Vatukoula Gold Mines PLC

Annual Report 2011

AIM: VGM
www.vgmplc.com

Contents

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.

Vatukoula Gold Mines Plc. ("VGM" or "Group") explores, discovers, and develops gold mines. It is primarily focused on its operations on the Pacific Island of Fiji.

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 achieve sustained profitable production of 100,000 ounces of gold per annum. 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 to 100,000 ounces of gold per annum. The mine currently has 4.2 million ounces of Mineral Resources and 790,000 ounces of Mineral Reserves.

The Vatukoula Gold Mine is located in the northern part of the main island in Fiji, 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 covers a total area of 1,255 hectares. In addition VGM can explore on areas outside the current mining leases via Special Prospecting Licenses which covers 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.

The Vatukoula Gold Mine is located in the northern part of the main island in Fiji, approximately ten kilometres inland from the coast and within the Tavua Basin.


VATUKOULA
GOLD MINES
LIMITED

Highlights 2010/2011

Financial Highlights

- Turnover of £47.9 million (2010: £40.3 million) – variance driven by higher gold prices.
- EBITDA of £2.2 million (2010:£8.9 million) – lower as a result of development programme delivering lower grade ore.
- Net loss of £2.3 million (2010: Profit: £4.5 million).
- Continued capital investment of £11 million (2010: £10 million).
- Completion of £6 million equity placing through the issue of 4.8 million shares in June 2011.
- Cash position of £6.9 million.
- Completion of share consolidation in November 2010 to realign the Company's share structure in a manner favourable to a potential North American listing.

Operational Highlights

- Gold sold was 53,461 ounces for the year ended August 2011.
- Underground ore delivered increased by 40% compared to the previous year.
- The underground development for the year was 24,453 metres up from 8,720 metres achieved in the previous year. These significant increases are the result of our on-going development programme.
- The Appointment of David Whittle as General Manager in July paved the way for a variety of operational improvements, including:
  - Minimising waste from development with split firing technique to blast the ore and waste separately;
  - The introduction of truck chutes to reduce the need for underground loaders; and
  - The introduction of water cannons in the underground stopes to recover more of the fines.
- Feasibility study completed on the Rarawai power project by the Fiji Sugar Corporation, with VGM in negotiations to secure off-take agreement, or joint venture the project.

Exploration Highlights

- Mineral Resource base increased by 6% to 4.2 million ounces, of which 790,000 ounces are classified as Mineral Reserves.
- Encouraging results are reported from VGM's initial surface exploration programme, which has been designed to provide a preliminary delineation of oxide/transitional material within the current mining leases. 21 holes returned gold grades in excess of 3 grams of gold per tonne. Intersections include 5.14 grams of gold per tonne over 17.55 metres, 12.09 grams of gold per tonne over 5 metres and 3.45 grams of gold per tonne over 19 metres.
- Mine envelope exploration targets the Prince and Matanagata North East (MGNE) flat-makes. Significant intersections included 23.1 grams of gold per tonne over 1.30 metres (Prince) and 9.6 grams of gold per tonne over 0.77 metres (MGNE).

47.9

Total VGM turnover (£m)

53,461

Gold sold (ounces)

4.2

Mineral resource at year-end (Moz)

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	Achievements in 2011
Expand	Our current production from the Vatukoula Gold Mine to a targeted sustained rate of 100,000 ounces of gold per annum.	Develop enough underground access, or development, allowing access to the required mining areas and therefore tonnages and grade.	427,685 tonnes of waste and ore mined, a 40% increase on last year's figure. 24,453 metres of operating and capital development carried out, a 180% increase over last year. 336,085 tonnes of underground ore delivered to the mill, a 38% increase compared to the previous year.
Sustain	The targeted production rate beyond current Mineral Reserves.	Further define the large Mineral Resource inventory and converting these to Proven and Probable Mineral Reserves to both replace the ounces mined and increase the current Mineral Reserve base.	A resource and reserve drilling programme has been developed during the period under review, this will be our main exploration focus during the coming year.
Optimise	Our working practices and working relationships to target lower unit costs on a per tonne basis.	Target key operational drivers and costs which have high internal rates of return and low capital costs.	The Fiji Sugar Corporation ("FSC") completed its feasibility study of the construction of a bio fuel co-generation plant. Our involvement in this project via an off-take agreement on the power produced from the plant will approximately halve our power costs. During the year we have constructed a small scale bacterial leach recovery plant. In bench tests this has yielded 95% recovery rates of gold from our ore. This is considerably higher than the recovery rate during the year of 81%. We have begun the tendering process of several of our key consumables. This will help us achieve lower unit costs.
Grow	Through greenfield opportunities in the area surrounding the Vatukoula Gold Mine.	Evaluate, define and explore the Special Prospecting Licenses within the Tavua Basin.	More than 21,000 metres drilled which identified both extensions of current ore bodies and potential new ore bodies. Mineral Resource currently being evaluated over two surface deposits.

We operate in a responsible manner in relation to our people, the environment and the communities that we inhabit as a business; which we view as being important to achieving our strategic priorities.

I am confident that the actions our Mine Management and Operational Teams took this year, supported by the Board, will help to position your Company to meet its yearly target of 100,000 ounces of production.

The German-American economist Hans Sennholz once said: “For more than two thousand years gold’s natural qualities made it man’s universal medium of exchange. In contrast to political money, gold is honest money that survived the ages and will live on long after the political fiats of today have gone the way of all paper.”

Fiat money is defined as money, either paper or coin, made legal tender and assigned a value by government decree. This places a huge responsibility on governments, who are inclined to take on obligations that they are unable to fulfil and having done so have to reduce the value of those same obligations by reducing the value of the currency. When questioned in the USA on the plans that the Federal Reserve Bank had to put the economy back on its feet, Mr Bernanke (Chairman of the Federal Reserve) said that he had a wonderful invention for that very problem, the printing press (his words not mine).

Governments can create “fiat money” much faster than mining companies can mine gold. Even in exceptional years the world gold production only rises in single figure percentages, whereas governments can increase available credit by hundreds of percentages points. The “gold bubble” frequently quoted is in reality the result of a paper money bubble, with gold trying to maintain its value as against the shifting values of the various reserve currencies. The paper currencies have fulfilled one of the primary functions of money in providing a medium of exchange but have singularly failed to provide the equally important function of being a store of value. Gold has re-entered the money world by providing a store of value. Over the next few years the older countries of Europe are likely to be forced to reduce their central bank gold holdings to shore up their currencies with the gold flowing to the coffers of the emerging markets.

Whilst we have taken steps to improve our mining operation, we have also invested in an exploration programme designed to help find new resources and help extend our life of mine operations in Fiji.

Although the gold price has been buoyant over the last year, smaller capitalised gold mining companies haven't reflected this and I am frequently being asked why. I think the reason lies in the creation of the Gold ETF Funds that have siphoned off a lot of investment money into direct holdings of gold; since the security and ease of holding gold has improved. The speed that sizeable amounts of money can enter and leave the market is also helpful to performance funds and bypasses the difficulties faced in buying equity shareholdings in smaller mining companies with their attendant risks. However this will change when the cash flows in the industry allow the payment of dividends to shareholders.

Following a year of consolidation, we set out our accelerated development programme with a view to be producing 100,000 ounces of gold per year. That objective continues to be in our sights but as yet has not been achieved. VGM shipped a total of 53,461 ounces of gold in the year under review.

Following the appointment in July 2011 of our new General Manager, David Whittle, we commenced a review of our mining operations in consultation with the senior mine operations team.

The review was designed to see how we could re-position our mining activities in order to both meet the targets that had been set and optimize our operations in the short and long term.

Toward the end of the year, we introduced a number of initiatives to reduce dilution and increase the grade mined. These included split-firing of development drives, improved staff motivation, improved mining practices and the reintroduction of sweeping teams to remove the remaining material in mined stopes. These methods will help reduce our cash cost per ounce and ensure we mine less waste and produce more gold bearing ore.

The purchase of two development machines, one of which was on site and operating prior to year-end, enhanced our mechanised mining approach. This will help to overcome some of the shortfalls we encountered in our below ground infrastructure. This, coupled with the condensing of the mine development plan at the Phillip Shaft, will combine to help create better circumstances for our operation to deliver higher grades and production output over the medium term.

Whilst we have taken steps to improve our mining operation, we have also invested in an exploration programme designed to help find new resources and help extend our life of mine operations in Fiji.

Moving forward, I am confident that the actions our Mine Management and Operational Teams took this year, supported by the Board, will help to position your Company to meet its yearly target of 100,000 ounces of production. With a promising horizon of new ore body discoveries, such as that announced in October 2011, we look forward to many more years of profitable production from the Vatukoula Gold Mine.

As we go into 2012, I remain optimistic about the prospects of our industry and in particular our company. We need to apply the hard lessons learned to overcome the challenges we will face during the coming year and deliver against the potential of our asset base.

Once again, I take this opportunity to thank all our hard working and dedicated staff, operations and management and acknowledge the support provided to our company by our various stakeholders and suppliers.

Colin Orr-Ewing
Executive Chairman
12 December 2011

The measures we have taken during the year and in particular in the last quarter we believe will result in increased production levels and lower costs in the coming year.

During the last twelve months we have made positive operational strides with increased underground development rates and large increases in underground ore mined. However, despite these achievements, the mining constraints we faced at the Vatukoula Gold Mine prevented us from achieving our production target.

As such, resolving these issues became a top priority for our Management team during this year, ensuring the mine enters 2012 in a position to grow and deliver to our long term targets.

The improvements, made mostly during the second half of the year, included the recruitment of additional personnel to our technical team, the introduction of improved mining disciplines, and a number of Senior Management changes. We are confident that these actions will build a solid foundation from which to expand our production.

Operating and Financial Performance

VGM sold 53,461 ounces of gold in the year at an average cost of US$1,349 per ounce. The main driver to the higher cash cost per ounce was the increased development metres achieved during the year which delivered lower grades to the mill. Operating costs on a per tonne basis have increased to US$145 on an overall basis; however, this increase is primarily because of the increased amount of underground ore mined and milled as a percentage of the total ore mined. The positive movement of the gold price mitigated some of the higher cost base with our operating cash outflow for the year being £2.3 million with a year-end cash position of £6.9 million. During the year our Mineral Resource base increased by 6% to 4.2 million ounces, of which 790,000 ounces are classified as Mineral Reserves.

Development of the Vatukoula Gold Mine

The Mine Management team and Senior Team Leaders set about an aggressive underground mining programme that resulted in the mining this year of 427,685 tonnes of underground ore and waste, a 40% increase over the previous year. As is expected, the company mined more waste and less gold bearing ore body, principally because the quality of the underground infrastructure necessary for us to recover higher grades within the ore body itself was not sufficiently or previously put in place.

Any underground mine requires a huge input of infrastructure building long before production commences. We were aware that insufficient development was available to provide for flexible and sustainable long-term operations. Therefore a development catch-up programme was agreed at all levels, and was targeted to be complete within six months. This objective was not realised as development rates that were envisioned were not practically achievable.

Development, although not conducted at the rate required, was substantial in the year under review. A total of over 24,000 metres was achieved, a threefold increase over the previous year. Development at the mine has historically been undertaken on the ore body, called strike drives. This has been considered the best practice, for a number of reasons: Firstly the ore body at the mine is generally shallow dipping resulting in the alternative, a footwall drive, being developed too far away from the ore body; secondly, the development along the ore body gives a good cross sectional ore grade evaluation, which gives the mine a better evaluation of the ore body before mining; and finally because less waste material is mined during this type of mining.

Any underground mine requires a huge input of infrastructure building long before production commences. Insufficient development was available to provide for flexible and sustainable long-term operations.

In future, using strike development, the mine will be targeting a ratio of 30% development tonnage to 70% from mining operations. The rate at the beginning of the year was the reverse.

Because of the combination of a high rate of development to create the infrastructure required, which resulted in diluted grade due to development, and the dilution from development of the up-dip stopes, the overall grade of the year under review was below our forecast.

We have instigated a number of measures to assist mining, and in particular grade control. We have returned our stope mining to traditional longwall stopes, with the addition that we are designing new stopes to produce over a much longer time horizon. This involves longer setting up – but we believe it will provide smoother production when commissioned. Added to this is the use of truck chutes for the loading of ore, which will assist in our heavy equipment availability.

Drilling on the Special Prospecting Licenses began in the latter half of the year and post the year end we announced preliminary results related to the discovery of a series of new ore bodies at the Vatukoula Gold Mine.

Mine Management has introduced a number of additional initiatives to reduce dilution, including stricter control of mining areas and split blasting in development drives. We have also initiated in one section on a trial basis, the use of footwall drive development as opposed to strike development. We look forward to assessing the results of this trial program.

Overall, I am satisfied with the progress toward the long-term future of the mines' underground operations. It is management's objective to place the underground mine into a continuous sustainable production level. There will be additional capital requirements for the underground mine going forward. We have already highlighted the 18 level decline to access new areas in the Philip Shaft. In the medium to long term we will also be required to upgrade and refurbish the ventilation system at the mine, and continue to increase our knowledge of the Mineral Resources at the Vatukoula Gold Mine.

Sustainable Power

During the period, the proposed power project to be developed by the Fiji Sugar Corporation ("FSC") at the nearby Rarawai Sugar Mill was the subject of a bankable feasibility study. 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 to US$160 million depending on an owner build or construction contractor option. Construction is scheduled to begin in calendar 2013 subject to finance. The FSC is currently in negotiations to secure finance, with VGM looking to enter into a long term off take agreement and if possible acquire an interest in the project.

We believe that a long-term power supply from a source that is not beholden to the international hydrocarbon price would provide a large benefit to the long-term operations at the Vatukoula Gold Mine, through lowered operating costs.

Exploration

In January 2011, VGM began the first exploration programme for over a decade. The main targets for this programme were extensions to existing as well as new surface oxide mineralization, underground high-grade ore bodies adjacent to existing resources, and previously drilled exploration targets on VGM's Special Prospecting Licenses.

Encouraging progress has been made on all of these targets. We completed a 60-hole surface oxide drill campaign which covered approximately 520,000 m^2. The results from this campaign are currently being reviewed and we aim to be able to deliver a resource statement during the coming year. The drilling on the underground targets also yielded positive results indicating further extensions of both the Matanagata and Prince flatmakes. As part of our exploration programme in the coming year both of these ore bodies are being targeted. Drilling on the Special Prospecting Licenses began in latter half of the year and post the year end we announced the preliminary results related to the discovery of a series of new ore bodies at the Vatukoula Gold Mine. Further drilling of these targets will be carried out during the year to better define the geometry of these structures and their full economic potential.

Strengthening the Management Team

During the last quarter of the year, we began the process of strengthening our management team at the Vatukoula Gold Mine.

In July, Mr. David Whittle was appointed as General Manager of the Vatukoula Gold Mine. Mr. Whittle has vast experience in underground mining and has managed mining operations in the Pacific Islands. His underground experience will assist in placing the Vatukoula Gold Mine in the long-term sustainable position that we are looking to achieve. Toward the end of the year, we also made some key appointments in the Geological, Mine Planning, Maintenance, and Supply Departments. With these appointments, we believe that we now have in place a management team with the required experience, professional skill set and hunger to develop the mine and deliver on its full potential.

North American Listing

We still envisage that we will apply for an additional listing on a North American market as we believe that this will provide exposure to a market with a broad number of comparable underground gold mining companies. Full documentation will be provided to the relevant exchange within the forthcoming year subject to the mine achieving the improvements in sustainable mining that we are expecting.

Post Balance Sheet Events

As a result of the actions taken in the last quarter of the financial year, gold production has improved dramatically. Higher grades delivered to the mill and lower tonnages have resulted in the mine producing to target and at a lower cost than forecast.

Outlook

The last year has been one of significant challenges, which I believe we have dealt with effectively and decisively. The measures we have taken during the year and in particular in the last quarter we believe will result in increased production levels and lower costs in the coming year. More importantly, it will be a year of laying the solid foundation required to achieve our strategic objectives of expansion, sustainable production, operational optimisation, and growth.

The key business objectives and their relation to our strategic priorities for 2012 are:

Expand

Achieve a production of 65,000 ounces

Achieve a normal and capital development metres of 26,000 metres

Sustain

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

Optimise

Continue bio-oxidation leach testing

Further negotiations with FSC with the aim a signing a memorandum of understanding

Complete tendering process on key consumables at the mine

Grow

Complete Mineral Resource statements on surface deposits

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

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.

David Karl Paxton
Chief Executive Officer
12 December 2011

Overview
Performance
Governance
Financial Statements & Other Information

The long-term fundamentals for gold are strong. Global market uncertainties continue to drive investors to increase their gold holdings in order to protect their wealth.

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 analysis trends associated with the supply and demand of gold. Such information is accurate at the time of the production of this report.

Demand

2010 was a strong year for the gold sector. Demand increased to 3,812.2 tonnes (with a total value of US$150 billion), a 9% increase over 2009 figures. This performance is primarily attributable to growth in demand from the jewellery sector, the revival of the Indian market and strong momentum in Chinese gold demand. Equally, it should be noted that Central Banks have become net purchasers of gold for the first time in 21 years.

Gold continues to be regarded as a trustworthy investment product, particularly in times of great economic disturbance. The introduction of gold backed exchange traded funds (ETFs) in 2003 has driven substantial demand levels. ETFs accounted for 338 tonnes of physical gold in 2010, down 45% from the 617.1 tonnes of demand recorded in 2009 as a result of profit taking.

Global gold demand in the second quarter of 2011 was 919.8 tonnes (total value: US$44.5 billion), the second highest quarterly value on record. Year-on-year growth was broad-based across sectors and geographies. Again, India and China were the major contributors to growth in both jewellery and investment demand.

Supply

4,108 tonnes of gold came into the market in 2010, representing a 2% increase on 2009's figure. The underlying components of supply were mixed. The combined effect of a reduction in the supply of recycled gold (-19 tonnes compared to 2009) and a shift in the official sector to modest net purchases (-117 tonnes) were cancelled out by a 136 tonne year-on-year decline in producer de-hedging. Given that the net effect of these changes on supply was negligible, the 74 tonne year-on-year increase in 2010 was solely the result of growth in mine production.

At 1,058.7 tonnes, the supply of gold in the second quarter of 2011 was 4% below the comparative period in 2010. Mine production was the only element of the supply portfolio to register growth (7% year-on-year). The remaining elements of supply experienced a net volume decrease compared to Q2 2010.

Second quarter mine production of 708.8 tonnes was 49.4 tonnes above the levels of Q2 2010. Similar to the previous quarter, the distribution of gains in mine production was geographically widespread, with positive contributions from all regions.

Increases were particularly strong in Africa as Randgold Resources' Tongon mine in Cote d'Ivoire, which poured its first gold in November, benefited from an increase in average ore grade. Production at Nevsun's recently established Bisha mine in Eritrea also contributed to growth after coming on stream in February. Operations in Ghana and Burkina Faso also generated growth in mine production. A number of new starts in Canada bolstered production there, while in North America Barrick's Cortez mine benefitted from increased mill throughput. Higher throughput at Newmont's Boddington mine and significant production improvement at Catalpa Resources' Edna May operation both contributed to growth in Australian gold production.

Mine Supply versus Gold Price

Further increases in mine production were seen in Russia and Kazakhstan, as well as Turkey, Papua New Guinea, Mexico and Chile. Net producer hedging swung back to a negative number in the second quarter. Net de-hedging of 10 tonnes reversed just over half of the modest 18.8 tonnes of net hedging that took place during the second quarter of 2010. The impact on supply from hedging activity is likely to remain insignificant over the coming quarters; the outstanding global hedge book remains small on a historical basis and new, so far modest, hedging activity remains largely project-based.

With strong fundamentals behind the current gold price we believe that the price of gold is set to remain comfortably above US$1,000 per ounce for the foreseeable future and above our long term cash production cost.

Central banks remained net buyers of gold in the second quarter of the year. Although well below the first quarter's elevated levels, central bank purchases of gold of 69.4 tonnes were the second highest quarter since the official sector began buying again in the second quarter of 2009. The Central Banks reporting net purchases were a mixture of banks with a known, existing programme of purchasing and one or two newcomers.

In a continuation of the recent trend, buying is concentrated among the Central Banks of emerging economies, which remain largely underweight in their allocation to gold. Russia, which continues to buy local production with the express intention of diversifying its reserves, purchased 26 tonnes during the course of the quarter. This takes Russia's gold holdings to around 837 tonnes, equivalent to almost 8% of the country's reserve assets.

In August, South Korea's central bank announced that it had purchased 25 tonnes of gold over the course of June and July. Added to the existing holdings of 14.4 tonnes, South Korea now owns 39.4 tonnes of gold, which makes it the 45th largest holder of gold in the world according to the August table of world official gold holdings. Elsewhere in Asia, Thailand's central bank made a further purchase, adding 17.0 tonnes to its reserves.

Mexico added to the buying seen in the first quarter with an additional purchase of 5.9 tonnes. Over the year-to-date, Mexico has added almost 100 tonnes to its reserves, boosting total gold holdings to 106.0 tonnes. The 429.3 tonnes of recycling activity in Q2 was subdued, 3% down year-on-year and only slightly above the average of the last 10 quarters of 407.3 tonnes. This modest result is particularly interesting given the record price levels reached during the quarter. Recycling in developed markets was steady, with the decline resulting wholly from weaker recycling levels in emerging markets.

A number of factors appear to be behind the decline in recycling activity, including an increasing acceptance of higher price levels, which in turn drive bullish price expectations; the depletion of near-market stocks; and improving economic conditions in a number of those countries in which recycling is prevalent (most notably India).

Outlook, Pricing and Share Price Impact

With strong fundamentals behind the current gold price we believe that the price of gold is set to remain comfortably above US$1,000 per ounce for the foreseeable future and above our long term cash production cost.

The European sovereign debt crisis is serving to add to market volatility. A flight to safe haven investment asset classes such as gold is helping to keep the price of gold high.

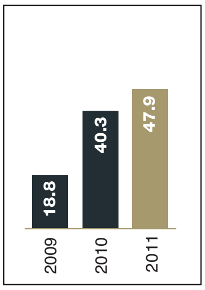
Key Performance Indicators

We assess the performance of our business against several KPIs which 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.

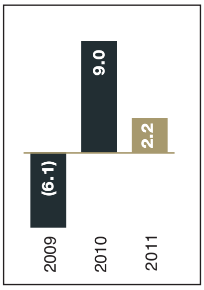
Financial KPIs

Data

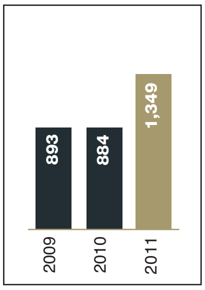
Turnover (£'000,000)



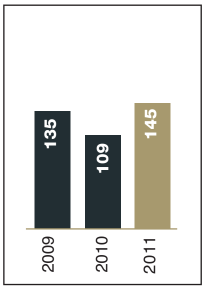
EBITDA[1] (£'000,000)



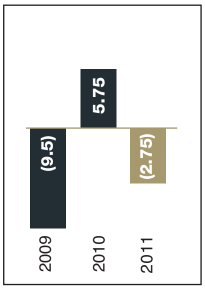
Cash cost per ounce sold[1] (US$/Oz)[1]



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



Operating cash flow per share[1] (pence/share)

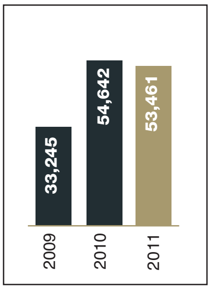
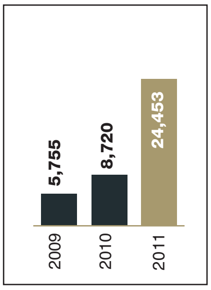
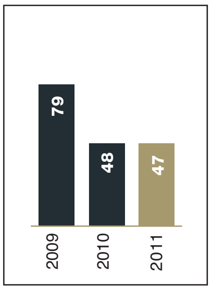
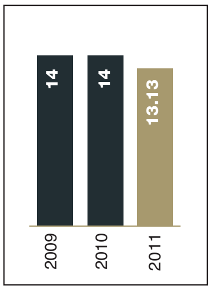


	Turnover (£'000,000)	EBITDA[1] (£'000,000)	Cash cost per ounce sold[1] (US$/Oz)[1]	Cash cost per tonne mined & milled[1] (US$/tonne)[1]	Operating cash flow per share[1] (pence/share)
Definition (Full definition for Non-IFRS measures are provided on page 28).	volume of gold sold during the period multiplied by the gold price achieved over the period.	is the net profit or loss excluding: • finance income: • finance expense: • tax expense • depreciation and amortisation	is calculated by dividing the aggregate cash costs incurred in our mining operations by the ounces of gold sold.	is calculated by dividing the aggregate cash costs incurred in our mining operations by the tonnes mined and milled.	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 2011	totalled £47.9 million in 2011, an increase of 19% on 2010, as a result of increased gold prices. (Further information is set out in the Financial Review on pages 24 to 28).	was £2.2 million, a decrease of £6.8 million on the year ending 2010. This reduction was driven by a combination of lower than expected grade, and higher unit costs. (Further information is set out in the Financial Review on pages 24 to 28).	increased to US$1,349 as result of lower than expected grades mined and increased unit costs. (Further information is set out in the Financial Review on pages 24 to 28).	increased from US$109/tonne in 2010 to US$145/tonne in 2011, the majority of this variance was attributable increases in tonnes mined from underground. (Further information is set out in the Financial Review on pages 24 to 28).	was (2.75) pence in 2011 compared to 5.18 pence in 2010. This decrease was a result of lower revenues, increased unit costs and higher working capital requirements. (Further information is set out in the Financial Review on pages 24 to 28).
Importance	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.	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.	allows us to monitor the key drivers that impact on our profitability, revenue per tonne and cost per tonne.	allows management to track and compare costs on a monthly basis regardless of variances in tonnes mined and milled.	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 28 for detailed definitions on each measure.

In the current year the Group adopted several additional KPIs to align itself with practices in the mining industry and to better reflect VGM's strategic priorities.

Operational KPIs

	Gold Shipped (Oz)	Total development (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 28).	is the Group's total ounces of gold sold during the period.	represent the aggregate of both capital and normal metres (but excludes stoping) mined over the period.	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.	is a measure of lost time claims per million hours worked.
Performance in 2011	totalled 53,461 ounces, compared to 54,642 ounces in the previous year. This reduction was a result of lower grades 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 13 and pages 18 to 21).	were 24,453 metres for the year an increase of 15,734 metres over the year ended August 2010. This is a result of the Group's accelerated development programme.	equalled 47 Oz / 1,000 shares. (Further information is set out in the Reserve and Resource Statement on pages 33 to 35).	decreased from 14 in 2010 to 13.13 in 2011. This is an improvement on the previous year; however we would look to continue to improve on this during the coming year. (Further information is set out in Corporate Responsibility review on page 29).
Importance	measures our progress to achieving our long term production target of 100,000 per annum.	allows us to measure our progress towards having sufficient working areas to achieve our production target.	allows us to measure our ability to discover new ore bodies and to replace resource depletion as a result of mining activities.	aids us to assess the effectiveness of our health and safety programme and controls at our operations.

Ore processed for the year was 498,123 tonnes, a 13% increase compared to the year ending 2010 (441,924 tonnes).

Operationally this year has been one of unprecedented activity at the Vatukoula Gold Mine, with dramatic increases in underground tonnes mined and increased development metres. We did however face operational challenges which prevented us from reaching our targeted production. Total gold produced was 52,157 ounces, a 7% decrease on last year's figure.

Underground Production

During the year we mined 427,685 tonnes of ore and waste, a 40% increase on 304,959 tonnes in 2010. This increase was primarily driven by the increased waste, and more strike drive development associated with the accelerated development programme.

The average grade for the year was also adversely affected by increased strike drive development, which lowered the overall grade from 7.46 grams of gold per tonne to 5.00 grams of gold per tonne. Strike drives reduce the grade because they are larger (3.5m high) access drives which follow the ore body, while mining stopes typically are 1.1 m in height. Therefore as more tonnes are extracted from strike drives compared to stopes, the overall dilution of the ore body (typically 0.50m wide) increases and therefore the grade mined decreases.

427,685

Tonnes of ore and waste mined from underground

160,923

Tonnes of material mined from surface

Surface Production

Processing of the oxide waste dump, previously identified as containing treatable oxide material, was completed in the year. As part of our exploration program we uncovered some additional oxide material that was mineable by open pit methods. This was undertaken to supplement our underground production while we are in the process of reinstating full underground production. In the year we processed a total of 160,923 tonnes of material at an average grade of 1.39 grams gold per tonne.

As part of our exploration programme we uncovered some additional oxide material that was mineable by open pit methods. This was undertaken to supplement our underground production.

Operating results	Year ended 31 August 2011	Year ended 31 August 2010	% Variance
Underground Mining / Sulphide Processing			
Total tonnes mines	427,685	304,959	40%
Development (metres)	24,453	8,720	180%
Sulphide Ore delivered (tonnes)	336,085	243,417	38%
Sulphide head grade (grams / tonne)	5.00	7.46	(33%)
Oxide Plant			
Ore delivered (tonnes)	160,923	198,507	(19%)
Oxide head grade (grams / tonne)	1.39	2.02	(31%)
Total (Sulphide + Oxide)			
Ore processed (tonnes)	498,123	441,924	13%
Average ore head grade (grams / tonne)	3.78	5.00	(24%)
Total Recovery (%)	81.26%	84.58%	(4%)
Gold produced (ounces)	52,157	56,214	(7%)
Gold shipped (ounces)	53,461	54,642	(2%)
Cash Costs			
Total cash cost / shipped ounce(US$)	1,349	884	52%
Total cash cost / tonne (US$)	145	109	32%


Welding Electrodes

Vatukoula Treatment Plant ("VTP")

Tonnes of ore processed for the year was 498,123 tonnes, a 13% increase compared to the year ending 2010 (441,924 tonnes). The increase was driven by the increased mining activities from underground which increased ore delivered to the mill by 38%. This increase was off-set by a decrease in surface ore delivered to the mill, from 198,507 tonnes in 2010 to 160,923 in 2011.

The average grade processed decreased from 5.00 grams of gold per tonne in 2010, to 3.78 grams of gold per tonne in 2011. The key drivers for this reduction were the lower grades delivered from underground, which represented a larger portion of the material processed this year. The lower grades delivered also reduced recoveries within the processing circuit by 4% to 81.26% in the year (2010: 84.58%).

At the VTP we replaced the tertiary crusher. We have also refurbished and replaced where necessary large amounts of steelwork and repaired the roofs and buildings in general. The fine ore bin was relined. The plant continues to operate satisfactorily – but does require additional refurbishment of the secondary crushers and screens, over the coming year. During the year we have been investigating ways of optimising our processing plant and increasing recoveries. In particular we have been carrying out bacteria leach test work. Preliminary results have been very encouraging with gold dissolution of between 95% to 98%. A larger test program has been included in this year's capital program.

At the VTP we replaced the tertiary crusher. We have also refurbished and replaced where necessary large amounts of steelwork and repaired the roofs and buildings in general.

Cash Costs

As a result of 1) the lower underground grade delivered to the processing plant, 2) the increased tonnages mined from underground and 3) increases in industry cost generally, our cash cost per ounce of gold shipped increased to US$1,349. Overall cash cost per tonne mined and milled also increased to US$145 (2010: US$109).

Employees

At the year end we employed 1,144 individuals as either full time employees or as casual labour. Of our permanent workforce 50% are involved in direct mining operations, with a further 10% in underground mining support services. We also use the services of local contractors for ground transport, and in that regard a further 272 individuals are directly involved in the operations at the Vatukoula Gold Mine.

81.26

Processing circuit recoveries (%)

1,349

Cash cost per gold ounce shipped (US$)

1,144

People employed by VGM

The exploration programme is an essential component in the long-term operational sustainability strategy at the Vatukoula Gold Mine.

In January 2011, the Group announced the commencement of its 2011 exploration programme, which was designed to fulfill two primary objectives:

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

Two drill rigs were commissioned to undertake the drill programme. The exploration teams were briefed to:

1. Establish extensions to existing as well as new surface oxide mineralisation
2. Discover underground high-grade ore bodies adjacent to existing resources
3. Examine previously drilled exploration targets on the Company's Special Prospecting Licenses

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 exploration results will guide the company in regards to the potential for 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.

Surface Oxide Exploration

During the year a total of 7,205 metres, were drilled as part of the surface oxide exploration programme. The large majority of these holes were focused on identifying a potential resource within the current Special Mining Leases. Approximately 2,000 metres were drilled on our Special Prospecting Licenses to carry out some confirmation drilling on a previously discovered deposit. The majority of the drilling was carried out by reverse circulation drilling on a 100-metre grid. Diamond drilling were utilised to provide detail in relation to structure and orientation of the mineralisation.

The objective of this phase of drilling was to define the strike extensions of the vertical or near vertical mineralised structures, which have been historically mined from surface. The holes completed to date have confirmed the presence of multiple mineralised structures along strike from previously mined areas. These structures are currently being interpreted, and along with historical information that VGM has at its disposal, are to be compiled with the intention to produce an initial Mineral Resource model.

Mine Envelope Exploration

A total of 7,228 metres were drilled on the mine envelope exploration programme. All of these holes were drilled by diamond drilling, either from surface or underground. The drilling was designed to intersect possible down-dip and along strike extensions of known ore bodies.

The most significant results to date have been;

1. The intersection of the Prince flatmake ore body below the 16th level (approximately 540 metres below surface). Four holes were drilled of which two intersected the Prince flatmake with the most significant intersection being 1.30 metres at 23.19 grams of gold per tonne.
2. The intersection of the Matanagata flatmake between 492 metres and 600 metres below surface. The most significant intersection was a composite intersection of 0.77 metres at 9.61 grams of gold per tonne.

Both of these intersections are an important step forward in the mine envelope drilling as they demonstrate the existence of mineralised structures outside our current Mineral Resource model and at some distance from our current workings (between 100 and 300 metres).

Special Prospecting Licenses Exploration

The Special Prospecting Licenses exploration commenced in April 2011 and during the year 4,614 metres were drilled. No significant results came from the initial stages of this programme, however post year end several significant mineralised intersections were encountered.

Summary & Post Year end Exploration Results

We are happy with the results to date of our on-going exploration programme, particularly with the discovery of a new ore body. In October, we announced the discovery, 300 metres north of the existing mine workings, of a new high-grade ore zone, which the Company has named 'Nilsen'. Nilsen is the first new high-grade gold mineralised discovery at the Vatukoula Gold Mine since the discovery of the Prince William ore zone in the 1980s.

The 2011 drill programme had intersected high-grade mineralised structures with significant composite intersections that included:

- 124.7 grams of gold per tonne over 0.46 metres
- 33.6 grams of gold per tonne over 2.86 metres
- 25.46 grams of gold per tonne over 1.07 metres
- 39 grams of gold per tonne over 0.48 metres

The ore zone has been intersected between 300 metres and 700 metres below surface (levels 11 to 23) and is open along strike and down dip. Further work is planned to establish the full size and scale of the Nilsen discovery and we look forward to defining the results of our 2011 drill programme over the near term so as to be able to introduce new ore zone discoveries into our future mine development plan.

Nilsen is the first new high-grade gold mineralised discovery at the Vatukoula Gold Mine since the discovery of the Prince William ore zone in the 1980s.

Revenue for the year of £47.9 million was 19% higher than the prior year period of £40.3 million. The average realised gold price was US$1,439 in 2011 compared to US$1,157 per ounce in 2010.

The purpose of this review is to provide a detailed analysis of the Group's consolidated 2011 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 43 to 87.

During the year the Group benefited from the increased gold price which resulted in a higher turnover figure, however overall the Group's financial results were adversely affected by 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 combined with lower grades (grams of gold per tonne) resulted in a loss of £2.3 million and cash outflows from operating activities of £2.3 million. The lower grades and increased costs also affected the cash cost per ounce sold which increased to US$1,349.

	Year ended 31 August 2011	Year ended 31 August 2010
Tonnes Treated	498,123	441,924
Mine Head Grade (g/t)	3.78	5.00
Recovery (%)	81.26%	84.58%
Gold Shipped (oz)	53,461	54,642
Revenue (£'000)	47,964	40,354
EBITDA (£'000)	2,150	8,996
Cash (used) / generated from operating activities (£'000)	(2,312)	4,119
(Loss) / Profit (£'000)	(2,315)	4,523
Cash cost (US$/ounce)	1,349	884
Average realised gold price (US$/ounce)	1,439	1,157
Basic (Loss) / Earnings per share (pence)	(2.76)	6.32

Revenue

Revenue for the year of £47.9 million was 19% higher than the prior year period of £40.3 million. The Group's year on year sales volume decreased by 1,181 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$1,439 in 2011 compared to US$1,157 per ounce in 2010.

Commodity Prices

Gold prices have a significant impact on the Group's revenue, net profits and its ability to generate cash flows. In 2011 the price of Gold reached US$1,878 and traded between a range of US$1,250 to US$1,878 per ounce. Market gold prices averaged US$1,449 compared to our average realised gold price of US$1,439 per ounce.

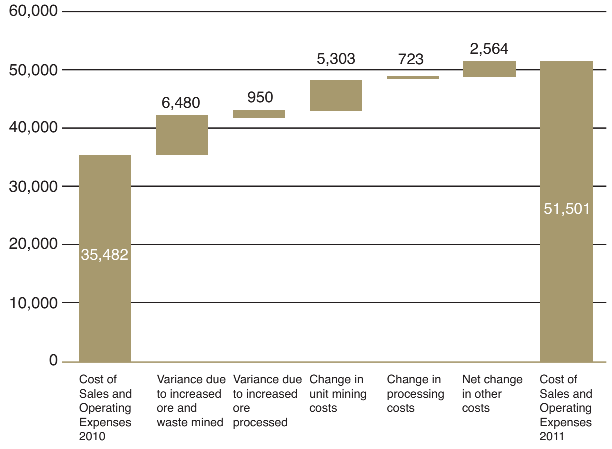
The market price of gold has been influenced by sovereign debt concerns, low US dollar interest rates, investment demand, government monetary policies and negative long term production global gold production. With the continued global easing of monetary policy and large fiscal deficits in some of the major developed countries, there is a possibility that inflation and US Dollar depreciation could occur in the next few years. With these two drivers, coupled with the increased demand for gold from investors as a result of the continued financial uncertainty, we should see a positive influence on the price of gold.

Cost of Sales and Operating Expenses

Cost of Sales and Operating Expenses increased to £51.5 million in 2011 from £35.5 million in 2010. A 40% increase in the waste and ore mined during the year elevated costs by £6.4 million. A 13% increase in the ore milled elevated the costs by £1 million. The remaining £8.6 million is attributable to:

- an increase in unit mining and milling costs which represented £6.0 million in additional costs,
- a £0.8 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 amortization and depreciation charges of £0.9 million, and
- a decrease in unrealised foreign exchange gains on intercompany loans of £0.6 million.

Cost of sales & operating expenses (£'000)

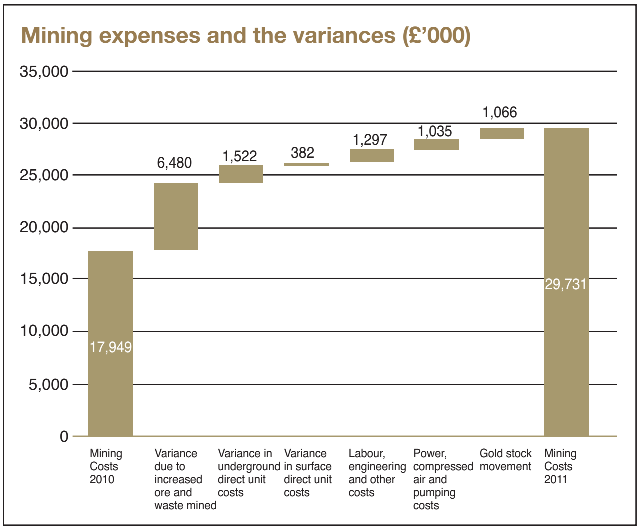


A breakdown of the key drivers behind the increase in cost of sales and operating expenses is shown in the graph above.

As outlined above the variance in mining costs represented the key driver to the increase in costs compared to the previous year. The mining costs totalled £29.7 million for the year. This represents an increase of £11.8 million from the prior year period (£17.9 million). A 40% increase in the waste and ore mined during the year elevated costs by £6.4 million. The remaining £5.1 million is primarily attributable to:

- an increase in underground direct mining costs of £1.5 million which can be attributed to an increased market prices of explosives, fuel, heavy vehicle tyres and other mining consumables,
- a £1.3 million increase in labour, engineering and other costs mainly attributable to larger higher maintenance costs on heavy vehicles,
- a £1.1 million increase in power, compressed air and pumping costs mainly due to higher pumping and compressed air costs associated with accessing more remote areas of the mine, and
- expensing the gold in circuit drawn down in the period, which increased compared to the previous year and increased costs by £1.1 million.

Cost of Sales & Operating Expenses	Year ended 31 August 2011 £'000	Year ended 31 August 2010 £'000
Mining	(29,731)	(17,949)
Processing	(9,144)	(7,471)
Overheads	(4,403)	(2,612)
Gold Duty	(1,440)	(1,216)
Administrative expenses	(2,301)	(3,229)
Foreign exchange gains	1,592	2,182
Depreciation and amortisation	(6,074)	(5,187)
Total	(51,501)	(35,482)



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

Depreciation and amortisation was £6.1 million for the year. This represents an increase of 17% from the prior year (£5.2 million). This increase is due to the higher capital investment base employed in late 2010 and in 2011 as a result of the accelerated development programme, capital equipment replacement programme and the rate of depreciation when compared to older capital development and equipment.

Cash Costs

Cash cost for the year ending 31 August 2011 were US$1,349 per ounce sold (2010: US$884 per ounce). This increase in cash costs can mainly be attributed to lower grade of ore delivered to the mill and consequently lower recovery rates. The lower grades are a function of the accelerated development programme the Group has been carrying out at the Vatukoula Gold Mine.

This programme results in a higher dilution of the ore body, as we excavate the required underground infrastructure and access required for our sustainable production target. As a portion of the increase in cash costs per ounce the decrease in grade and recovery represents a US$341 per ounce increase in the cash cost. The remaining increase of US$123 per ounce is attributable to the increase in cash cost per tonne as previously outlined.

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

The Group embarked on a significant exploration campaign during the year. This was the first such campaign for almost ten years and in this year we incurred £2.7 million compared to the £0.3 million in 2010.

Mining Expenses	Year ended 31 August 2011 (£'000)	Year ended 31 August 2010 (£'000)
Variable direct mining costs	9,541	6,029
Mining labour costs	2,651	1,894
Engineering and other costs	8,689	4,773
Power costs	9,215	6,477
Gold stock movement	(365)	(1,224)
Total mining expenses	29,731	17,949

Cash Costs	Year ended 31 August 2011	Year ended 31 August 2010
Mining (£'000)	(29,731)	(17,949)
Processing (£'000)	(9,144)	(7,471)
Overheads (£'000)	(4,403)	(2,612)
Gold duty (£'000)	(1,440)	(1,216)
Mine administrative costs (£'000)	(244)	(1,589)
Total cash costs of production (£'000)	(44,962)	(30,837)
GB£ / US$ foreign exchange rate	0.62	0.64
Gold Sold (Oz)	53,461	54,642
Tonnes mined and milled	498,123	441,924
Cash cost per ounce sold (US$/Oz)	1,349	884
Cash cost per tonne mined and milled (US$/tonne)	145	109

Administrative Costs

Administrative expenses totalled £2.3 million for the year ended August 2011 which was a 29% reduction in costs from the prior year of £3.2 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. The decrease is primarily due to a £1.3 million re-assignment of Fijian administrative costs to overhead costs. The London administrative expenses increased by £0.4 million compared to last year as a result of increased salary expenses and increased travel expenses associated with investor relations, and increased site supervision in the last quarter of the year.

Exploration and Evaluation Costs

As highlighted in the exploration review, the Group embarked on a significant exploration campaign during the year. This was the first such campaign for almost ten years and in this year we incurred £2.7 million compared to the £0.3 million in 2010. 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.

Taxation and Other Expenses

During the year the Group had a tax credit of £1.6 million (2010: £0.8 million). This tax credit arises as a result of the release of the deferred tax liability. The year on year change is predominantly due to a change in the UK corporation tax rates, which decreased the deferred tax liability by £1.0 million in the current year.

Other expenses amounted to £0.4 million in 2011 down from £1.1 million in the previous year. This decrease was primarily due to credits to inventory obsolescence and doubtful debts of £0.4 million in this year as opposed to a debit of £0.4 during the same period last year. A charge of £0.8 million (2010: £0.7 million) was incurred as a result of the issue of share options issued to staff employed in Fiji and the United Kingdom.

EBITDA

EBITDA for the year ended 31 August 2011 decreased to £2.2 million from £8.9 million in the prior year. This decrease was driven by lower grades delivered to the mill and increases in unit mining costs; this decrease was partly offset by increase in the average gold price achieved during the year.

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

EBITDA	Year ended 31 August 2011 (£'000)	Year ended 31 August 2010 (£'000)
(Loss) / profit for the period	(2,315)	4,523
Less income tax credit	(1,618)	(838)
Plus depreciation and amortisation expense	6,074	5,187
Less finance income	(98)	(39)
Plus finance expense	107	163
EBITDA	2,150	8,996

Basic Loss Per Share

Basic loss per share for the year ended 31 August 2011 was 2.76 pence compared to basic earnings per share of 6.32 pence. This decrease was driven by the net loss for the year.

Cash Flow

Net cash used in operating activities was £2.3 million for year, an decrease of £6.4 million on the prior year (cash generated of £4.1 million). Prior to working capital the net operating income was £1.7 million compared to £8.6 million in the previous year, this reduction was due to lower EBITDA. The net operating income before changes in working capital was further reduced by the changes in working capital which used £2.4 million (2010 £4.4 million). These changes in working capital were a result of an increase in store consumables, increases in the value of the gold in circuit, increases in trade receivables and prepayments on capital and operating expenditure.

Cash flow used in investing activities equated to £11.0 million for the year which represents an 9% increase from the prior year of £10.1 million. Of the £11.0 million used in investing activities £6.5 million (2010: £6.2 million) was used in the purchase of plant and equipment and £4.6 million (2010: £3.9 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 the 31 August 2011 was £7.3 million (2010: £17.7 million). The large majority (£6 million) of this relates to a placing carried out in June 2011 which was further increased by the exercise of options and warrants during the year. At the 31 August 2011 the Group had cash and cash equivalents of £6.9 million (2010: £12.8 million).

Financial Position

Intangible assets increased from £33.7 million in 2010 to £34.1 million in 2011. The increase is primarily attributable to the increase of exploration and evaluation costs which totalled £2.7 million. This increase was 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 £30.5 million (2010: £25.1 million). The main capital expenditure drivers being those outlined in the cash flow used in investing in activities section above, these were offset by depreciation charges of £3.6 million (2010: £2.2 million).

Total assets increased from £82.9 million in 2010 to £87.7 million in 2011. The increase is, for the large part, due to an increased amount of tangible assets as well as increases in inventories and trade and other receivables. These increases were offset by decreases in the intangible asset and cash and cash equivalents.

Total current and non-current liabilities for the year ended 31 August 2011 were £12.3 million, a decrease of £2.2 million form the balance of £14.5 million in 2010. This decrease is mainly due to the £1.6 million release of the deferred tax liability recognised on the acquisition of the Vatukoula Gold mine in April 2008.

Kiran Morzaria
Finance Director
12 December 2011

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 27 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 sold 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.

We believe that to operate effectively and profitably VGM needs to establish mutually beneficial relationships within the community in which 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 2011 there has been an improvement in the relationships between our Company and our local stakeholders. The main ways we have been doing this 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 (47 houses) and the contribution of F$6 million to the Vatukoula Social Assistance Trust Fund. Management expect that the conclusion of 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$6 million 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.

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 13 per 1 million man hours worked. This is extremely commendable in the high risk environment of an underground gold mine. 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, which will be implemented over the coming year. The policy was developed and will be reviewed by independent third parties. Current reporting systems and procedures record all significant environmental impacts and track our remedial and preventative measures.

One of the key consumables at the mine is energy which currently is provided by fossil fuels. We 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. The FSC have completed a feasibility study on the commissioning of a bio-fuel (sugar cane waste and wood chip) co-generation power plant. Construction is scheduled to begin in calendar 2013 subject to finance.

Principal Risks and Uncertainties

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

Risk	Mitigation/Comment	Potential impact	Further information
Strategic Risks			
Reserve and resource estimates 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 33 to 35.
Single asset risk All of the Group's revenue is derived from production of 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 Exploration review on pages 18 to 21 and pages 22 to 23.
Financial risks			
Commodity prices 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 14 to 15 and the Financial Review on pages 24 to 28.

Risk	Mitigation/Comment	Potential impact	Further information
Financial risks (continued)			
Costs and capital expenditure			
The Group operates in an industry which 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.	High	Further information is set out in the Financial Review on pages 24 to 28.
Operational risks			
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 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 18 to 21.
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 Exploration Review on pages 22 to 23.
Personnel			
The key risks in this area are as follows:			
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.	High	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.	High	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	Mitigation/Comment	Potential impact	Further information
Personnel (continued)			
Health and Safety The 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 monitor, review and improve our health and safety initiatives on a regular basis.	High	Further information is available in the Corporate Responsibility section on page 29.
Environmental 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 29.
External risks			
Political, legal and regulatory developments 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 Under previous ownership the Group's operation in Fiji has historically received criticisms from external independent organisations.	The Group has a community relations department which 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 29.

AMC estimated a Proved and Probable Ore Reserve of 3.3 Mt at 7.5 grams of gold per tonne for contained gold of 0.79 Moz using a gold price of US$1400/oz with a 4.48 grams of gold per tonne cut-off.

Mineral Resource Statement

AMC Consultants Pty Ltd ("AMC") completed a Mineral Resource Estimate for VGM using geological and assay data available at 30 March 2011. 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 June 2011 surveyed face positions. The Mineral Resources at 31 August 2011 were estimated by subtracting the production for the months of July and August 2011.

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 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 AMC Mineral Resource estimate is classified and reported in accordance with the 2004 JORC Code.[1]

The information in this statement of 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.

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).

7.4
Total Measured Resource (Mt)

4.4
Total Indicated Resource (Mt)

4.6
Total Inferred Resource (Mt)

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

- An intercept width times gold the cut of grade ("COG") of 4 metre grams of gold per tonne ("m.g/t Au") and a gold COG of 2 grams of gold per tonne were applied to the resource models to obtain the estimated Mineral Resources.
- The Mineral Resource models were depleted for mining to 31 August 2011, using surveyed mine outlines to 30 June 2011 and production figures for July and August 2011
- The Mineral Resource models use geological and assay data available at 15 April 2011.
- The mineralised envelope was defined using geological logging and assay information from diamond drillholes using a nominal lower gold cut-off grade of 1 m·g/t Au.
- Extrapolation of the interpreted mineralised structure was limited to 20m to 50m between section lines and 5m to 25m at the ends of each section.
- Samples are prepared and analysed by fire assay using a 25g charge at the on-site laboratory.
- In situ density data was available from drillhole sampling. Densities were assigned to each of the modelled structures based on the average results from all available samples.
- The estimation method used 3D wireframe and block modelling projected to a 2D plane, with ordinary kriging interpolation. A grade variable (the product of the horizontal or vertical intercept width and grade) was estimated using modelled semi-variograms and geostatistical analysis to determine kriging search parameters. The intercept width was estimated separately and the grade back-calculated.
- Grade times thickness top-cutting was applied in calculating the grade times thickness variable.
- The metallurgical response for the orebodies is well understood from actual production. No recovery factors were applied to the Mineral Resource estimate.

Tailings Mineral Resource

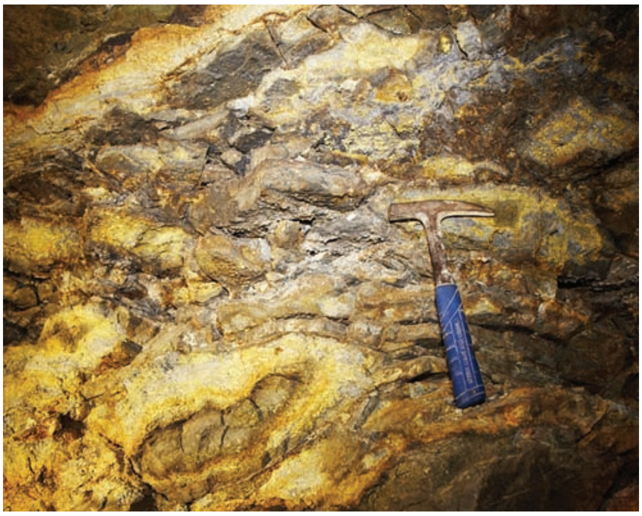
The Tailings Mineral Resource estimate is an estimate developed by CSA Global ("CSA"). In March 2008, CSA compiled an independent Competent Persons Report titled "An Independent Competent Persons report for River Diamonds PLC covering the Vatukoula Gold Mine in Fiji, the Panguma Prospect in Sierra Leone 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 is 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 200,000 ounces of gold, and approximately 10% of the total Measured and Indicated Mineral Resources at VGM. AMC believes that the Tailings Mineral Resource may provide an opportunity to improve the output of the operation, but also believes the relevance of the Tailings Mineral Resource is low. VGM plans to review the tailings resource in conjunction with the results of exploration programmes currently under way, 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.

Overall there has been an increase in 201,000 ounces from the 2010 Mineral Resources. These changes are attributable to:

- reductions due to depletion of the models between faces – 126,000 ounces of gold.
- additions due to reinterpretation of previously modelled mineralised structures – 214,000 ounces of gold.
- additions due to modelling of additional mineralised structures – 113,000 ounces of gold.

Mineral Resource Table		2011			2010	
	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Moz)	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Total Measured Resource	7.4	6.0	1.4	7.8	5.6	1.4
Total Indicated Resource	4.4	8.8	1.3	4.0	9.3	1.2
Total Inferred Resource	4.6	9.7	1.5	4.2	9.9	1.3
Total Mineral Resource	16.4	8.0	4.2	16.0	7.6	3.9



Ore Reserve Statement

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 3.3 Mt at 7.5 grams of gold per tonne for contained gold of 0.79 Moz using a gold price of US$1400/oz with a 4.48 grams of gold per tonne cut-off.

The methodology used to determine the 2011 ore reserve estimate required stopes to be split into panels to allow some stopes to be partially mined such that only the panels with reserve classification were considered. Access development to the reserve stopes has been added to the mine plan if the panels meets the reserve classification.

The VGM Ore Reserve estimate is classified and reported in the Mineral Reserve Table below in accordance with the 2004 JORC Code.

The reduction in Ore Reserve estimate from the 2010 estimate is mainly attributable to mining depletion over the past year, with some minor additions due to changes in the stope designs and cut-off grade.

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 throughout this report.

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, while the Probable Ore Reserve estimate is based on Mineral Resources classified as Indicated 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 Junior Oding under the direct supervision of Mr David Lee. Mr Oding and Mr Lee are both Members of the Australasian Institute of Mining and Metallurgy and 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 grams of gold per tonne.
- Minimum stope mining width of 1.07m.
- 10% stope mining dilution.
- 95% development recovery

AMC estimated the Ore Reserves using the end of June 2011 surveyed face positions. The Ore Reserve at 31 August 2011 was estimated by subtracting the production for the months of July and August 2011.

Mineral Reserve Table

	2011			2010		
	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Moz)	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Moz)
Total Proved Ore Reserve	0.59	8.96	0.17	0.60	10.40	0.19
Total Probable Ore Reserve	2.67	7.24	0.62	2.80	7.00	0.64
Total Ore Reserve	3.26	7.55	0.79	3.40	7.60	0.83

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

Board of Directors

I C Orr-Ewing
Executive Chairman, age 69
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. Mr Orr-Ewing also has extensive experience in international financial affairs. He was deeply involved in the oil industry from 1971 through to 1987 with numerous companies in the North Sea, Libya, Nigeria and Algeria. Mr Orr-Ewing has also served as a director for a number of oil and gas exploration and development companies. He is a graduate of Oxford University in geography and geology.

D K Paxton
Chief Executive Officer (CEO) age 57
Mr Paxton is a professional engineer with over 36 years' experience in the mining industry, starting with mine production at Goldfields of South Africa, and then time at their head office and culminating with 24 years as a mining analyst. As a mining analyst he has worked for a number of Canadian and UK stockbrokers, most recently Religare Hichens Harrison Plc.

K C Morzaria
Finance Director, age 37
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 12 years of experience in the mineral resource industry covering gold and diamonds. Mr Morzaria spent his first four years in exploration, mining and civil engineering working for Highland Gold, Firestone Diamonds and CL Associates. He was appointed Finance Director of Vatukoula Gold Mines Plc. in 2004 and since then has been overseeing the development of its mining and exploration projects in Fiji, Sierra Leone and Brazil.

D A Lenigas
Non-executive Director, age 50
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 Chairman of Lonrho Plc., Lonzim Plc., 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 60
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 60
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 69
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.

DIRECTOR'S 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 2011.

Principal activities

The principal activity of the Group was the operation of the Vatukoula Gold Mine in Fiji as described on page 1 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 15 of the financial statements.

Results and dividends

The loss on ordinary activities of the Group for the year ended 31 August 2011 after taxation was £2.3 million (2010: profit of £4.5 million).

The directors do not recommend the payment of a dividend.

Business review

A review of the current and future development of the Group's business is given in the business review section of this report on pages 3 to 42.

Given the nature of 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 16 and 17.

The Business Review sets out a comprehensive review of the development and performance of VGM's business for the year ended 31 August 2011 and the future developments. The Business Review is set out on pages 3 to 42 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 41 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 12 December 2011, the directors were not aware of any significant post balance sheet events other than those set out in Note 32 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 13.

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 30 to 32.

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 25.

Liquidity risk

The Group actively manages its working finance to ensure the Group has sufficient funds for operations and planned expansion. As referred to in Note 3 of the financial statements, it is for this reason that the directors believe it is appropriate to prepare the financial statements on a going concern basis.

Interest rate cash flow risk

Interest bearing assets are only cash balances that earn interest at a floating rate. 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 and are provided in note 25(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

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
J I Stalker
J F Kearney
J A MacPherson

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

Beneficial Holdings	31 August 2011	31 August 2010
I C Orr-Ewing*	517,774	452,683
D K Paxton	135,000	100,000
K Morzaria	40,940	35,940
D A Lenigas	20,000	20,000
J I Stalker	-	-
J F Kearney	-	-
J A MacPherson	-	-

* of which 211,107 (2010: 211,107) are held beneficially (post consolidation).

Directors also hold options over ordinary shares as follows:

Number of Options	31 August 2011	31 August 2010
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	700,000	700,000
J I Stalker	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.

Substantial shareholdings

As at 28 November 2011 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	%
Canaccord Nominees Limited*	12,663,380	14.35%
Roy Nominees Limited	8,201,548	9.29%
Penson Financial Services Inc	4,835,912	5.48%
BNY Mellon Nominees Limited	4,556,641	5.16%
Pershing Nominees Limited	4,056,207	4.60%
State Street Nominees Limited	3,214,081	3.64%
Barclayshare Nominees Limited	3,075,175	3.48%
Total	40,602,944	46.00%

* 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. Trade creditor days of the Group for the year ended 31 August 2011 were 33 days (2010: 56 days).

Related Party Transactions

Details of related party transactions during the year are set out at note 27 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 from the International Financial Reporting Interpretations Committee ('IFRIC') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Company law requires directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss for that period. In preparing 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.

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.

On behalf of the Board

Kiran Morzaria
Finance Director
12 December 2011

Compliance with UK Corporate Governance Code

The directors recognise the value of the Combined Code on Corporate Governance that was issued in 2010 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 three executive directors, one of whom is the Chairman, and four non-executive directors. The directors are of the opinion that the board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The board, through the Chief Executive Officer and the Finance Director in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the board develops an understanding of the views of major shareholders about the company.

Board Meetings

In addition to ad hoc meetings arranged to discuss particular transactions and events and the AGM, the full board met six times during the year ending 31 August 2011. The board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the executive directors who are charged with consulting the board on all significant financial and operational matters. Consequently decisions are made promptly and following consultation amongst the directors concerned where necessary and appropriate.

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

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

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

Internal controls

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

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

Committees

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

Audit Committee

The Audit Committee comprises the non-executive directors. Its terms of reference indicate at least two regular meetings per year. The audit committee has met twice during the year. The Audit Committee's primary responsibilities are to review the effectiveness of the company's systems of internal control, to review with the external auditors the nature and scope of their audit and the results of the audit, and to evaluate and select external auditors.

Remuneration Committee

The Audit Remuneration Committee comprises the non-executive directors. It plans to meet at least twice in each year. The Remuneration Committee has met twice 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

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 2011 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 2011 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.

R Metcalfe

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

12 December 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2011

	Notes	2011 £'000	Restated 2010 £'000
Turnover	4	47,964	40,354
Cost of sales	5	(44,718)	(29,248)
Gross profit		**3,246**	**11,106**
Operating expenses			
Administrative expenses		(2,301)	(3,229)
Foreign exchange gains		1,592	2,182
Depreciation and amortisation expense		(6,074)	(5,187)
Underlying operating (loss) / profit		**(3,537)**	**4,872**
Inventory obsolescence write back / (provision)	16	179	(381)
Rehabilitation charge		-	(17)
Provision for doubtful debt write back	17	242	-
Share based payments expense	19(c)	(808)	(665)
Operating (loss) / profit	6	(3,924)	3,809
Interest receivable and other income	8	98	39
Interest payable and similar charges	8	(107)	(163)
Net (loss) / profit before taxation		**(3,933)**	**3,685**
Taxation	9	1,618	838
(Loss) / profit for the year		**(2,315)**	**4,523**
Attributable to:			
Owners of the Parent		(2,315)	4,523
Non Controlling interest		-	-
		(2,315)	**4,523**
Other comprehensive income and (expenses)			
Currency translation differences		178	(332)
Total comprehensive (loss) / income for the year		**(2,137)**	**4,191**
Attributable to:			
Owners of the Parent		(2,137)	4,191
Non Controlling interest		-	-
(Loss) / earnings per share		**Pence**	**Pence**
Basic	11	(2.76)	6.32
Diluted	11	(2.76)	6.24

All activities relate to continuing operations.

The notes on pages 51 to 87 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 AUGUST 2011

	Notes	2011 £'000	Restated 2010 £'000
Assets			
Non-current assets			
Intangible assets	12	34,057	33,724
Property, plant and equipment	13(a)	23,533	20,723
Mine properties and development	13(b)	6,955	4,387
Total non-current assets		**64,545**	**58,834**
Current assets			
Inventories	16	8,034	6,030
Trade and other receivables	17	7,794	5,151
Cash and cash equivalents	18	6,892	12,849
Total current assets		**22,720**	**24,030**
Total Assets		**87,265**	**82,864**
Current liabilities			
Trade and other payables	20	4,229	4,308
Provisions	21	664	528
Borrowings	22	5	45
Vatukoula Social Assistance Trust Fund	23	1,558	1,011
Total current liabilities		**6,456**	**5,892**
Non-current Liabilities			
Provisions	21	4,141	4,220
Convertible loan	24	341	332
Borrowings	22	-	5
Vatukoula Social Assistance Trust Fund	23	13	506
Deferred tax liability	30	7,776	9,394
Total non-current liabilities		**12,271**	**14,457**
Shareholders' Equity			
Share capital	19	4,378	4,031
Share premium account	19	76,709	69,699
Merger reserve		2,167	2,167
Foreign exchange reserve		582	404
Other reserves		2,358	1,592
Accumulated losses		(17,656)	(15,378)
Total shareholders' equity		**68,538**	**62,515**
Total liabilities and shareholders' equity		**87,265**	**82,864**

Approved by the Board and authorised for issue on 12 December 2011 and signed on behalf of the Board of Directors by:

Kiran Morzaria
Finance Director
12 December 2011

The notes on pages 51 to 87 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 AUGUST 2011

	Notes	2011 £'000	Restated 2010 £'000
Assets			
Non-current assets			
Investment in subsidiary companies	15	46,729	37,679
Property, plant and equipment	13(a)	250	250
Available for sale investments	14	-	-
Total non-current assets		**46,979**	**37,929**
Current assets			
Trade and other receivables	17	17,032	14,748
Cash and cash equivalents	18	4,774	10,452
Total current assets		**21,806**	**25,200**
Total Assets		**68,785**	**63,129**
Current liabilities			
Trade and other payables	20	197	318
Non-current Liabilities			
Convertible loan	24	341	332
Shareholders' Equity			
Share capital	19	4,378	4,031
Share premium account	19	76,709	69,699
Other reserves		2,377	1,592
Accumulated losses		(15,217)	(12,843)
Total shareholders' equity		**68,247**	**62,479**
Total liabilities and shareholders' equity		**68,785**	**63,129**

Approved by the Board and authorised for issue on 12 December 2011 and signed on behalf of the Board of Directors by:

Kiran Morzaria
Finance Director
12 December 2011

The notes on pages 51 to 87 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 AUGUST 2011

	Ordinary share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Share based payment reserve £'000	Equity component of convertible note loan £'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 in shares.

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

The notes on pages 51 to 87 form an integral part of these financial statements.

	Ordinary share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Share based payment reserve £'000	Equity component of convertible note loan £'000	Accumulated losses £'000	Total £'000
Balance at 1 Sep 2009	**2,686**	**53,076**	**2,167**	**736**	**1,154**	**83**	**(20,181)**	**39,721**
Loss for the year	-	-	-	-	-	-	4,523	4,523
Other comprehensive income								
- Currency translation differences	-	-	-	(332)	-	-	-	(332)
Total comprehensive income	-	-	-	(332)	-	-	4,523	4,191
Issue of shares	1,324	17,286	-	-	-	-	-	18,610
Cost of share issue	-	(872)	-	-	-	-	-	(872)
Share option expired	-	-	-	-	(280)	-	280	-
Convertible loan	21	209	-	-	-	(30)	-	200
Share based payments	-	-	-	-	665	-	-	665
Balance at 31 August 2010	**4,031**	**69,699**	**2,167**	**404**	**1,539**	**53**	**(15,378)**	**62,515**

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 in shares.

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

The notes on pages 51 to 87 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 AUGUST 2011

	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**

	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 2009	**2,686**	**53,076**	**1,154**	**83**	**(10,520)**	**46,479**
Loss for the year	-	-	-	-	(2,603)	(2,603)
Total comprehensive income	-	-	-	-	(13,123)	(13,123)
Issue of shares	1,324	17,286	-	-	-	18,610
Cost of share issue	-	(872)	-	-	-	(872)
Share option expired	-	-	(280)	-	280	-
Convertible loan	21	209	-	(30)	-	200
Share based payments	-	-	665	-	-	665
Balance at 31 Aug 2010	**4,031**	**69,699**	**1,539**	**53**	**(12,843)**	**62,479**

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 51 to 87 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2011

	Notes	2011 £'000	Restated 2010 £'000
Cash flows from operating activities			
Operating (loss) / profit for the period:	6	(3,924)	3,809
Adjustments for:			
Share based payments	19	808	665
Depreciation and amortisation		6,074	5,187
Loss on disposal of property plant equipment		5	4
(Reversal of) / allowance for inventory obsolescence		(179)	381
Foreign exchange gains		(1,202)	(1,124)
Provision for bad debts		(242)	-
Discount on rehabilitation trust deed		-	-
Provision for mine rehabilitation		-	-
Movements in Employment Provisions		235	(367)
Net operating income before changes in working capital		**1,575**	**8,555**
Increase in inventories	16	(1,577)	(1,373)
Increase in receivables	17	(2,079)	(3,259)
(Decrease) / increase in accounts payable	20	(231)	196
Net cash (used) / generated in operating activities		**(2,312)**	**4,119**
Cash flows from investing activities			
Payments for intangible assets	12	(2,667)	(35)
Purchase of property plant and equipment	13(a)	(6,532)	(6,206)
Payments for mine properties and development	13(b)	(1,898)	(3,852)
Interest received	8	94	39
Net cash used in investing activities		**(11,003)**	**(10,054)**
Cash flows before financing		**(13,315)**	**(5,935)**
Cash flows from financing activities			
Proceeds from issuance of shares	19	7,716	18,610
Costs of issue of shares		(385)	(872)
Interest paid		(18)	(179)
(Repayment)/proceeds from borrowings	23	(45)	96
Net cash provided by financing activities		**7,268**	**17,655**
Net (decrease)/increase in cash and cash equivalents		**(6,047)**	**11,720**
Cash and cash equivalents at beginning of the year	18	12,849	1,086
Effect of foreign exchange on cash and cash equivalents		90	43
Cash and cash equivalents at the end of the year	**18**	**6,892**	**12,849**

Prior year numbers have been restated to present more accurately the allocations of the impact of foreign exchange on cash flows. Net operating income before changes in working capital increased from £7,877,000 to £8,555,000, net cash generated in operating activities increased from £3,708,000 to £4,119,000, net cash used in investing activities increased from £9,886,000 to £10,054,000, and net cash provided by financing activities increased from £17,609,000 to £17,655,000. The reclassifications had no impact on the Group's cash and cash equivalents as at 31 August 2009 or 31 August 2010.

The notes on pages 51 to 87 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2011

	Notes	2011 £'000	Restated 2010 £'000
Cash flows from operating activities			
Operating loss for the year:	6	(2,408)	(2,539)
Adjustments for:			
Share based payments expense	19	128	665
Net operating income before changes in working capital		**(2,280)**	**(1,874)**
Increase in receivables	17	(10,670)	(5,903)
(Decrease) / increase in accounts payable	20	(121)	86
Net cash used in operating activities		**(13,071)**	**(7,691)**
Cash flows from investing activities			
Interest received	8	62	36
Net cash used in investing activities		**62**	**36**
Cash flows before financing		**(13,009)**	**(7,655)**
Cash flows from financing activities			
Proceeds from issuance of shares	19	7,716	18,609
Costs of issue of shares		(385)	(872)
Interest paid		-	(68)
Net cash provided by financing activities		**7,331**	**17,669**
Net (decrease)/increase in cash and cash equivalents		**(5,678)**	**10,014**
Cash and cash equivalents at beginning of the year	18	10,452	438
Cash and cash equivalents at the end of the year	**18**	**4,774**	**10,452**

The notes on pages 51 to 87 form an integral part of these financial statements.

1. General information

Vatukoula Gold Mines Plc. is registered in England and Wales under number 5059077. The Company 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 37.

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 IFRIC interpretations) as adopted by the European Union.

New accounting standards

The group and company adopted IFRS 2(Amended): Group Settled Share-based Payments. Share options issued by the company to employees of a subsidiary company are expensed in the subsidiary, and not the holding company. There were no impacts in the adoption of this standard as prior to the current year all share options were only issued to employees of the company and not in any subsidiaries.

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 s 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
IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	October 2010	Annual period beginning on or after 1 July 2011
IFRS 9	Financial Instruments – Classification and Measurements	Original issue November 2009	Annual period beginning on or after 1 January 2013
IFRS 10	Consolidated Financial Statements	Original issue May 2011	Annual period beginning on or after 1 January 2013
IFRS 11	Joint arrangements	Original issue May 2011	Annual period beginning on or after 1 January 2013

2. Basis of preparation (continued)

New/Revised International Financial Reporting Standards		Issued	Effective Date
IFRS 12	Disclosure of interests in other Entities	Original issue May 2011	Annual period beginning on or after 1 January 2013
IFRS 13	Fair Value measurement	Original issue May 2011	Annual period beginning on or after 1 January 2012
IAS 1	Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented	June 2011	Annual period beginning on or after 1 July 2012
IAS 12	Income Taxes – Limited scope amendment (recovery of underlying assets)	December 2010	Annual period beginning on or after 1 January 2012
IAS 19	Employee benefits – Amended standards resulting from the post-Employee benefits and termination benefits projects	Amended June 2011	Annual period beginning on or after 1 January 2013
IAS 24	Related Party Disclosure – Revised definition of related parties	November 2009	Annual period beginning on or after 1 January 2011
IAS 27	Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	May 2011	Annual period 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 period beginning on or after 1 January 2013
IFRIC 14	IAS 19 – The limit on a defined Benefit Asset, Minimum Funding Requirements and their interaction	November 2009 Amendments with respect to voluntary prepaid contributions	Annual period beginning on or after 1 January 2011
IFRIC 20	Stripping costs in the production phase of a surface mine		Annual period beginning on or after 1 January 2013

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.

The directors do not consider the adoption of the amendments from May 2011 Annual Improvements project will result in a material impact on the financial information of the group and the company. These amendments to IFRS 7, IAS 1 and IAS 34 are effective for accounting periods beginning on or after 1 January 2011.

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 25 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 Groups 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 Groups 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
Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, 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

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

3. Summary of significant accounting policies (continued)

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 21 & 28)
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 19)
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 £808,000 (2010: £665,000)

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 £34,057,000 (2010: 33,724,000)

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, the mine asset and the provision for mine rehabilitation.

The carrying value at the reporting date of the mine rehabilitation provision is £4,092,000 (2010: 4,220,000)

8. Allowance for doubtful debts (see note 17)

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 £2,768,000 (2010: 3,011,000)

(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.

3. Summary of significant accounting policies (continued)

(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.

(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 nonmonetary 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.

3. Summary of significant accounting policies (continued)

(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 2011, the estimated remaining life span of the mine is 8 years. This is the entire period over which currently the mine is being amortised.

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. 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.

3. Summary of significant accounting policies (continued)

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.

(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:

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

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. 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.

3. Summary of significant accounting policies (continued)

(n) **Impairment of intangible and tangible assets excluding goodwill**

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses of continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at a revalued amount (in which case the impairment is treated as a revaluation decrease). An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated, a previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in 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.

3. Summary of significant accounting policies (continued)

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. 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.

3. Summary of significant accounting policies (continued)

(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.

(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. Defined contribution plan

Obligations for contributions to the Fiji National Provident Fund are recognised as an expense in profit or loss as they are due.

b. 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.

c. 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.

d. 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.

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.

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	(2,447)	(3,595)	(32)	(6,074)
Underlying operating (loss) / profit	(4,327)	999	(209)	(3,537)
Inventory obsolescence	-	179	-	179
Rehabilitation charge	-	-	-	-
Provision for doubtful debt	-	242	-	242
Share based payments	(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)

4. Turnover and Segmental Analysis (continued)

2010	Unattributed Head Office Costs £'000	Gold Mining £'000	Other Activity £'000	Total £'000
Turnover	-	40,354	-	40,354
Mining	-	(17,949)	-	(17,949)
Processing	-	(7,471)	-	(7,471)
Gold duty	-	(1,216)	-	(1,216)
Overheads	-	(2,612)	-	(2,612)
Cost of sales	-	(29,248)	-	(29,248)
Gross Profit	-	11,106	-	11,106
Administrative expenses	(1,487)	(1,589)	(153)	(3,229)
Foreign exchange gains	-	2,182	-	2,182
Depreciation and amortisation expense	(2,994)	(2,158)	(35)	(5,187)
Underlying operating (loss) / profit	(4,481)	9,541	(188)	4,872
Inventory obsolescence write back / (provision)	-	(381)	-	(381)
Rehabilitation charge	-	(17)	-	(17)
Provision for doubtful debt write back	-	-	-	-
Share based payments expense	(665)	-	-	(665)
Operating (loss) / profit	(5,146)	9,143	(188)	3,809
Interest receivable and other income	37	2	-	39
Interest payable and similar charges	(100)	(54)	(9)	(163)
Net (loss) / profit before taxation	(5,209)	9,091	(197)	3,685
Taxation	838	-	-	838
(Loss) / Profit for the period	(4,371)	9,091	(197)	4,523
Other Segment Items				
Additions to intangible assets	-	35	-	35
Additions to property, plant, and equipment	-	9,248	2	9,250
Additions to mine properties and development	-	3,852	-	3,852
Current assets	10,597	13,332	101	24,030
Non currents assets	33,797	24,771	266	58,834
Current liabilities	(318)	(5,560)	(14)	(5,892)
Non current liabilities	(9,725)	(4,732)	-	(14,457)

5. Cost of sales

Group

	2011 £'000	Restated 2010 £'000
Mining	(29,731)	(17,949)
Metallurgy	(9,144)	(7,471)
Gold duty	(1,440)	(1,216)
Bullion assay	(141)	(126)
Technical Services	(421)	(122)
Resource engineering	(1,028)	(656)
Supply and security	(623)	(332)
Human resources	(1,190)	(979)
Safety training and environment	(292)	(58)
Mine general administration	(708)	(339)
	(44,718)	**(29,248)**

Gold duty has been reclassified from operating expenses to cost of sales to more appropriately reflect operations. Prior year numbers have been reclassified by £1,216,000 thereby reducing gross profit by the same amount.

6. Operating (loss) / profit

Group

	2011 £'000	2010 £'000
Operating (loss) /profit is stated after charging:		
– Auditors' remuneration		
Audit services - Current year	97	48
Audit services - Prior year under provision	128	-
Non-audit services - Taxation	10	25
Non-audit services - Interim review	10	-
Non-audit services - Other	5	2
Auditors' remuneration payable to subsidiary auditors	24	17
– Share based payments expense granted by the Company	808	665
– Depreciation of property, plant and equipment	3,140	1,976
– Depreciation of mining properties and development	432	217
– Amortisation of intangible assets	2,447	2,994
– Operating lease expenses: motor vehicles	135	147
– Operating lease expenses: mining	34	23

7. Employees

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

	2011 Number	2010 Number
Productive labour	1,013	740
Office and management	137	77
	1,150	**817**

Employment costs	2011 £'000	2010 £'000
Wages and salaries	7,926	4,347
Social security	509	343
Share based payments expense	808	665
	9,243	**5,355**

Directors' remuneration	2011 £'000	2010 £'000
I C Orr-Ewing	60	60
D K Paxton	170	150
K C Morzaria	119	97
D A Lenigas *	45	60
J I Stalker	97	82
J F Kearney	24	24
J A MacPherson	24	24
	539	**497**

*D A Lenigas stepped down as a executive director in April 2011, and was appointed as a non-executive director.

Directors remuneration in 2011 solely consisted of salaries, and as at 31 August 2011 (2010: 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	2011 £'000	2010 £'000
Bank interest	94	39
Other	4	-
	98	**39**

Interest payable and similar charges	2011 £'000	2010 £'000
Interest and bank charges	18	42
Interest on convertible loan notes	45	121
Unwinding of discount for mine rehabilitation	44	-
	107	**163**

9. Taxation

	2011 £'000	2010 £'000
Current taxation	-	-
Deferred taxation - effect of change in tax rate	(1,006)	-
Deferred taxation - current year	(612)	(838)
	(1,618)	**(838)**
Factors affecting tax charge:		
(Loss) / profit before tax	(3,933)	3,685
Tax at 27.17% (2010: 28%)	(1,069)	1,032
Effects of:		
- Non deductible expenses	161	351
- Tax losses for which no deferred income tax was recognised	556	465
- Rate adjustment	(998)	-
- Tax effect of income not subject to income Tax	(268)	(2,686)
	(1,618)	**(838)**

The deferred taxation credit arises on the release of the deferred tax liability (note 31).

During the year, as a result of the change in the UK corporation tax rate from 28% to 27% that was substantively enacted by the Finance Act 2011 on 5 July 2011, the relevant deferred tax balances have been re-measured at 25%. The Finance Act 2011 has reduced the main corporation tax rate to 26% from 1 April 2011 and to 25% from 1 April 2012. The Government have indicated that it will continue to reduce the main corporation tax rate by 1% per annum to 23% by 1 April 2014, but these rates have not yet been enacted.

The Group has estimated tax benefits in respect of tax losses of £4,595,000 (2010: £4,039,000), of which £3,313,000 (2010: £4,244,000) will fully expire within 5 years, and other net deferred tax benefits in respect of temporary differences of £685,000 (2010: 2,821,000) 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 £ 2,391,899 (2010 £ 2,603,706). 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) / Earnings per share

(a) Basic

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

	2011 £'000	2010 £'000
(Loss) / profit after tax	**(2,315)**	**4,523**

	2011 Number	2010 Number
Basic weighted average ordinary shares in issue during the period	**84,015,905**	**71,539,282**

	2011 Pence	2010 pence
Basic (loss)/earnings per share	**(2.76)**	**6.32**

11. (Loss) / Earnings per share (continued)

Basic (loss) / earnings per share is calculated by dividing the (loss) / profit for the year from continuing operations of the Group by the weighted average number of ordinary shares in issue during the year. On the 21st October 2010, the Company proposed to its shareholders a one for fifty basis consolidation of its share capital. This resolution was approved on the 8 November 2010, and the ordinary shares were consolidated on the basis of one new ordinary share of 5 pence for every existing ordinary share of 0.1 pence. Comparative numbers for basic earnings per share have been adjusted to reflect the share consolidation.

(b) Diluted

In the current year, all potential shares were anti-dilutive as the Group was in a loss making position. As a result diluted loss per share for the year ended 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 84,015,905.

In the prior year, diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible loan notes and share options / warrants. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2011 £'000	2010 £'000
(Loss) / profit after tax	(2,315)	4,523
Interest expense on convertible loan note (net of tax)	-	53
(Loss) / profit used to determine diluted earnings per share	**(2,315)**	**4,576**

	2011 Number	2010 Number
Basic weighted average ordinary shares in issue during the period	84,015,905	71,539,282
Adjustments for:		
Assumed conversion of convertible loan note	-	1,007,106
Share options / warrants	-	755,674
Diluted weighted average ordinary shares in issue during the period	**84,015,905**	**73,302,062**

	2011 Pence	2010 pence
Diluted (loss) / earnings per share	**(2.76)**	**6.24**

All outstanding options and warrants were adjusted appropriately to reflect the share consolidation so that in general terms, the options or warrants would be exercisable on the basis of one new ordinary share for each 50 existing ordinary shares subject to the warrant or option and so that the exercise price for each such shares would be 50 times the subscription price for the existing ordinary shares. Comparative numbers for diluted earnings per share have been adjusted to reflect the share consolidation.

12. Intangible assets

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**

Group	Mining Rights £'000	Computer Software £'000	Exploration Expenditure £'000	Total £'000
Cost				
As at 1 September 2009	38,414	-	-	38,414
Additions	-	-	35	35
Transferred from tangible assets	-	138	-	138
Exchange difference	-	2	1	3
As at 31 August 2010	38,414	140	36	38,590
Amortisation				
As at 1 September 2009	1,872	-	-	1,872
Current charge	2,994	-	-	2,994
As at 31 August 2010	**4,866**	**-**	**-**	**4,866**
Carrying value as at 31 August 2010	**33,548**	**140**	**36**	**33,724**

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 8 years. This rate will vary from year to year and is dependant on the mineral reserves which are reassessed every year. Amortisation is included in depreciation and amortisation in the Statement of Comprehensive Income.

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

12. Intangible assets (continued)

The recoverable amount of the mine is determined by using a net present value calculation based on the estimated economically recoverable portion of the total Mineral Resource and the life of mine plan. The life of mine plan is currently 15 years (2010: 11 years). This Mineral Resource is used rather than the Mineral Reserve as the Mineral Reserve will not represent the total recoverable amount from the mine. This is because it excludes ore deposits that are above the economic cut off grade within the Inferred Mineral Resource category.

The key assumptions therein are those regarding discount rates, and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the mine and the rate used was 10%.

The production is based on the directors' forecast of the mine's maximum output and based on the mine achieving its operating capacity. The directors believe this rate is justified based on the current progress of the mine. 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 31).

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 under IFRS 6. The directors believe that there are no indicators of impairment.

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

13. Tangible assets

(a) Property, plant and equipment

Group	Freehold and Leasehold Land £'000	Work in Progress £'000	Plant and Machinery £'000	Motor Vehicles £'000	Mine Assets £'000	Fixture 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 year	-	-	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

The Group has one item that has been acquired which is subject to a finance lease (Note 22). It was acquired for £29,035 and has a net book value of £14,603.

13. Tangible assets (continued)

(a) Property, plant and equipment (continued)

Group	Freehold and Leasehold Land £'000	Work in Progress £'000	Plant and Machinery £'000	Motor Vehicles £'000	Mine Assets £'000	Fixture Fittings and Equipment £'000	Total £'000
Cost							
As at 1 September 2009	1,074	1,176	12,990	388	-	145	15,773
Additions	-	6,204	-	-	3,042	2	9,248
Transferred on completion	-	(4,449)	4,449	-	-	-	-
Disposals	-	(17)	(13)	-	-	-	(30)
Transferred to intangible	-	(138)	-	-	-	-	(138)
Exchange difference	60	105	973	17	44	1	1,200
As at 31 August 2010	**1,134**	**2,881**	**18,399**	**405**	**3,086**	**148**	**26,053**
Accumulated depreciation							
As at 1 September 2009	-	104	2,300	259	-	93	2,756
Charge for the year	-	-	1,803	19	152	2	1,976
Disposals	-	(13)	(13)	-	-	-	(26)
Transferred on completion	-	(87)	87	-	-	-	-
Exchange difference	-	(4)	616	9	2	1	624
As at 31 August 2010	**-**	**-**	**4,793**	**287**	**154**	**96**	**5,330**
Net book value							
At 31 August 2010	**1,134**	**2,881**	**13,606**	**118**	**2,932**	**52**	**20,723**
At 31 Aug 2009	**1,074**	**1,072**	**10,690**	**129**	**-**	**52**	**13,017**

Company	Freehold Land £'000	Total £'000
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**
Cost		
As at 1 September 2009 and as at 31 August 2010	250	250
Net book value		
At 31 August 2010	**250**	**250**
At 31 Aug 2009	**250**	**250**

13. Tangible assets (continued)

(b) Mine properties and development

	2011 £'000	2010 £'000
Cost		
Balance 1 September	5,614	1,604
Additions	1,898	3,852
Transfers from Property, Plant and Equipment	946	-
Foreign exchange difference	237	158
Balance as at 31 August	**8,695**	**5,614**
Depreciation		
Balance 1 September	1,227	1,013
Current charge	432	217
Tranfers from Property, Plant and Equipment	32	-
Foreign exchange difference	49	(3)
Balance as at 31 August	**1,740**	**1,227**
Carrying value		
Balance as at 31 August	**6,955**	**4,387**

During the current year the company invested £1,925,000 (2010: £3,887,000) in underground capital development.

14. Available for sale investments

		Group		Company
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cost				
As at 1 September	477	477	400	400
Written off	(77)	-	-	-
As at 31 August	400	477	400	400
Provision for diminution in value				
As at 1 September	(477)	(477)	(400)	(400)
Written off	77	-	-	-
As at 31 August	(400)	(477)	(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.

14. 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 could not be measured reliably as the investments were not quoted on an active market.

15. Investment in subsidiary companies

Company	2011 £'000	2010 £'000
Cost		
As at 1 September	39,489	39,489
Additions in the year: Share based payments to subsidiary companies	664	-
Additions in the year: Equity capital contribution	8,386	-
Balance as at 31 August	**48,539**	**39,489**
Impairment		
Balance as at 31 August	**1,810**	**1,810**
Net book value		
Balance as at 31 August	**46,729**	**37,679**

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.

16. Inventories

Group	2011 £'000	2010 £'000
Consumables stores	5,003	3,663
Allowances for inventory obsolescence	(430)	(609)
Total consumables stores	4,573	3,054
Insurance spares	249	253
Allowances for obsolescence	(249)	(253)
Total insurance spares	-	-
Gold in circuit and gold stock	3,461	2,976
As at 31 August	**8,034**	**6,030**

A reversal of a write-down of inventories amounted to £178,811 (2010: Nil). Inventory previously been written off has been reassessed as useful for production.

17. Trade and other receivables

		Group		Company
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade receivables	2,088	1,523	-	-
Amounts owed by group undertakings	-	-	16,735	14,677
Other receivables	4,650	4,122	741	571
	6,738	5,645	17,476	15,248
Less: Provision for doubtful debts	(2,861)	(3,011)	(500)	(500)
Prepayments	3,917	2,517	57	-
	7,794	**5,151**	**17,033**	**14,748**

Trade receivables are amounts due from the sales of gold. The average credit period taken on sales of goods is two weeks (2010: two weeks).

The provision for doubtful debts includes £2.5 million (2010: £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.

17. Trade and other receivables (continued)

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Not impaired				
Due 0-31 days	2,743	1,725	241	71
Past due 32-62 days	244	468	-	-
Past due 63 – 92 days	568	-	-	-
Past due more than 93 days	322	441	-	-
	3,877	2,634	241	71
Impaired				
Past due more than 93 days	2,861	3,011	500	500
Provision for doubtful debts	(2,861)	(3,011)	(500)	(500)
	-	-	-	-
	3,877	**2,634**	**241**	**71**

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 £92,000.

18. Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash at bank and in hand	6,892	12,849	4,774	10,452
	6,892	**12,849**	**4,774**	**10,452**

At 31 August 2011 management believes that the carrying amount of cash equivalents approximates to fair value because of the short maturity of these financial instruments.

19. Share capital

(a) Share capital

	Group and Company	
	2011 £'000	2010 £'000
Allotted, issued and fully paid		
87,558,339 ordinary shares of 5p each		
(31 Aug 2010: 80,622,821 ordinary shares of 5p each)	4,377,917	4,031,141

On the 21st October 2010, the Company proposed to its shareholders a one for fifty basis consolidation of its share capital. This resolution was approved on the 8 November 2010, and the ordinary shares were consolidated on the basis of one new ordinary share of 5 pence for every existing ordinary share of 0.1 pence. Comparative numbers for share capital and basic earnings per share have been adjusted to reflect the share consolidation.

19. 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								
Exercise of warrants*	04/10/ 2010	1.00	0.05	0.95	20,000	1,000	19,000	20,000
Exercise of warrants*	07/10/2010	1.00	0.05	0.95	60,000	3,000	57,000	60,000
Exercise of warrants*	20/10/2010	0.60	0.05	0.55	95,518	4,776	52,535	57,311
Exercise of warrants*	28/10/2010	0.50	0.05	0.45	455,000	22,750	204,750	227,500
Exercise of warrants	18/11/2010	1.00	0.05	0.95	10,000	500	9,500	10,000
Exercise of warrants	18/11/2010	1.00	0.05	0.95	30,000	1,500	28,500	30,000
Exercise of warrants	18/11/2010	1.00	0.05	0.95	300,000	15,000	285,000	300,000
Exercise of warrants	13/01/2011	1.00	0.05	0.95	70,000	3,500	66,500	70,000
Exercise of warrants	13/01/2011	1.00	0.05	0.95	250,000	12,500	237,500	250,000
Exercise of warrants	13/01/2011	1.00	0.05	0.95	10,000	500	9,500	10,000
Exercise of warrants	13/01/2011	0.50	0.05	0.45	60,000	3,000	27,000	30,000
Exercise of warrants	03/03/2011	0.60	0.05	0.55	62,500	3,125	34,375	37,500
Exercise of warrants	03/03/2011	1.00	0.05	0.95	140,000	7,000	133,000	140,000
Exercise of warrants	03/03/2011	1.00	0.05	0.95	100,000	5,000	95,000	100,000
Exercise of warrants	03/03/2011	1.00	0.05	0.95	300,000	15,000	285,000	300,000
Exercise of warrants	08/04/2011	0.60	0.05	0.55	60,000	3,000	33,000	36,000
Issue for cash	18/06/2011	1.25	0.05	1.20	4,800,000	240,000	5,760,000	6,000,000
Exercise of warrants	14/07/2011	0.60	0.05	0.55	62,500	3,125	34,375	37,500
					6,885,518	**344,276**	**7,371,535**	**7,715,811**

	Date	Issue Value per Share £	Par Value per Share £	Share Premium per Share £	Shares £	Share Capital £	Share Premium £	Value of Loan Note Converted £
Shares issued in relation to the conversion of loan notes								
Conversion of loan notes	28/10/2010	0.50	0.05	0.45	10,000	500	4,500	5,000
Conversion of loan notes	18/11/2010	0.50	0.05	0.45	40,000	2,000	18,000	20,000
					50,000	2,500	22,500	25,000
					6,935,518	**346,776**	**7,394,035**	**7,740,811**

The ordinary shares have a par value of 5 pence per share (2010: 5 pence) and are fully paid. These shares carry no right to fixed income or have any preferences or restrictions attached to them.

19. Share capital (continued)

(b) Share issues during the year (continued)

* The issue of these shares took place prior to the share consolidation on the 21st of October 2010 (note 19(a)). The comparative values prior to share consolidation would have been as follows:

	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								
Exercise of warrants	04/10/2010	0.20	0.001	0.019	1,000,000	1,000	19,000	20,000
Exercise of warrants	07/10/2010	0.02	0.001	0.019	3,000,000	3,000	57,000	60,000
Exercise of warrants	20/10/2010	0.01	0.001	0.011	4,775,888	4,776	52,535	57,311
Exercise of warrants	28/10/2010	0.01	0.001	0.009	22,750,000	22,750	204,750	227,500

(c) Warrants and options

During the year ended 31 August 2011 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 £0.88	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 £1.25	Number of Options £1.39	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 year	3.0	-	-	-	-	-	-	-	-	-	(841,858)	(841,858)
Balance at 31 August 2011	**1.0**	**863,000**	**-**	**235,000**	**400,000**	**365,000**	**700,000**	**4,200,000**	**-**	**484,112**	**-**	**7,247,112**

Exercise Price	Average Exercise Price per Share	Number of Options £0.50	Number of Options £0.60	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 £1.25	Number of Options £1.39	Number of Warrants £3.00	Total
Balance at 1 September 2009	0.9	1,318,000	-	-	-	-	-	4,390,000	426,000	-	-	6,134,000
Granted during the year	1.5	60,000	629,250	-	400,000	-	-	1,100,000	-	-	841,858	3,031,108
Exercised during the year	0.6	-	(348,732)	-	-	-	-	-	-	-	-	(348,732)
Expired during the year	1.3	-	-	-	-	-	-	-	(426,000)	-		(426,000)
Balance at 31 August 2010	**1.1**	**1,378,000**	**280,518**	**-**	**400,000**	**-**	**-**	**5,490,000**	**-**	**-**	**841,858**	**8,390,376**

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

19. Share capital (continued)

Management options vest immediately on 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 21 April 2011 – 235,000 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 £0.88, exercisable up to five years after the commencement of employment with the Company; and
- On 28 July 2011 – 365,000 options to company employees. 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 £0.95, exercisable up to five years after the commencement of employment with the Company; and
- On 23 March 2011 – 484,112 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 £1.39, exercisable up to five years after the commencement of employment with the Company; and
- On 29 June 2011 – 600,000 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 £0.97, exercisable up to five years after the commencement of employment with the Company; and
- On 28 July 2011 – 100,000 options to company employees. 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 £0.97, exercisable up to five years after the commencement of employment with the Company

The total share-based payment expense in the year for the Group was £807,592 (2010: £664,554), and 6,347,112 (2010: 8,389,514) options are exercisable at the year end. No options were forfeited during the year (2010: NIL)

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

Grant date	21/04/2011	28/07/2011	23/03/2011	29/06/2011	28/07/2011
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	53%	53%	68%	65%	62%
Risk-free interest rate	2.75%	2.75%	4.75%	4.75%	4.75%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Exercise price	£0.88	£0.95	£1.39	£0.97	£0.97
Price at grant date	£1.48	£0.98	£1.40	£0.97	£0.97

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 £0.57 per option.

The weighted average remaining contractual life of the 7.2 million options outstanding at the balance sheet date is 3.4 years (2010: 4 years). The weighted average share price during the year was £1.59 (2010: £1.10) 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.

20. Trade and other payables

		Group		Company
	2011 £'000	**2010 £'000**	**2011 £'000**	**2010 £'000**
Trade payables	4,066	4,103	80	142
Accruals and other payables	163	205	117	176
	4,229	4,308	197	318

21. Provisions

Group	2011 £'000	Restated 2010 £'000
Current		
Provision for annual leave	224	164
Provision for workers compensation	63	65
Other employee related provisions	377	299
	664	528
Non current		
Provision for mine rehabilitation	4,092	4,220
Provision for Long Service Leave	49	-
	4,141	4,220
	4,805	**4,748**

Group	Employee Related Provisions £'000	Mine Rehabilitation £'000	Long Service Leave £'000	Total £'000
Balance at 1 September 2010 (Restated)	528	4,220	-	4,748
Additional provisions made during the year	190	-	49	239
Reversed during the year	(4)	(331)	-	(335)
Unwinding of discount	-	44	-	44
Exchange difference	(50)	159	-	109
Balance at 31 August 2011	**664**	**4,092**	**49**	**4,805**

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 11 years (2010: 12 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.

22. Borrowings

Group

	2011 £'000	Restated 2010 £'000
Current		
ANZ Banking Group	-	34
Finance lease liability (note 29)	5	11
	5	**45**
Non Current:		
Finance lease liability (note 29)	-	5
	-	**5**

ANZ Banking Group Loan

The loan was taken to facilitate payment of an insurance premium.

The loan was repaid in full in September 2010.

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 is fully repayable in January 2012.

23. Vatukoula Social Assistance Trust Fund

Group

	2011 £'000	Restated 2010 £'000
Current		
Vatukoula Social Assistance Trust Fund	1,558	1,011
	1,558	**1,011**
Non Current:		
Vatukoula Social Assistance Trust Fund	13	506
	13	**506**

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 has been reclassified from a provision to a liability. There remains very little uncertainty regarding the timing and the amounts payable; therefore a classification as a liability is regarded as more appropriate. Prior year numbers have been represented to reflect the reclassification in the prior year. The reclassification of the total liability of £1,517,000 had no impact on the Group's net asset position at 31 August 2009 or 31 August 2010. As such, a Statement of Financial Position as at 31 August 2009 has not been presented.

23. Vatukoula Social Assistance Trust Fund (continued)

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$6 million is payable of which the Group paid F$1.5 million on 10 March 2010. The remaining F$4.5 million has been allocated to Current and Non Current Liabilities as follows:

	F$'000	£'000
Current		
Instalments according to Trust Deed due within 1 year	1,125	394
Redundancy payment due within 1 year	3,325	1,164
	4,450	**1,558**
Non Current		
Instalments according to Trust Deed due more than 1 year	50	18
	50	**18**
	4,500	**1,576**

The non current portion of the liability has been discounted to the net present value of the future cash flows at £13,000.

24. 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 £25,000 (2010: £130,000) of these convertible loan notes were converted to 50,000 (2010: 260,000) new ordinary shares in the Company; £2,500 (2010: £13,000) was credited to ordinary share capital and £22,500 (2010: £117,000) 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	2011 £'000	2010 £'000
Nominal value	386	385
Equity component	(45)	(53)
	341	**332**

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

Group and Company	2011 £'000	2010 £'000
Balance at 1 September	332	502
Conversion of loan notes	(25)	(230)
Released into equity on conversion	2	-
Unwind discounted present value of liability	8	22
Principal interest	37	46
Coupon interest	-	53
Interest paid	(13)	(61)
Balance at 31 August	**341**	**332**

25. Financial instruments and risk management objectives and policies

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

Group	2011 £'000	2010 £'000
Loans and receivables		
Trade and other receivables	3,877	2,634
Cash and cash equivalents	6,892	12,849
	10,769	**15,483**
Financial liabilities measured at amortised cost		
Trade and other payables	4,066	4,103
Borrowings	5	45
Convertible loan notes	341	332
Other liabilities	-	5
	4,412	4,485

Company	2011 £'000	2010 £'000
Loans and receivables		
Trade and other receivables	298	71
Cash and cash equivalents	4,774	10,452
	5,072	**10,523**
Financial liabilities measured at amortised cost		
Trade and other payables	80	142
Convertible loan notes	341	332
	421	474

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.

(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.

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

(i) Currency rate risk (continued)

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

Class	2011					2010			
	£ Sterling £'000	Brazilian Real £'000	Australian Dollar £'000	US Dollar £'000	Fiji Dollar £'000	£ Sterling £'000	Brazilian Real £'000	Australian Dollar £'000	Fiji Dollar £'000
Financial assets									
Trade receivables	298	36	-	2,052	-	84	6	-	2,592
Cash and cash equivalents	4,805	1	19	559	1,508	10,484	58	41	2,266
Financial liabilities									
Trade payables	56	6	-	15	3,964	225	14	-	4,069
Borrowings	-	-	-	-	5	-	-	-	50
Convertible loan notes	341	-	-	-	-	332	-	-	-

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	2011 £'000	2010 £'000
Financial assets		
Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling	226	728
Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against Sterling	(226)	(728)
Impact on profit after tax on 15% increase in Reals fx rate against Sterling	6	10
Impact on profit after tax on 15% decrease in Reals fx rate against Sterling	(6)	(10)
Financial liabilities		
Impact on profit after tax on 15% increase in Fijian Dollar fx rate against Sterling	(595)	(618)
Impact on profit after tax on 15% decrease in Fijian Dollar fx rate against Sterling	595	618
Impact on profit after tax on 15% increase in Reals fx rate against Sterling	(1)	(2)
Impact on profit after tax on 15% decrease in Reals fx rate against Sterling	1	2

The board has assessed its exposure and it does not currently consider the risk of exposure to these currencies to be material.

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

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

(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	2011 Floating Rate £'000	Fixed Rate £'000	Non-interest Bearing £'000	2010 Floating Rate £'000	Fixed Rate £'000	Non-interest Total £'000
Financial assets						
Trade receivables	-	-	2,088	-	-	2,635
Other receivables	-	-	5,706	-	-	2,516
Cash and cash equivalents	6,892	-	-	12,849	-	-
Financial liabilities						
Trade payables	-	-	4,066	-	-	4,744
Bank overdraft	-	-	-	-	-	-
Accruals	-	-	163	-	-	176
Borrowings	-	-	-	-	34	-
Finance lease liability	-	5	-	-	16	-
Convertible loan notes	-	341	-	-	332	-

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

If interest rates had been 1% higher/lower and all other variables held constant, the Group's profit for the year ended 31 August 2011 would increase/decrease by £ 93,853 (2010: loss would increase/decrease by £ 69,675).

For interest rate risk, the Company's exposure is not considered to 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 17.

(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 2011, with all other variables held constant, would have the following impact on the Statement of Comprehensive Income and equity at 31 August 2011:

	Statement of Comprehensive Income and equity impact Increase/(decrease) £'000
25% increase in the gold spot price	11,991
25% decrease in the gold spot price	(11,991)

The Company has no exposure to gold price risk.

25. 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:

		2011		2010
	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	6,892	-	12,849	-
Trade and other receivables	7,794	-	5,151	-
	14,686	-	18,000	-
Financial Liabilities				
Borrowings	5	-	45	5
Trade and other payables	4,229	-	4,308	-
Convertible loan notes	-	341	-	332
	4,234	341	4,353	337

For liquidity risk , the Company's exposure is not considered to 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.

	2011 £'000	2010 £'000
Borrowings	5	50
Convertible loan	341	332
Trade and other payables	4,229	4,308
Less: Cash and cash equivalents	(6,892)	(12,849)
Net (surplus)/debt	(2,317)	(8,159)
Equity	68,538	62,515
Net (surplus)/debt plus Equity	**66,221**	**54,356**

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 2010 and 31 August 2011. 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.

26. Ultimate controlling party

There was no ultimate controlling party during the year.

27. 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 £10,722,033 (2010: £5,863,071) 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 £7,920,898 (2010: £ Nil), resulting in a total balance as at 31 August 2011 of £15,807,130 (2010: £13,005,995). The loan charges interest at 0.5% with effect from 1 September 2011 (2010: Nil) and is repayable in full on 31 August 2016.

During the current year, the company has loaned an additional amount to Viso Gero International Inc, a wholly owned subsidiary £30,522 (2010: £ Nil). The loan has been discounted to the net present value of the future cash flows by £464,857, (2010: £ Nil), resulting in a total balance as at 31 August 2011 of £927,679 (2010: £1,362,014). The loan charges interest at 0.5% with effect from 1 September 2011 (2010: Nil) 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 £128,063 (2010: £308,784). The total balance as at 31 August 2011 is £Nil (2010: £308,784). The company has written off £436,847 during the year ended 31 August 2011 (2010: £115,951). 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 £96,500 in (2010: £82,083) to Promaco Ltd, a company related to J I Stalker, director of Vatukoula Gold Mines Plc. At the year end £5,500 was payable to Promaco Ltd (2010: £ Nil).

During the year, the Company paid consultancy fees in respect of director's fees of £Nil (2010: £30,307) to Kimmel Consulting Ltd, a company related to K Morzaria, director of Vatukoula Gold Mines Plc. There were no amounts payable to Kimmel Consulting Ltd at the year end.

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.

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

Under the current agreement, rent is payable for Lease No. 54 and 56 at the rate of F$79,321 (2010: F$49,227) per annum, which is the equivalent of £27,772 (2010: £16,594). Rent payable for Lease No. 55 is F$19,132 (2010: F$19,132) per annum, which is the equivalent of £6,698 (2010: £6,449)

28. Commitments (continued)

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

Group	2011 £'000	2010 £'000
No later than 1 year	20	19
Later than 1 year and no later than 5 years	78	76
Later than 5 years	177	189
	275	**284**

(b) Capital commitments
Capital commitments as at 31 August 2011 amounted to £ 912,000 (2010: £1,187,500). These commitments are in relation to projected expenditure on mine properties and development.

29. Leases

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

(i) The Group has various operating leases with ANZ for motor vehicles. The operating lease is repayable by monthly instalments of F$ 20,245 (2010: F$ 34,207), which is the equivalent of £7,088 (2010: £11,531).

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

Group	2011 £'000	2010 £'000
Not later than 1 year	29	138
Later than 1 year and not later than 5 years	-	13
Later than 5 years	-	-
	29	**151**

(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 is repayable by monthly instalments of £ 1,082 and interest is charged at the rate of 14% per annum

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

Group	2011 £'000	2010 £'000
Not later than 1 year	5	11
Later than 1 year and not later than 5 years	-	5
	5	**16**

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

30. Contingent liabilities

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

Group	2011 £'000	2010 £'000
Immigration bond	-	3
Mining bond	4	-
Bankers undertaking	207	199
	211	**202**

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 vigorously defending the claim. No amounts have been provided in the accounts in respect of this claim. As at year end, advance tax payment of F$7.9m has been made in relation to this. The government has recognised the prepayment of the claimed tax liability, however given the period of time these debts have been outstanding, the Company has taken a prudent view and provided for the debts (Note 17). 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.

31. Deferred taxation

Movements in deferred taxation during the year are as follows:

Group	2011 £'000	2010 £'000
Balance 1 September	9,394	10,232
Impact of change in tax rate	(1,006)	-
Utilisation charged to the Statement of Comprehensive Income	(612)	(838)
	7,776	**9,394**

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

32. Post balance sheet events

There were no significant post balance sheet events subsequent to the year end.

CORPORATE INFORMATION

Secretary
Laytons Secretaries Limited
Carmelite
50 Victoria Embankment
London EC4Y 0LS

Registered office
5th Floor Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0LS

Nominated Adviser to the Company
WH Ireland Limited
24 Martin Lane
London EC4R 0DR

Brokers to the Company
WH Ireland Limited
24 Martin Lane
London EC4R 0DR

Auditors
Mazars LLP
Tower Bridge House
St Katharine's Way
London E1W 1DD

Solicitors
Laytons
Carmelite
50 Victoria Embankment
London EC4Y 0LS

Registrars
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4T

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Vatukoula Gold Mines plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

VATUKOULA GOLD MINES PLC

NOTICE OF ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting of the Company to be held at the offices of Laytons at 2 More London Riverside, London SE1 2AP on 31 January 2012 at 11:00 am is set out in this Document.

A form of proxy accompanies this notice. **To be valid, forms of proxy for use at the meeting must be completed and returned so as to be received at the offices of the Company's registrars, Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 11:00 am on 27 January 2012.** The completion and depositing of a form of proxy will not preclude you from attending and voting in person at the General Meeting should you wish to do so.

NOTICE OF ANNUAL GENERAL MEETING
of
VATUKOULA GOLD MINES PLC

(Incorporated in England and Wales with registered number 5059077)
("the Company")

NOTICE is hereby given that the Annual General Meeting of the Company will be held at the offices of Laytons at 2 More London Riverside, London SE1 2AP on 31 January 2012 at 11:00 am to consider, and if thought fit pass, the following resolutions of which resolutions 1 to 5 will be proposed as Ordinary Resolutions and resolution 6 will be proposed as a Special Resolution:

Accounts

1. To receive and adopt the Directors' Report and Accounts for the period ended 31 August 2011

Directors

2. To re-elect David Karl Paxton as a director.
3. To re-elect Kiran Caldas Morzaria as a director.

Auditors

4. To re-appoint Mazars LLP auditors of the Company to hold office until the conclusion of the next annual general meeting at which accounts are laid before the Company and authorise their remuneration to be fixed by the directors.

Directors' Authority to Allot Shares

5. To resolve that for the purposes of section 551 of the Companies Act 2006 ("the Act") the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot ordinary shares in the Company and grant rights to subscribe for or convert any security into shares in the Company up to the maximum nominal amount of £1,475,972 PROVIDED that the authority granted under this resolution shall lapse at the end of the next annual general meeting of the Company to be held after the date of the passing of this resolution or, if earlier, fifteen months from the date of the passing of this resolution but so that the Company be authorised to make prior to the expiry of such period above any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution.

SPECIAL RESOLUTION
Disapplication of statutory rights of pre-emption

6. To resolve that, subject to the passing of Resolution 5 set out in the notice of annual general meeting dated 22 December 2011, the Directors be empowered in accordance with section 570 of the Companies Act 2006 ("the Act") to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in section 551 of the Act) by that resolution, as if section 561(1) of the Act did not apply to such allotment provided that the power conferred by this resolution shall be limited to equity securities for cash up to an aggregate nominal value not exceeding £1,475,972;

   PROVIDED that this power, unless renewed, shall expire at the end of the next annual general meeting of the Company to be held after the date of the passing of this resolution or, if earlier, fifteen months from the date of the passing of this resolution but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

Laytons Secretaries Limited
Company Secretary

Registered office:
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0LS

Dated: 22 December 2011

Notes

1. Holders of Ordinary Shares, or their duly appointed representatives, are entitled to attend and vote at the AGM. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the meeting. A Shareholder can appoint the chairman of the meeting or anyone else to be his/her proxy at the meeting. A proxy need not be a Shareholder. More than one proxy can be appointed in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or shares held by that Shareholder. To appoint more than one proxy, the Form of Proxy should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the Form of Proxy together with the number of shares in relation to which the proxy is authorised to act. If such is the case please indicate that the proxy instruction is one of multiple instructions being given. All Forms of Proxy must be signed and, to be effective, must be lodged with the Company's registrar (Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU) so as to arrive not later than 48 hours before the time of the meeting, or in the case of an adjournment 48 hours before the adjourned time.

2. The return of a completed Proxy Form will not prevent a Shareholder attending the AGM and voting in person if he/she wishes to do so.

3. Only Shareholders whose names appear on the register of members of the Company as at 48 hours before the time of the meeting shall be entitled to attend the AGM either in person or by proxy and the number of ordinary shares then registered in their respective names shall determine the number of votes such persons are entitled to cast on a poll at the AGM.

4. In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the AGM so that (i) if a corporate Shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that Shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate Shareholder attends the meeting but the corporate Shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

Explanatory notes on the resolutions to be proposed at the Annual General Meeting.

Resolution 1 – Accounts
The Directors are required by company law to present each year the Company's financial statements and the Directors' and the Auditors' report on the financial statements to the Company in a general meeting.

Resolutions 2 and 3 – Directors
The Companies Articles of Association require, first, that any directors appointed during the year following the annual general meeting offer themselves for election at the next annual general meeting. In addition at each annual general meeting any director who was elected, or last reelected, at or before the annual general meeting held in the third calendar year preceding that annual general meeting is required to retire from office by rotation but is eligible for re-election.

No directors have been appointed since the last annual general meeting and this year the following directors are required to retire by rotation. Each, being eligible, will be proposed for re-election:

D K Paxton, Chief Executive Officer (CEO) age 57
Mr Paxton is a professional engineer with over 36 years' experience in the mining industry, starting with mine production at Goldfields of South Africa, and then time at their head office and culminating with 24 years as a mining analyst. As a mining analyst he has worked for a number of Canadian and UK stockbrokers, most recently Religare Hichens Harrison Plc.

K C Morzaria, Finance Director, age 37
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 12 years of experience in the mineral resource industry covering gold and diamonds. Mr Morzaria spent his first four years in exploration, mining and civil engineering working for Highland Gold, Firestone Diamonds and CL Associates. He was appointed Finance Director of Vatukoula Gold Mines Plc. in 2004 and since then has been overseeing the development of its mining and exploration projects in Fiji, Sierra Leone and Brazil.

Resolution 4 – Auditors
The Company is required at each general meeting at which financial statements are laid to appoint auditors who will remain in office until the next general meeting at which financial statements are laid. This resolution will, therefore, propose the reappointment of Mazars LLP as auditors and authorise the Directors to fix their remuneration.

Resolution 5 – Authority to allot shares
The Companies Act 2006 provides that the Directors may not allot shares unless authorised to do so by the Shareholders. Such a power cannot be granted for longer than five years at any one time and the total nominal value of shares which can be allotted under the authority must be specified.

To renew the Board's powers in respect of the allotment and issue of ordinary shares, it is proposed that the Directors be granted unconditional authority, in substitution for the existing authority granted by shareholders at the Company's general meeting held on 11 April 2011, to allot and issue or to agree to allot and issue Ordinary Shares up to a nominal value of £1,475,972 (29,519,446 Ordinary Shares) at any time before the expiry of 15 months from the Annual General Meeting, or, if earlier, on the date of the following annual general meeting. This represents approximately one third of the Company's issued Ordinary Share capital as at the date of this notice and which complies with the guidelines issued by the Association of British Insurers and representative bodies of institutional investors.

Resolution 6 - Disapplication of Pre-emption Rights
This resolution, which is in substitution for the authority granted to the directors at the Company's annual general meeting held on 11 April 2011, is to grant the power to the Directors to allot equity securities for cash without first offering such shares pro-rata to existing Shareholders in accordance with the statutory rights of pre-emption.

This authority will allow the directors to (a) issue equity securities for cash up to an aggregate nominal value of £1,475,972 (29,519,446 Ordinary Shares) and (b) otherwise implement an offer of equity securities, whether by the Company or another person, open for acceptances for a fixed period without complying fully with the pre-emption requirements of the Companies Act 2006. This represents approximately 30% of the Company's issued ordinary share capital as at the date of this notice and therefore exceeds the 5% disapplication recommended in the guidelines issued by the Association of British Insurers and representative bodies of institutional investors. The proposed disapplication is however in line with other AIM listed companies that are similar to the Company and recognises that the professional costs of a pre-emptive share issue would be disproportionate to the net funds raised.

If granted, the authority will expire 15 months after the annual general meeting, or, if earlier, on the date of the next annual general meeting.

VATUKOULA GOLD MINES PLC ("the Company")

Form of Proxy

For use in respect of the Annual General Meeting of the Company to be held on 31st January 2012 at 11:00 am

I/We (block capitals please) ____________________

of ____________________

being (a) member(s) of the Company hereby appoint the chairman of the meeting or (see note 1)

____________________ of ____________________

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the time and the date above, and at any adjournment thereof in respect of all/[ ] (see note 2) of the shares held by me/us.

Please indicate by placing "X" in the appropriate space below how you direct your proxy to vote or to abstain on the resolution to be submitted to the meeting (see note 2).

Resolution	**For**	**Against**	**Vote witheld**
To receive and adopt the Director's Report and Accounts for the year ended 31 August 2011			
To re-elect David Karl Paxton as a director			
To re-elect Kirin Caldas Morzaria as a director			
To re-appoint Mazars LLP as auditors and to authorise the Directors to fix their remuneration			
To grant the Directors' authority to allot ordinary shares and grant rights to subscribe for or convert any security into shares in the Company up to the maximum nominal amount of £1,475,972			
To disapply statutory rights of pre-emption in respect of a nominal value not exceeding £1,475,972			

Signature or common seal (see notes 3 and 4) ____________________

Signed this______ day of________________ 20___ .

Notes

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company but must attend the meeting in person) of his own choice to attend and to vote in his/her place.

2. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy this form. Please indicate each proxy's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. If you wish to appoint a proxy other than the Chairman, delete the words "the Chairman of the Meeting or," initial the alteration and insert the name of the person you wish to appoint as your proxy.

4. All members are entitled to attend and vote at the meeting, whether or not they have returned a form of proxy.

5. To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

6. If a member is a corporation, this form of proxy must be executed under its common seal or by the signature of an officer or attorney duly authorised in writing.

7. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated, and the vote of the senior holder who tenders a vote will be accepted to the exclusion of the vote(s) of other joint holder(s), seniority being determined by the order in which the names stand in the register of members of the Company.

8. In order to be valid, this Form of Proxy, duly executed together with any power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must be lodged at the Company's Registrars (Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU) not less than 48 hours before the time of the meeting or any adjournment of the meeting.

9. The return of a completed Form of Proxy will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

10. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Designed and produced by

brand:mining

T: +44 (0) 151 244 5482
www.brandmining.co.uk

VATUKOULA GOLD MINES PLC

Suite 3B
38 Jermyn Street
London SW1Y 6DN
United Kingdom

T: +44 (0) 207 440 0643
F: +44 (0) 207 440 0641
E: info@vgmplc.com
www.vgmplc.com