mine Rehabilitation Plan.

Long service leave is a contractual obligation for additional leave days earned by employees with 10 years or more service.  Based on current estimates, these are expected to realise in approximately 10 years.

### 23. Borrowings

| | | Group |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| **Current** | | |
| Finance lease  liability (note 30) | - | 5 |
| | **-** | **5** |

**Finance lease liability**

The finance lease liability is secured by master lease agreement and a charge over leased assets.

The finance lease is repayable by monthly instalments of £ 987 and interest is being charged at the rate of 14% per annum and was fully repaid in January 2012.

### 24. Vatukoula Social Assistance Trust Fund

| | | Group |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| **Current** | | |
| Vatukoula Social Assistance Trust Fund | 1,189 | 1,558 |
| | **1,189** | **1,558** |
| **Non Current** | | |
| Vatukoula Social Assistance Trust Fund | 15 | 13 |
| | **15** | **13** |

The Vatukoula Social Assistance Trust Fund ("VSATF") was established for the purpose of social assistance for the employees made redundant by the previous mine operator and the local mining community in accordance with the Trust Deed dated 18 December 2009.

The VSATF is part of the Vatukoula Trust Deed, a binding contract between the Company's wholly owned subsidiary and the Fijian Ministry of Lands and Mineral Resources.  A total of F$6million is payable of which the Group paid F$1.5 million on 10 March 2010 and F$1.125 million on 31 December 2011.  The remaining F$3.375 million has been allocated to Current and Non Current Liabilities as follows:

### 24. Vatukoula Social Assistance Trust Fund continued

| | F$'000 | £'000 |
|---|---|---|
| **Current** | | |
| Redundancy payment due within 1 year | 3,325 | 1,189 |
| | **3,325** | **1,189** |
| **Non Current** | | |
| Instalments according to Trust Deed due more than 1 year | 50 | 18 |
| | **50** | **18** |
| | **3,375** | **1,207** |

The non current portion of the liability has been discounted to the net present value of the future cash flows at £15,000.

### 25. Convertible loans

(i) 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 £0.50 equating to 970,000 shares in Vatukoula Gold Mines Plc. During the year no convertible loan notes were converted to ordinary shares. During 2011 £25,000 of these convertible loan notes were converted to 50,000 new ordinary shares in the Company; £2,500 was credited to ordinary share capital and £22,500 was credited to share premium. £8,000 has been debited from the equity component upon conversion.

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 | |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| Nominal value | 362 | 386 |
| Equity component | (45) | (45) |
| | **317** | **341** |

(ii)The movement in the liability component of the convertible loan note is as follows:

| | Group and Company | |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| Balance at 1 September | 341 | 332 |
| Conversion of loan notes | - | (25) |
| Released into equity on conversion | - | 2 |
| Unwind discounted present value of liability | 9 | 8 |
| Principal interest | 42 | 37 |
| Interest paid | (75) | (13) |
| Balance at 31 August | **317** | **341** |

## Notes to the Financial Statements continued

### 26. Financial instruments and risk management objectives and policies

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

| | | Group |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| **Loans and receivables** | | |
| Trade and other receivables | 4,253 | 3,877 |
| Cash and cash equivalents | 2,437 | 6,892 |
| | **6,690** | **10,769** |

| | £'000 | £'000 |
|---|---|---|
| **Financial liabilities measured at amortised cost** | | |
| Trade and other payables | 9,828 | 4,066 |
| Borrowings | - | 5 |
| Convertible loan notes | 317 | 341 |
| | 10,145 | 4,412 |

| | | Company |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| **Loans and receivables** | | |
| Trade and other receivables | 172 | 297 |
| Cash and cash equivalents | 270 | 4,774 |
| | 442 | 5,071 |

| | £'000 | £'000 |
|---|---|---|
| **Financial liabilities measured at amortised cost** | | |
| Trade and other payables | 51 | 80 |
| Convertible loan notes | 317 | 341 |
| | 368 | 421 |

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, unless the instruments are unable to be reliably fair valued, in which case they are stated at cost.

The Group and Company'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 and Company's policy that no trading in financial instruments should be undertaken.

## 26. Financial instruments and risk management objectives and policies continued

**(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. 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. The following table illustrates the allocation of financial instruments across currencies:

| Class | 2012 | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ Sterling £'000 | Brazilian Real £'000 | Australian Dollar £'000 | US Dollar £'000 | Fiji Dollar £'000 | £ Sterling £'000 | Brazilian Real £'000 | Australian Dollar £'000 | US Dollar £'000 | Fiji Dollar £'000 |
| **Financial assets** | | | | | | | | | | |
| Trade receivables | 172 | 29 | - | 2,102 | - | 298 | 36 | - | 2,052 | - |
| Cash and cash equivalents | 301 | 195 | 29 | 171 | 1,741 | 4,805 | 1 | 19 | 559 | 1,508 |
| **Financial liabilities** | | | | | | | | | | |
| Trade payables | 74 | 6 | 2,244 | 146 | 7,353 | 56 | 6 | - | 15 | 3,964 |
| Borrowings | - | - | - | - | - | - | - | - | - | 5 |
| Convertible loan notes | 317 | - | - | - | - | 341 | - | - | - | - |

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

| | Group 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Financial assets** | | |
| Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling | 261 | 226 |
| Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against Sterling | (261) | (226) |
| Impact on profit after tax on 15% increase in Reals fx rate against Sterling | 34 | 6 |
| Impact on profit after tax on 15% decrease in Reals fx rate against Sterling | (34) | (6) |
| **Financial liabilities** | | |
| Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling | (1,103) | (595) |
| Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against Sterling | 1,103 | 595 |
| Impact on profit after tax on 15% increase in Reals fx rate against Sterling | (1) | (1) |
| Impact on profit after tax on 15% decrease in Reals fx rate against Sterling | 1 | 1 |

## Notes to the Financial Statements continued

### 26. Financial instruments and risk management objectives and policies continued

For currency rate risk, the Company's exposure is considered to not be significant because as it does not hold any financial instruments denominated in foreign currencies and therefore quantitative information has not been provided.

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

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

| Class Categories | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| | Floating rate £'000 | Fixed rate £'000 | Non-interest bearing £'000 | Floating rate £'000 | Fixed rate £'000 | Non-interest bearing £'000 |
| **Financial assets** | | | | | | |
| Trade receivables | - | - | 2,131 | - | - | 2,088 |
| Other receivables | - | - | 4,252 | - | - | 5,706 |
| Cash and cash equivalents | 2,437 | - | - | 6,892 | - | - |
| **Financial liabilities** | | | | | | |
| Trade payables | - | - | 9,828 | - | - | 4,066 |
| Accruals | - | - | 225 | - | - | 163 |
| Finance lease liability | - | - | - | - | 5 | - |
| Convertible loan notes | - | 317 | - | - | 341 | - |

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 loss for the year ended 31 August 2012 would increase/decrease by £46,645 (2011: loss would increase/decrease by £ 93,853 ).

For interest rate risk, the Company's exposure is considered to not be significant as it only holds cash and cash equivalents at a floating rate and therefore quantitative information has not been provided.

**(iii) Credit risk**
Credit risk arises from trade receivables and cash and cash equivalents. Credit exposure is measured on a Group and Company basis. The Group and Company's maximum exposure to credit risk relating to its financial assets is given in Note 18.

**(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 2012, with all other variables held constant, would have the following impact on the Statement of Comprehensive Income and equity at 31 August 2012:

| | Statement of Comprehensive Income and equity impact Increase/(decrease) £'000 |
|---|---|
| 25% increase in the gold spot price | 13,668 |
| 25% decrease in the gold spot price | (13,668) |

## 26. Financial instruments and risk management objectives and policies continued

**(v) Liquidity risk**

Responsibility for liquidity risk management rests with the board of directors, which has established appropriate liquidity risk frameworks for the management of the Group's and Company's short, medium and long term funding and liquidity management requirements. The Group and Company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and by matching maturity profiles of financial assets and liabilities.

The following table details the Group's maturity profiles of its financial assets and liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principle cash flows:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| | Less than one year £'000 | More than one year £'000 | Less than one year £'000 | More than one year £'000 |
| **Financial assets** | | | | |
| Cash and cash equivalents | 2,437 | - | 6,892 | - |
| Trade and other receivables | 6,383 | - | 7,794 | - |
| | **8,820** | **-** | **14,686** | **-** |
| **Financial Liabilities** | | | | |
| Borrowings | - | - | 5 | - |
| Trade and other payables | 10,053 | - | 4,229 | - |
| Convertible loan notes | - | 317 | - | 341 |
| | **10,053** | **317** | **4,234** | **341** |

For liquidity risk, the Company's exposure is considered to not be significant as its only non-current financial liability is the convertible loan note and the maturity profile information is provided within the Group's analysis above.

**(vi) Capital risk**

The Group's capital management objectives (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders, while maintaining a strong credit rating and headroom whilst optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the company. Given the nature of early stage mining operations, the Group has been predominantly funded by equity. However once the mining operations are at a sufficiently advanced stage the Group may fund further expansion via debt. The Group includes within net debt borrowings, convertible loans, trade and other payables, less cash and short term deposits.

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Borrowings | - | 5 |
| Convertible loan | 317 | 341 |
| Trade and other payables | 10,053 | 4,229 |
| Less: Cash and cash equivalents | (2,437) | (6,892) |
| Net debt/(surplus) | 7,933 | (2,317) |
| Equity | 67,936 | 68,538 |
| Net debt/(surplus) plus Equity | **75,869** | **66,221** |

To maintain or adjust the capital structure, the Group may issue new shares or return capital shareholders. No changes were made in the objectives, polices or processes during the year ending 31 August 2011 and 31 August 2012. During the year the Group funded the expansion of the operations at the mine predominantly via the issue of equity. The board thought this was the most appropriate means of funding given the stage of development of the Group, and the risks associated with the development of the Vatukoula Gold Mine.

## Notes to the Financial Statements continued

### 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. Transactions and balances between related parties are set out below:

In order to fund the expansion of the operations at the Vatukoula Gold Mine, during the current year the Company has loaned an additional £8,184,283(2011: £10,722,033) to the wholly owned Fijian subsidiary Vatukoula Gold Mines Ltd. The total loan has been discounted to the net present value of the future cash flows by £8,663,942 (2011: £7,920,898), resulting in a total balance as at 31 August 2012 of £23,248,370 (2011: £15,807,130). The loan charges interest at 0.5% with effect from 1 September 2011 (2011: 0.5%) and is repayable in full on 31 August 2016.

During the current year, the company has not loaned an additional amount to Viso Gero International Inc, a wholly owned subsidiary (2011: £30,522). The loan has been discounted to the net present value of the future cash flows by £381,366, (2011: £464,857), resulting in a total balance as at 31 August 2012 of £1,011,170 (2011: £ 927,679). The loan charges interest at 0.5% with effect from 1 September 2011 (2011: 0.5%) and is repayable in full on 31 August 2016.

During the current year, the company has loaned an additional amount to River Diamonds (UK) Limited, a wholly owned subsidiary, of £382,875 (2011: £128,063). The total balance as at 31 August 2012 is £Nil (2011: £Nil). The company has written off £382,875 during the year ended 31 August 2012 (2011: £436,847). The loan is interest free and does not have any fixed repayment period.

During the year, the Company paid consultancy fees in respect of director's fees of £59,000 in (2011: £96,500) to Promaco Ltd, a company related to J I Stalker, director of Vatukoula Gold Mines Plc. At the year-end £Nil was payable to Promaco Ltd (2011: £5,500).

The company deems key management personnel to be both the executive and non-executive directors. Remuneration paid to the executive directors is disclosed in note 7.

### 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 is for 20 years ending on 21 March 2025. Vatukoula Gold Mine Ltd has three agreements and the details are as follows:

| Mining lease tile | 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 for Lease No. 54 and 56 at the rate of F$39,660 (2011: F$79,321) per annum, which is the equivalent of £14,002 (2011: £27,772). Rent payable for Lease No. 55 is F$9,566 (2011: F$19,132) per annum, which is the equivalent of £3,377 (2011: £6,698)

(ii) On 21 March 2008 and 30 June 2008, the Vatukoula Gold Mines Ltd entered into Special Prospecting Licenses ("SPL") agreements with the Government of Fiji. The terms of the lease agreement are as follows:

| Special Prospecting Lease Number | Expiry |
|---|---|
| SPL1201 | 21 March 2025 |
| SPL1344 | 30 June 2013 |
| SPL1360 | 30 June 2013 |

Under the current agreement, rent is payable for SPL1201 at the rate of F$13,882 (2011: F$13,882) per annum, which is the equivalent of £4,962 (2011: £4,860). Rent payable for SPL1344 is F$5,332 (2011: F$5,332) per annum, which is the equivalent of £1,907 (2011: £1,867). Rent payable for SPL1360 is F$26,437 (2011: F$26,437) per annum, which is the equivalent of £9,454 (2011: £9,256).

## 29. Commitments continued

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

| | | Group |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| No later than 1 year | 18 | 20 |
| Later than 1 year an no later than 5 years | 198 | 78 |
| Later than 5 years | 181 | 177 |
| | **397** | **275** |

(b) **Capital commitments**

Capital commitments as at 31 August 2012 amounted to £495,728 (2011: £912,000 ). These commitments are in relation to projected expenditure on mine properties and development.

## 30. Leases

(a) **Operating leases**

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

(i) The Group currently has no operating leases with ANZ for motor vehicles. During 2011 the group had operating lease repayable by monthly instalments of F$ 20,245, which was the equivalent of £7,088 .

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

| | | Group |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| No later than 1 year | - | 29 |
| Later than 1 year an no later than 5 years | - | - |
| Later than 5 years | - | - |
| | **-** | **29** |

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

(b) **Finance leases**

Details of finance leases held by the Group are as follows:

(i) The finance lease was fully repaid during 2012 (2011: repayable by monthly instalments of £1,082 and interest charged at the rate of 14% per annum).

(ii) Total future minimum finance lease payments are payable as follows:

| | | Group |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| No later than 1 year | - | 5 |
| Later than 1 year an no later than 5 years | - | - |
| | **-** | **5** |

The finance liability was secured by a master lease agreement and a charge over the lease assets and fully repaid during 2012.

## Notes to the Financial Statements continued

### 31. Contingent liabilities

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

| | | Group |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| Mining bond | 4 | 4 |
| Bankers undertaking | 211 | 207 |
| | **215** | **211** |

Both the mining bond and the bankers undertaking are contingent liabilities to cover remediation or rehabilitation costs associated with any environmental breaches of the Special Site Rights. There have been no breaches to date, and depending on future events, it remains uncertain if these liabilities will realise or suffice.

**(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 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 (Note 18). The expected timing and amounts of cash outflows remain uncertain.

**(c)** The Group is a plaintiff in several litigations with respect to potential claims of creditors, workers compensation and industrial action. The directors have assessed the likelihood of these claims becoming payable and consider that this is not likely. Therefore there are no provision or contingent liabilities disclosed for these.

### 32. Deferred taxation

**Movements in deferred taxation during the year are as follows:**

| | | Group |
|---|---|---|
| | **2012** | **2011** |
| | **£'000** | **£'000** |
| Balance 1 September | 7,776 | 9,394 |
| Impact of change in tax rate | - | (1,006) |
| Impact of tranfers of mining rights | 57 | - |
| Utilisation charged to the Statement of Comprehensive Income | (453) | (612) |
| | **6,758** | **7,776** |

The deferred tax liability was in respect of the intangible assets recognised in the acquisition in a prior period (Note 12).

### 33. Post balance sheet events

On 9 November 2012, the Company completed a placing with Zhongrun International Mining Co. Ltd. ("Zhongrun") whereby Zhongrun has subscribed for 20,000,000 new ordinary shares in the Company at a price of £0.33 per share, to raise £6.6 million.

On 12 December 2012, the Group signed an agreement with FIRCA in relation to a taxation assessment of F$11.5million against the Group. Under the agreement FIRCA will retain a proportion of the advance tax payments made by the Group and will refund F$2.2 million to the Group, which will be paid by way of instalments over two years.

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