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NORTON GOLD FIELDS LIMITED

## ASX/MEDIA ANNOUNCEMENT

31 August 2010

# 2010 Appendix 4E

## Results for announcement to the market

### Key Points

- Gross profit* for FY2010 of $21.4m, down $15.6m on FY2009
- Net cash from operations $22.7m
- June cash balance $68.5m, up $23.2m
- Capital expenditure on growth projects $56.8m
- Operating costs of $963 per oz
- Non-cash hedge adjustment $32.8m
  - drove a Net Loss After Tax of $32.8m

* Gross profit accounts for all operating costs along with changes in inventories, depreciation and amortisation.

**The annual financial report and Appendix 4E (Rule 4.3A) Preliminary Report is attached.**

Visit us at www.nortongoldfields.com.au

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Appendix 4E (Rule 4.3A)

Preliminary Final Report

For the year ended 30 June 2010

Results for announcement to the market

(all comparisons are to the year ended 30 June 2009)

| | $'000 | Increase/ Decrease | % movement |
|---|---|---|---|
| Revenue | 173,262 | Increase | 7.2 |
| Gross Profit | 21,380 | Decrease | 42.1 |
| Loss before net finance costs | (42,084) | Increase | 134.2 |
| Loss for the year attributable to the owners of the parent entity | (32,837) | Increase | 95.7 |

## Audit

This report is based on the consolidated annual financial report which is in the process of being audited or reviewed.

## Financial report

The attached annual financial report meets the disclosure requirements not specifically identified in this document. The terms used in listing rule 4.3A reconcile to the financial report as follows:

| Required | Presented |
|---|---|
| Statement of financial performance | Consolidated statement of comprehensive income |
| Statement of financial position | Consolidated statement of financial position |
| Statement of cash flows | Consolidated statements of cash flows |
| Statement of retained earnings | Consolidated statement changes in equity |

## Acquisitions and disposals

There were no acquisitions or disposals in the financial year ending 30 June 2010.

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Norton Gold Fields Limited

## Commentary on results for the period

The company operated the Paddington mine throughout the year and produced 140,436 oz of gold in the 2010 financial year.

During the year the group conducted exploration and mining activities on its mining tenements to produce gold resulting in a gross profit of $21.380 million (2009: $36.939 million) and a loss after tax of $32.837 million (2009: loss after tax of $16.775 million), and undertook the following:

- production of 140,436 oz of gold
- Homestead underground mine development and its commencement of gold production
- continued assessment of the Mount Morgan Mine project feasibility and the investigation of funding opportunities
- restructuring of senior management and the board; and
- hedge litigation settlement negotiation with Lehman Brothers

Net assets of the group have increased from $45.122 million at 30 June 2009 to $77.906 million at 30 June 2010. This change is largely the result of raising $60.6 million in capital during the year which:

Increased

- Cash and cash equivalents
- Exploration costs and purchased mine properties
- Capitalised mining costs
- Property, plant and equipment

Offsetting this was a decrease caused by:

- A loss after tax of $32.837 million for the financial year
- Net liabilities at 30 June 2010 of forward gold hedges and the associated deferred tax.

## Dividends

The Directors do not recommend payment of a dividend. No dividend was paid during the year or the previous corresponding period. Consequently there is no record date for determining dividend entitlement.

## Net tangible assets per share (fully diluted)

The net tangible assets per share were 9.60 cents for 2010 and 6.97 cents for 2009. The relevant numbers excluding the hedge position are 12.74 cents for 2010 and 15.98 cents for 2009.

## Additional 4E disclosures

Additional disclosure requirements can be found in the consolidated financial report attached to this report.

# Annual Financial Report 2010

# ACN 112 287 797

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**Norton Gold Fields Limited and its subsidiaries**
**Consolidated statement of comprehensive income**
**For the year ended 30 June 2010**

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| | Notes | Consolidated | |
|---|---|---|---|
| | | **2010** | **2009** |
| | | **$'000** | **$'000** |
| Revenue | 6 | 173,262 | 161,641 |
| Cost of sales | 7 | (151,882) | (124,702) |
| **Gross profit** | | **21,380** | **36,939** |
| Other income | | 87 | 1,776 |
| Administrative expenses | 8 | (7,189) | (8,046) |
| Impairment | | (12,900) | (4,720) |
| Fair value adjustments | | (32,844) | (35,547) |
| Hedging loss | 27 | (10,618) | (8,372) |
| **Loss before net finance costs** | | **(42,084)** | **(17,970)** |
| Finance income | 10 | 3,760 | 2,730 |
| Finance expense | 10 | (4,877) | (5,384) |
| **Loss before tax** | | **(43,201)** | **(20,624)** |
| Income tax benefit | 11 | 10,364 | 3,849 |
| **Loss for the year attributable to the owners of the parent entity** | | **(32,837)** | **(16,775)** |
| **Other comprehensive income** | | | |
| Cash flow hedges: | | | |
| Gain arising on hedge during the year | | - | 14,160 |
| Reclassification adjustment for the deferred hedging loss included in profit and loss | | 10,618 | 8,372 |
| Income tax on items of other comprehensive income | | (3,185) | (6,760) |
| **Other comprehensive income for the year, net of tax** | | **7,433** | **15,772** |
| **Total comprehensive loss for the year attributable to owners of the parent entity** | | **(25,404)** | **(1,003)** |
| **Loss per share** | | **Cents** | **Cents** |
| Basic loss per share | 38 | (6.3) | (4.2) |
| Diluted loss per share | 38 | (6.3) | (4.2) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated statement of financial position

### As at 30 June 2010

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 12 | 68,517 | 45,356 |
| Trade and other receivables | 13 | 5,154 | 3,073 |
| Inventories | 14 | 28,411 | 19,642 |
| Total Current Assets | | 102,082 | 68,071 |
| **Non-current Assets** | | | |
| Deferred tax assets | 15 | 28,330 | 19,438 |
| Exploration and evaluation assets | 16 | 76,077 | 67,949 |
| Capitalised mining costs | 17 | 34,661 | 20,844 |
| Property, plant and equipment | 18 | 19,699 | 15,184 |
| Other assets | 19 | 18,770 | 18,451 |
| Total Non-current Assets | | 177,537 | 141,866 |
| Total Assets | | 279,619 | 209,937 |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 20 | 26,400 | 22,659 |
| Current tax liability | | - | 540 |
| Provisions | 21 | 1,655 | 3,027 |
| Total Current Liabilities | | 28,055 | 26,226 |
| **Non-current Liabilities** | | | |
| Financial liabilities | 22 | 37,092 | 36,413 |
| Provisions | 21 | 24,302 | 23,550 |
| Deferred tax liabilities | 23 | 5,264 | 4,470 |
| Derivative financial instruments | 24 | 107,000 | 74,156 |
| Total Non-current Liabilities | | 173,658 | 138,589 |
| Total Liabilities | | 201,713 | 164,815 |
| **Net Assets** | | **77,906** | **45,122** |
| **Equity** | | | |
| Contributed equity | 26 | 129,454 | 70,994 |
| Reserves | 27 | (5,850) | (13,011) |
| Accumulated losses | 27 | (45,698) | (12,861) |
| **Total Equity** | | **77,906** | **45,122** |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



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| | Contributed equity $'000 | Hedge reserve $'000 | Share-based payments reserve $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | **60,395** | **(38,070)** | **6,124** | **3,914** | **32,363** |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs and deferred tax | 10,599 | - | - | - | 10,599 |
| Non-cash share based payments | - | - | 3,163 | - | 3,163 |
| Comprehensive income | | | | | |
| - Loss for the year after tax | - | - | - | (16,775) | (16,775) |
| - Other comprehensive income | - | 15,772 | - | - | 15,772 |
| Total comprehensive loss for the year | **-** | 15,772 | - | (16,775) | (1,003) |
| **At 30 June 2009** | **70,994** | **(22,298)** | **9,287** | **(12,861)** | **45,122** |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs and deferred tax | 58,460 | - | - | - | 58,460 |
| Non-cash share based payments | - | - | (272) | - | (272) |
| Comprehensive income | | | | | |
| - Loss for the year after tax | - | - | - | (32,837) | (32,837) |
| - Other comprehensive income | - | 7,433 | - | - | 7,433 |
| Total comprehensive loss for the year | | 7,433 | | (32,837) | (25,404) |
| **At 30 June 2010** | **129,454** | **(14,865)** | **9,015** | **(45,698)** | **77,906** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



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| | Notes | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations | | 173,345 | 163,417 |
| Payments in the course of operations | | (149,027) | (112,308) |
| Interest received | | 3,098 | 3,133 |
| Hedge loss | | - | (1,444) |
| Interest and borrowing costs paid | | (4,195) | (4,369) |
| Taxes paid | | (540) | - |
| Net cash provided by operating activities | 37 | 22,681 | 48,429 |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | (6,004) | (7,936) |
| Receipts on disposal of plant and equipment | | 26 | - |
| Exploration and mine development costs | | (50,763) | (24,203) |
| Acquisition of subsidiaries | 25 | - | 3,126 |
| Cash collateral for security deposits | | (319) | (608) |
| Net cash used in investing activities | | (57,060) | (29,621) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 57,540 | 20 |
| Repayment of borrowings | | - | (416) |
| Net cash provided / (used in) by financing activities | | 57,540 | (396) |
| **Net increase in cash and cash equivalents** | | 23,161 | 18,412 |
| Cash and cash equivalents at the beginning of the year | | 45,356 | 26,944 |
| **Cash and cash equivalents at the end of the year** | 12 | **68,517** | **45,356** |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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## 1. General information

Norton Gold Fields Limited (the company) is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange. The addresses of its registered office and principal place of business are disclosed in the corporate directory in the annual report.

The financial statements of the company for the year ended 30 June 2010 covers the consolidated entity consisting of the company and its subsidiaries (the group) as required by Corporations Act 2001. Separate financial statements for the company as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001, however limited financial information for the company as an individual entity is included in note 35.

## 2. Adoption of new and revised Accounting Standards

### (a) Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period.

**Standards affecting presentation and disclosure**

AASB 101 *Presentation of Financial Statements (as revised in September 2007)*, AASB 2007-8 *Amendments to Australian Accounting Standards arising from* AASB 101 *and* AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from* AASB 101.

AASB 101(September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

AASB 8 *Operating Segments*

AASB 8 is a disclosure Standard that has resulted in a redesignation of the group's reportable segments (see note 5).

AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*

The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk.

AASB 3 *Business Combinations (as revised in 2008)*

In accordance with the relevant transitional provisions, AASB 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009. There was no impact on the current consolidated financials of the group.

## 3. Summary of significant accounting policies

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the group.

The financial report is presented in Australian dollars unless otherwise stated. The accounts are prepared on a going concern basis.

*Compliance with IFRSs*
The consolidated financial statements of the group also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*
The financial report has been prepared under the historical cost convention, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

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## 3. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

*Critical accounting estimates*
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

*Financial statement presentation*
The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

*Comparative figures*
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

*Rounding of amounts*
The group has applied the relief available to it under ASIC Class Order 98/100 and, accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars ($'000), where applicable.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (b) Principles of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries.

Subsidiaries are all those entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. A list of all controlled entities is contained in Note 35.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 3(h)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position.

## 3. Summary of significant accounting policies (continued)

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the board of directors.

*Change in accounting policy*
The group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no impact on the measurement of the group's assets and liabilities. Comparatives for 2009 have been restated.

### (d) Foreign currency translation

*(i) Functional and presentation currency*
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the group's functional and presentation currency.

*(ii) Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

### (e) Revenue recognition

Fine gold metal and fine silver metal revenue is measured at the fair value of the consideration received at the prevailing spot price. Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured.

Interest revenue is recognised using the effective interest rate method.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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**3. Summary of significant accounting policies (continued)**

**(f) Income tax (continued)**

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

*Investment allowances*
Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

*Tax consolidation legislation*
Norton Gold Fields Limited and its wholly owned Australian controlled entities have decided not to implement the tax consolidation legislation. Norton Gold Fields Limited and its wholly owned Australian controlled entities have significant tax losses. Deferred tax balances are recognised in those entities where the recovery of losses (and temporary differences) is probable.

**(g) Leases**

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the finance balance outstanding.

The property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset. Where there is no reasonable certainty that the lessee will obtain ownership, the asset is depreciated over the shorter of the lease term and the asset's useful life.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the lease term.

**(h) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interest issued by the group . The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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## 3. Summary of significant accounting policies (continued)

### (h) Business combinations (continued)

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

*Change in accounting policy*

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

The changes were implemented prospectively from 1 July 2009. There was no impact in the current financial year, as there was no relevant business combinations.

### (i) Impairment of assets

Non current assets such as exploration and evaluation assets and capitalised mining costs are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 22% that reflects current market assessments of the time value of money and the risks specific to the asset. Other key assumptions applied in the impairment assessment are a gold price of $1,200 per oz and reserve and resource statements. For the purposes of assessing impairment, where it is not possible to estimate recoverable amount for an individual asset, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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**3. Summary of significant accounting policies (continued)**

**(k) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade and other receivables are generally due for settlement no more than 30 days from the date of recognition.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debt which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, where debt collection procedures have been commenced, or there is a fair probability that the debtor will be put into administration or liquidation. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When receivables for which an impairment allowance has previously been recognised are determined to be uncollectible, they are written off against the allowance account. The amount of the impairment allowance is recognised in the profit and loss. Receivables are determined to be uncollectible when there is no expectation of recovering any additional cash. This may occur when a final distribution has been made from administrators/liquidators, or where unsuccessful attempts have been made to recover the debt through legal actions or debt collection agencies and the prospect of recovering any additional cash is remote.

**(l) Inventories**

Inventories are measured at the lower of cost and net realisable value.

Raw materials and stores are physically measured by using their weighted average purchased cost.

Inventories of gold in circuit, gold dorè bar and ore stock piles are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost comprises direct material, direct labour and transportation expenditure in bringing such inventories to their existing location and condition, together with an appropriate portion of manufacturing overhead based on normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs.

Net realisable value is assessed annually based on the amount estimated to be obtained from sale of item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

During the exploration and development phase, where the costs of extracting the ore exceed the likely recoverable amount, work in progress inventory is written down to net realisable value.

**(m) Non-current assets held for sale**

Non-current assets classified as held for sale are those assets whose carrying amounts will be recovered principally through a sale transaction rather than through continuing use and the sale is highly probable. These assets, with certain exceptions, are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for subsequent increases in fair value less costs to sell of an asset but not exceeding any cumulative impairment losses previously recognised.

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## 3. Summary of significant accounting policies (continued)

### (n) Financial assets

*Classification*
The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Financial assets are initially recognised as fair value plus transaction costs, except for financial assets carried at fair value through profit and loss for which transaction costs are expensed. Subsequent to initial recognition these instruments are measured as set out below.

*(i) Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

*(ii) Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. These instruments are measured at amortised cost using the effective interest method.

*(iii) Available-for-sale financial assets*
Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income.

The group has no such financial assets.

*Impairment*
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit and loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through profit and loss.

If there is evidence of impairment for any of the groups financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

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**3. Summary of significant accounting policies (continued)**

**(o) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

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

Property, plant and equipment is stated at historical cost less depreciation and, where applicable, impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of assets is calculated on a straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. The depreciation rates used for each class of depreciable asset are:

| | |
|---|---|
| Plant and equipment | 8% - 60% |
| Buildings | 2.5% - 10% |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

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**3. Summary of significant accounting policies (continued)**

**(q) Exploration and evaluation costs**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
  - the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
  - exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

If an area of interest is abandoned or is considered to be of no further commercial interest, the accumulated exploration costs relating to the area are written off against income in the year of abandonment. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any).

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to capitalised mining costs.

**(r) Mining tenements**

Mining tenements included in exploration and evaluation costs have a finite useful life and are carried at cost less any accumulated amortisation and impairment losses. The carrying values of mining tenements are reviewed to ensure they are not in excess of their recoverable amounts. The recoverable amount is assessed on the basis described in Note 3(i).

Amortisation of mining tenements commences from the date when commercial production commences and is charged to profit or loss. Mining tenements are amortised over the life of the mine using a units of production method.

**(s) Capitalisation and amortisation of mining costs**

*Open pit mines*
In conducting the mining operations it is necessary to remove overburden and other waste materials to access the ore body of open pit mines. The costs of removing overburden and waste materials are referred to as “pre-strip costs”.

The group’s policy for each open pit mine is to capitalise all pre-strip costs of mining until the average strip ratio (ie. the total pit ratio of waste to ore over the life of the pit) is achieved.

*Underground mining*
Underground mining occurs progressively in various stages.

In these operations an estimate is made of the project average underground cost per tonne of ore mined to expense underground ore mining costs in the statement of comprehensive income. Underground mining costs incurred during the year are deferred to the extent that the actual cost per tonne of the ore mined on a level in the year, exceeds the project average cost per tonne.

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**3. Summary of significant accounting policies (continued)**

**(s) Capitalisation and amortisation of mining costs (continued)**

Mining expenditure is recognised at cost less accumulated amortisation and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the mine on a units- of-production basis. Costs incurred to access specific ore blocks or areas that only provide benefit over the life of that area are amortised over the estimated life of that specific ore block or area.

Changes in factors such as estimates of proved and probable reserves that affect unit-of production calculations are dealt with on a prospective basis. Adjustments to expected life of mine production are taken up as an adjustment to the remaining amortisation rate. Potential adjustments are reviewed on a quarterly basis.

**(t) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(u) Financial liabilities and equity instruments**

*Classification as debt or equity*
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

*Equity instruments*
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group are recognised at the proceeds received, net of direct issue costs.

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability.

*Convertible notes*
The component of convertible notes that exhibits the characteristics of a liability is recognised as a liability in the statement of financial position.

On issuance of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or repayment.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity where material.

Issue costs are apportioned between the liability and equity components based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The carrying amount of the conversion option is not remeasured in subsequent years. Interest on the liability component of the convertible note is recognised as an expense in the profit or loss.

*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, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

*Derecognition of financial liabilities*
The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

**3. Summary of significant accounting policies (continued)**

**(v) Rehabilitation provision**

Provisions are made for mine rehabilitation and restoration when there is a present obligation as a result of exploration, development, production, transportation or storage activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas.

The provision for rehabilitation costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal and other requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to exploration, development and milling facilities is capitalised into the cost of the related asset and depreciated/amortised on the same basis as the related asset. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

**(w) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The fair value of all derivatives are determined with reference to publicly disclosed gold curve information. The value attached to the derivatives coincides with the maturity dates of the derivatives and this value is then discounted back using the base rate of interest as published by the Reserve Bank.

*Cash flow hedge*
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in the hedge reserve in equity are transferred to profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

*Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

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## 3. Summary of significant accounting policies (continued)

### (x) Employee benefits

(i) *Wages and salaries, annual and sick leave*
Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Amounts of unpaid annual leave are included as other current payables. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) *Long service leave*
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) *Superannuation*
The group makes contributions to accumulation superannuation funds. Contributions are recognised as an expense as they become payable.

(iv) *Share-based payments*
Share-based compensation benefits are provided to employees via the Norton Gold Fields Limited Employee Share Ownership Plan (for shares) and the Employee Share Option Plan (for options). Information relating to these schemes is set out in Note 39.

The fair value of shares or options granted under the Employee Share Ownership Plan or Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which employees become unconditionally entitled to the shares or options.

The fair value at grant date for shares is determined by the market price at that date. The fair value for options is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition from the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(v) *Bonus plans*
The group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) *Termination benefits*
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

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**3. Summary of significant accounting policies (continued)**

**(y) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**(z) Earnings per share**

*(i) Basic earnings per share*
Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period, adjusted for bonus elements in ordinary shares issued during the period.

*(ii) Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding issuing the conversion of all dilutive potential ordinary shares.

**(aa) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**(bb) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

**(cc) Rounding of amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.



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**3. Summary of significant accounting policies (continued)**

**(dd) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below. These standards and interpretations have not been adopted in the financial report for 30 June 2010.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or service regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The group will apply the amended standard from 1 July 2010. As the group has not made any such rights issues, the amendment will not have any effect on the group's financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1January 2013 but is available for early adoption. The group is yet to assess its full impact. The group has not yet decided when to adopt AASB 9.

(iv) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, it has yet to put systems into place to capture the necessary information. It is therefore not possible to disclose the financial impact, if any, of the amendment on the related party disclosures.

(v) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.



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**3. Summary of significant accounting policies (continued)**

(vi) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

(vii) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]

AASB 2010-3 is applicable to annual reporting periods beginning on or after 1 July 2010. There will be no impact on initial adoption as these requirements are mostly only required to be applied prospectively.

(viii) AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]

AASB 2010-4 is applicable to annual reporting periods beginning on or after 1 January 2011. There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer or more detailed disclosures only.

**4. Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Deferred exploration and evaluation*
Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of deferred exploration and evaluation assets may exceed recoverable amount. Management considers the facts and circumstances at each reporting period that would indicate whether the consolidated entity should test deferred exploration and evaluation assets for impairment. Refer to Note 16.

*Mine properties*
Mine properties are assessed for impairment when facts and circumstances suggest that the carrying amount of mine properties may exceed recoverable amount. Management considers the facts and circumstances at each reporting period that would indicate whether the consolidated entity should test mine properties for impairment. Refer to Note 17.

The impairment assessment was based on future estimated cash flows expected over the life of mine, using a gold price of $1,200 per oz and pre-tax discount rate of 22%.

*Share-based payments*
AASB 2 requires the calculation of the fair value of shares or options granted to staff and for that amount to be expensed to the profit or loss (with corresponding credit to the share-based payment reserve) over the estimated life from grant date to vesting date. This necessitates the estimate of vesting date where vesting is subject to vesting conditions or otherwise.

Where applicable, the assessed fair value at grant date of share-based payments are determined using a Binomial option pricing model that takes into account the exercise price, the term of the shares or option offer period, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share or option offer period. Refer to Note 39.

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**4. Critical accounting estimates and judgements (continued)**

*Rehabilitation provision*
Paddington Gold Pty Ltd and Bellamel Mining Pty Ltd are required by the West Australian Department of Industry and Resources to ensure that appropriate rehabilitation is carried out on tenements that are mined. The amount of rehabilitation cost is an estimate based upon the estimated life of each mined tenement, as well as the future timing and cost of such rehabilitation. The provision is constantly revised as information about the life of mine, depth of mining and cost estimates are updated. Refer to Note 21.

*Recoverability of deferred tax assets*
The group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating the same taxation authority and the same subsidiary against which the unused tax losses can be utilised and that for those entities that did not have sufficient taxable temporary differences that there will be sufficient future taxable deductions available to utilise the deferred tax asset raised at the end of the reporting period.

In determining the recoverability of the recognised deferred tax asset, management prepared and reviewed an analysis of estimated future results which support the future realisation of the deferred tax assets. The estimated future results have been derived from estimates also used for impairment assessments referred to in the notes to the consolidated financial statements. Key assumptions for these estimates are disclosed in those notes.

*Derivative financial instruments*
The group carries its Derivative instruments at fair value with changes in the fair value recognised in the profit or loss. For details of the accounting policy refer to note 3(w) and for fair value measurement and assumptions used please refer to note 24 and note 30.

*JORC Compliant Resources and Reserves affecting amortisation*
Accounting policy 3(s) 'Capitalisation and amortisation of mining costs' states that amortisation in the period is based upon gold produced compared to total expected gold production over the life of the mine. Total expected gold production is based upon the resources and reserves for each mine. These resources and reserves are based upon a competent person evaluation which is Joint Ore Reserve Committee (JORC) Code compliant. These estimates are updated as further drilling and mining information becomes available. In addition, the life of each mine is assessed on a quarterly basis by the Concept to Closure Committee. As a result, future amortisation rates may increase or decrease dependent upon changes to a mine's resources and reserves over the life of that mine.

**5. Segment information**

*Identification of reportable segments*
The group has adopted Australian Accounting Standard AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach'. The group has identified its operating segments based on the internal reports that are reviewed by the chief operating decision makers (the Board of directors) in assessing performance and in determining the allocation of resources.

The group operates in the gold mining industry and derives virtually all revenue from the sale of gold. The operating segments identified by management are Paddington operations and Mount Morgan project.

*Description of segments*
The consolidated entity has identified its reportable operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and in determining the allocation of resources. It's reporting on an operational basis.

The reportable segments broadly align with geographical locations with two geographical locations in Australia as this is the source of the consolidated entity's major assets and operating activities which has the most effect on rates of return. The reportable segments are identified as follows:

- Paddington operations: this segment involves the Paddington and Bellamel tenements in Western Australia engaged in exploration, gold mining, processing of ore, and selling of gold bullion.
- Mount Morgan project: Mount Morgan is engaged in the evaluation, development, construction and eventual operation of a gold mine and mill in Queensland.

The reportable segments differ from the previous annual report for the financial year ended 30 June 2009 which reflected one reportable segment, being gold, copper and coal exploration and mining in Australia.



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**5. Segment information (continued)**

Segment information
The following table presents information for reportable segments for the years ended 30 June 2010 and 30 June 2009:

| | Paddington operations $'000 | Mount Morgan project $'000 | Total $'000 |
|---|---|---|---|
| Year ended 30 June 2010 | | | |
| Total segment revenue | 173,262 | - | 173,262 |
| Intersegment revenue | - | - | - |
| Revenue from external customers | 173,262 | - | 173,262 |
| | | | |
| Segment EBITDA | 42,112 | (322) | 41,790 |
| Intersegment eliminations | - | - | - |
| Group allocated EBITDA | 42,112 | (322) | 41,790 |
| | | | |
| Year ended 30 June 2009 | | | |
| Total segment revenue | 161,641 | - | 161,641 |
| Intersegment revenue | - | - | - |
| Revenue from external customers | 161,641 | - | 161,641 |
| | | | |
| Segment EBITDA | 53,500 | - | 53,500 |
| Intersegment eliminations | - | - | - |
| Group allocated EBITDA | 53,500 | - | 53,500 |

The focus is on both the revenue and operating costs of the operations. Hence, the board monitors segment performance based on EBITDA (which excludes certain profit or loss items as well as other comprehensive income).

Reconciliation of EBITDA to loss before income tax is as follows:

| | **Consolidated** | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| Group allocated EBITDA | 41,790 | 53,500 |
| Allocation of hedge reserve | (10,618) | (9,816) |
| Impairment of assets | (12,900) | (4,720) |
| Movement in fair value of financial derivatives | (32,844) | (35,547) |
| Depreciation and amortisation | (20,896) | (16,219) |
| Finance income | 3,760 | 2,730 |
| Finance costs | (4,877) | (5,384) |
| Corporate office activities | (6,590) | (4,863) |
| Other | (26) | (305) |
| Loss before income tax | (43,201) | (20,624) |

Segment assets are allocated based on the operations of the segment and which segment enjoys the risks and benefits of ownership (as opposed to legal ownership).

| | Paddington operations $'000 | Mount Morgan project $'000 | Total $'000 |
|---|---|---|---|
| Total segment assets | | | |
| Year ended 30 June 2010 | 169,029 | 12,440 | 181,469 |
| | | | |
| Year ended 30 June 2009 | 146,952 | 11,175 | 158,127 |



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**5. Segment information (continued)**

Reconciliation of segment assets to the group's assets is as follows:

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| Group allocated assets | 181,469 | 158,127 |
| Unallocated: | | |
| Trade and other receivables | 936 | 244 |
| Cash and cash equivalents | 67,144 | 42,488 |
| Deferred tax assets | 28,288 | 19,354 |
| Exploration and evaluation assets | 2,042 | 1,658 |
| Property, plant and equipment | 182 | 346 |
| Consolidation eliminations: | | |
| Intercompany receivables | - | (11,406) |
| Other | (442) | (874) |
| Total assets | 279,619 | 209,937 |

Information on additions to non-current assets associated with segments is provided on a regular basis to the board of directors.

| | Paddington operations $'000 | Mount Morgan project $'000 | Total $'000 |
|---|---|---|---|
| Additions to non-current assets | | | |
| Year ended 30 June 2010 | 55,644 | 717 | 56,361 |
| Year ended 30 June 2009 | 30,650 | 1,423 | 32,073 |

The liabilities measure is not disclosed as the board does not focus on liabilities at a segment level for the purposes of making strategic decisions about the allocation of resources.

Revenue of $173.262 million (2009: $161.641million) are derived from a single customer Perth Mint.

**6. Revenue**

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| *Sales revenue* | | |
| Gold sales at spot | 172,596 | 160,692 |
| Silver sales | 666 | 949 |
| Total sales revenue | 173,262 | 161,641 |

**7. Cost of sales**

| | 2010 | 2009 |
|---|---|---|
| Mining expenses | 73,700 | 57,235 |
| Milling costs | 28,722 | 28,649 |
| Maintenance | 18,920 | 14,297 |
| Haulage | 13,802 | 12,809 |
| Royalties | 4,654 | 5,134 |
| Change in inventories | (8,769) | (9,594) |
| Depreciation and amortisation | 20,853 | 16,172 |
| | 151,882 | 124,702 |



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| | | Consolidated | |
|---|---|---|---|
| | | 2010 | 2009 |
| **8.** | **Administrative expenses** | **$'000** | **$'000** |
| | Office expenditure | 4,803 | 5,976 |
| | Depreciation | 43 | 47 |
| | Rental expense | 134 | 159 |
| | Insurance | 134 | 105 |
| | Directors' fees | 192 | 145 |
| | Professional and consulting fees | 1,883 | 1,614 |
| | | 7,189 | 8,046 |
| **9.** | **Employee benefits comprises** | | |
| | Salaries, wages, and on-costs including executive directors | 20,678 | 11,625 |
| | Non cash share-based payments | 420 | 1,722 |
| | Superannuation contributions | 1,822 | 1,004 |
| | | 22,920 | 14,351 |
| **10.** | **Net finance costs** | | |
| | Interest received | (3,760) | (2,730) |
| | Convertible note interest | 4,198 | 4,192 |
| | Unwinding of discount | 679 | 1,192 |
| | | 1,117 | 2,654 |
| **11.** | **Income tax** | | |
| | **Income tax benefit** | | |
| | Current tax | | |
| | - current tax | - | (540) |
| | - adjustment for previous years | - | 663 |
| | Deferred tax | | |
| | - origination and reversal of temporary differences | 11,661 | 4,389 |
| | - adjustments for previous years | (1,297) | (663) |
| | Total income tax benefit | 10,364 | 3,849 |
| | **Reconciliation of income tax benefit to prima facie tax** | | |
| | Loss before income tax benefit | 43,201 | 20,624 |
| | Tax benefit at 30% (2009: 30%) | 12,960 | 6,187 |
| | Tax effect of amounts which are not (deductible) / taxable in calculating taxable income | | |
| | Entertainment | (2) | (1) |
| | Share-based payments | 81 | (978) |
| | Interest | (1,463) | (1,627) |
| | Other | - | (1) |
| | Investment allowance | 85 | 169 |
| | Research and development tax offset | - | 100 |
| | | 11,661 | 3,849 |
| | (Under) / Over provision in prior years | (1,297) | - |
| | Income tax benefit | 10,364 | 3,849 |

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| 11. Income tax (continued) | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Deferred income tax recognised directly in equity** | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity: | | |
| Deferred income tax on transaction costs of issuing equity instruments credited directly to equity | 920 | - |
| | 920 | - |
| **Deferred income tax relating to items of other comprehensive income** | | |
| Reclassification adjustment for the hedging loss included in profit and loss | (3,185) | (6,760) |
| **Deferred income tax** | | |
| Deferred tax assets have not been recognised in respect of the following: | | |
| Capital gains tax losses not recognised for accounting purposes | 91,711 | 91,711 |
| | 91,711 | 91,711 |
| Potential benefit at 30% (2009: 30%) | 27,513 | 27,513 |

The capital gain tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future capital gains will be available against which the consolidated entity can utilise the benefits from the deferred tax assets.

| 12. Current assets – Cash and cash equivalents | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| Cash at bank and in hand | 8,517 | 15,257 |
| Term deposits | 60,000 | 30,099 |
| | 68,517 | 45,356 |

Cash at bank and deposits at call earn interest at floating rates based on daily bank deposit rates. The interest rate was between 2.9% and 4.55% (2009: 2.90% and 3.05%). The term deposits have fixed interest rates between 5.48% and 6.52% (2009: 3.85% and 4.50%) and have a weighted average maturity of 20 days (2009:48 days).

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## 13. Current assets – Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Other receivables | 3,663 | 2,351 |
| Interest receivable | 841 | 179 |
| Prepayments | 650 | 543 |
| | 5,154 | 3,073 |

Other receivables arise from usual operating activities of the group and the majority is in relation to outstanding refunds of input tax credits and diesel fuel rebates from the government. As such, the group believes the credit quality of these other receivables to be very high. These are non-interest-bearing and are generally on 30 day terms. The interest receivable is due from major financial institutions (National Australia Bank, Suncorp Metway, Westpac, Bank of Western Australia and ANZ). None of these current assets are past due or impaired.

## 14. Inventories at cost

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| Raw materials and stores | 8,840 | 8,631 |
| Provision for obsolescence | (803) | (803) |
| | 8,037 | 7,828 |
| Ore stockpile | 6,875 | 3,869 |
| Gold-in-circuit | 2,916 | 1,516 |
| Gold doré | 10,583 | 6,429 |
| | 28,411 | 19,642 |

## 15. Deferred tax assets

| Deferred tax assets are attributed to the following: | | |
|---|---|---|
| Derivative financial instruments – forward hedge | 25,771 | 15,919 |
| Derivative financial instruments – put options | - | 1,131 |
| Capital costs | 1,557 | 1,238 |
| Property, plant and equipment | 3,762 | 4,855 |
| Rehabilitation provision | 7,641 | 7,835 |
| Mining information | 7,620 | 7,689 |
| Tax losses | 10,749 | 3,820 |
| Trade payables | 30 | 30 |
| Employee benefits | 576 | 530 |
| | 57,706 | 43,047 |
| Set-off of deferred tax assets pursuant to sett-off provisions | (29,376) | (23,609) |
| Net deferred tax assets | 28,330 | 19,438 |

**15. Deferred tax assets (continued)**

| | Opening balance $'000 | (Charged)/ Credited to profit or loss $'000 | (Charged)/ Credited directly to equity $'000 | (Charged)/ Credited directly to other comprehensive income $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Movements – 2010** | | | | | |
| Derivative financial instruments | 17,050 | 11,906 | - | (3,185) | 25,771 |
| Capital costs | 1,238 | (601) | 920 | - | 1,557 |
| Property, plant and equipment | 4,855 | (1,093) | - | - | 3,762 |
| Rehabilitation provision | 7,835 | (194) | - | - | 7,641 |
| Mining information | 7,689 | (69) | - | - | 7,620 |
| Tax losses | 3,820 | 6,929 | - | - | 10,749 |
| Trade payables | 30 | - | - | - | 30 |
| Employee benefits | 530 | 46 | - | - | 576 |
| | 43,047 | 16,924 | 920 | (3,185) | 57,706 |

| **Movements – 2009** | Opening balance $'000 | (Charged)/ Credited to profit or loss $'000 | Acquisition of subsidiary $'000 | (Charged)/ Credited directly to equity $'000 | (Charged)/ Credited directly to other comprehensive income $'000 | Closing balance $'000 |
|---|---|---|---|---|---|---|
| Derivative financial instruments | 16,961 | 6,849 | - | - | (6,760) | 17,050 |
| Capital costs | 1,655 | (417) | - | - | - | 1,238 |
| Property, plant and equipment | 6,392 | (1,537) | - | - | - | 4,855 |
| Rehabilitation provision | 7,340 | (57) | 552 | - | - | 7,835 |
| Mining information | 7,957 | (268) | - | - | - | 7,689 |
| Tax losses | 1,370 | 479 | 1,971 | - | - | 3,820 |
| Trade payables | 30 | - | - | - | - | 30 |
| Employee benefits | 445 | 85 | - | - | - | 530 |
| | 42,150 | 5,134 | 2,523 | - | (6,760) | 43,047 |

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## 16. Non-current assets – Exploration and evaluation assets

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Geological, geophysical, drilling and other costs for exploration and purchased mine properties – at cost | 79,220 | 70,134 |
| Accumulated amortisation | (3,143) | (2,185) |
| | 76,077 | 67,949 |

| The costs carried forward above have been determined as follows: | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Opening balance | 67,949 | 61,841 |
| Acquired in Bellamel Mining Pty Ltd | - | 7,249 |
| Costs incurred during the year | 9,086 | 5,034 |
| Transferred to capitalised mining costs | - | (3,740) |
| Amortisation | (958) | (1,327) |
| Exploration written off | - | (1,108) |
| Closing balance as shown above | 76,077 | 67,949 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent upon the successful development and commercial exploitation or sale of the respective mining areas.

## 17. Non-current assets – Capitalised mining costs

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Capitalised mining costs - at cost | 80,907 | 39,342 |
| Impairment | (12,900) | (3,612) |
| Accumulated amortisation | (33,346) | (14,886) |
| | 34,661 | 20,844 |

| The capitalised mining costs carried forward above have been determined as follows: | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Opening balance | 20,844 | 14,287 |
| Costs incurred during the year | 45,177 | 19,168 |
| Transfer from exploration costs and mine properties | - | 3,740 |
| Impairment of mine properties | (12,900) | (3,612) |
| Amortisation during the year | (18,460) | (12,739) |
| Closing balance as shown above | 34,661 | 20,844 |

*Significant item of expense*

The carrying amount of the Homestead underground mining operations, which is included in the Paddington operating segment, has been reduced to its estimated recoverable amount through recognition of an impairment loss in the profit and loss. The recoverable amount was estimated based on value-in-use calculations using a pre tax discount rate of 22%. These calculations use cash flow projections based on financial budgets at a gold price of $1,200 per oz, and assumptions approved by management over the expected life of the mining operations currently estimated at 18 months. No other class of asset was considered impaired based on an analysis prepared and reviewed by management.

## 18. Non-current assets – Property, plant and equipment

| | Consolidated | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| Plant and equipment | | |
| - Cost | 24,473 | 18,495 |
| - Accumulated depreciation | (4,875) | (3,459) |
| | 19,598 | 15,036 |
| Building improvements | | |
| - Cost | 738 | 738 |
| - Accumulated depreciation | (637) | (590) |
| | 101 | 148 |
| Total written down value | 19,699 | 15,184 |

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| **Consolidated** | **Plant and equipment $'000** | **Building improvements $'000** | **Total $'000** |
|---|---|---|---|
| **Carrying value** | | | |
| Balance at 30 June 2008 | 8,756 | 444 | 9,200 |
| Additions | 7,934 | 2 | 7,936 |
| Acquisitions through business combinations | 201 | - | 201 |
| Depreciation | (1,855) | (298) | (2,153) |
| Balance at 30 June 2009 | 15,036 | 148 | 15,184 |
| Additions | 6,004 | - | 6,004 |
| Disposal | (11) | | (11) |
| Depreciation | (1,431) | (47) | (1,478) |
| Balance at 30 June 2010 | 19,598 | 101 | 19,699 |

## 19. Non-current assets – Other assets

| | Consolidated | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| Security deposits | 18,770 | 18,451 |
| | 18,770 | 18,451 |

Included in security deposits is $18 million that has been collateralised against guarantees provided by the National Australia Bank in favour of the West Australian Department of Industry and Resources for rehabilitation costs. These term deposits are at interest rates between 4.8% and 5.8% per annum (2009: between 3.60% and 4.0%) and have a weighted average maturity of 160 days (2009: 141 days). These deposits are not released until the rehabilitation conditioning of the group is satisfied.

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| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| **20. Current liabilities – Trade and other payables** | $'000 | $'000 |
| *Unsecured liabilities* | | |
| Trade payables | 8,014 | 8,926 |
| Other payables and trade accruals | 17,982 | 13,332 |
| Accrued interest | 404 | 401 |
| | 26,400 | 22,659 |

| | | |
|---|---|---|
| **21. Provisions** | | |
| Current | | |
| Rehabilitation | 1,655 | 3,027 |
| | 1,655 | 3,027 |
| Non Current | | |
| Employee benefits | 484 | 460 |
| Rehabilitation | 23,818 | 23,090 |
| | 24,302 | 23,550 |
| Total provisions | 25,957 | 26,577 |

Movements in provisions are set out in the table below:

| | Mine rehabilitation $'000 | Employee benefits provision $'000 | Total $'000 |
|---|---|---|---|
| **Consolidated group** | | | |
| Opening balance at 1 July 2009 | 26,117 | 460 | 26,577 |
| Provision utilised | (644) | - | (644) |
| Additional provisions | - | 24 | 24 |
| Balance at 30 June 2010 | 25,473 | 484 | 25,957 |

**Mine rehabilitation**
A provision has been recognised for the costs to be incurred for the restoration of mining sites used for the exploration and mining of gold. It is anticipated that various mines will require restoration within the next 10 years.

**Employee benefits**
The employee benefits provision represents the provision for long service leave. It includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to a pro-rata payment in certain circumstances.

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## 22. Non-current liabilities – Financial liabilities

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| Convertible notes | 37,092 | 36,413 |
| | 37,092 | 36,413 |

On 27 August 2007, a total of 400 Convertible notes ('notes') were issued by the company each with a $100,000 face value to raise $40,000,000 in cash. The notes have a fixed interest rate of 11.0% per annum with interest payable quarterly. The notes mature on 27 August 2011. To the extent of the face value of the notes, the Noteholders have a fixed and floating charge over the assets of the group. The carrying amount of total assets of the group at 30 June 2010 is $279.619 million (2009: $209.937 million).

In the FY2008, a total of $1,600,000 cash was paid in success fees on the completion of the notes issue. These costs are netted against the notes balance.

The Noteholders may convert the notes into Ordinary Share Capital at any time up to five days before maturity at a conversion price of $0.25. The company can force conversion of the notes any time after 27 May 2008 if the closing price of the Ordinary Share Capital for 20 consecutive days before conversion is greater than $0.375.

On issue of the notes, the value of the conversion right, which is the difference between the face value of the notes and the fair value of the liability component, was valued at $1,109,000 and credited to equity (see Note 26). On conversion of the notes to equity, the value of the liability and accrued interest charges is credited to equity.

20 notes were converted into equity in previous financial years resulting in 380 notes outstanding at 30 June 2010. At a conversion price of $0.25, the maximum number of ordinary shares to be issued on conversion of the notes is 152,000,000 at 30 June 2010.

## 23. Deferred tax liabilities

| | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| Deferred tax liabilities comprise temporary differences: | | |
| Deferred exploration and evaluation costs | 21,857 | 21,216 |
| Mine properties | 10,120 | 4,461 |
| Inventories | 2,411 | 2,348 |
| Other receivables | 252 | 54 |
| | 34,640 | 28,079 |
| Set-off of deferred tax liabilities pursuant to set- off provisions | (29,376) | (23,609) |
| Net deferred tax liabilities | 5,264 | 4,470 |

| | Opening balance $'000 | Charged/ (Credited) to profit or loss $'000 | Charged/ (Credited) directly to other comprehensive income $'000 | Closing balance $'000 |
|---|---|---|---|---|
| **Movements – 2010** | | | | |
| Deferred exploration and evaluation costs | 21,216 | 641 | - | 21,857 |
| Mine properties | 4,461 | 5,659 | - | 10,120 |
| Inventories | 2,348 | 63 | - | 2,411 |
| Other receivables | 54 | 198 | - | 252 |
| | 28,079 | 6,561 | - | 34,640 |

**23. Deferred tax liabilities (continued)**

| | Opening balance $'000 | (Credited) Charged to profit or loss $'000 | Acquisition of subsidiary $'000 | Charged/ (Credited) directly to other comprehensive income $'000 | Closing balance $'000 |
|---|---|---|---|---|---|
| **Movements – 2009** | | | | | |
| Deferred exploration and evaluation costs | 20,941 | (1,933) | 2,208 | - | 21,216 |
| Mine properties | 1,033 | 3,428 | - | - | 4,461 |
| Inventories | 2,317 | 31 | - | - | 2,348 |
| Other receivables | 174 | (120) | - | - | 54 |
| | 24,465 | 1,406 | 2,208 | - | 28,079 |

**24. Derivative financial instruments**

| | Consolidated 2010 $'000 | Consolidated 2009 $'000 |
|---|---|---|
| Fair value of hedge contract financial liabilities | 107,000 | 74,156 |

As previously announced, on 29 August 2007, Norton Gold Fields Limited ('Norton') entered into a gold hedging agreement ('Hedge') with Lehman Brothers Commercial Corporation (LBCC) as part of a general equity and debt fundraising transaction entered into by Norton and certain Lehman entities to fund Norton's acquisition of the Paddington Gold Mine.

Norton has forward sold approximately 70,000 ounces per year, until June 2012, at a price of A$875 per ounce as part of the Hedge component of the financing transaction.

On 15 September 2008, Lehman Brothers Holdings Inc (LBHI), which acts as Credit Support Provider of LBCC under the Hedge, filed a petition under Chapter 11 of the United States Bankruptcy Code in the United States. On 5 October 2008, LBCC also filed a petition under Chapter 11 of the US Bankruptcy Code.

In accordance with Note 3(w) hedge accounting has been discontinued from the date now considered to be when the Hedge was last effective; that is, 15 September 2008.

The method of recognising the Hedge in the financial statements is as follows:

- sales of gold are recorded at spot prices, rather than reflecting the hedge adjusted rate
- the amount in the Hedge reserve account at 15 September 2008 has been fixed and is reclassified as a separate line item through the consolidated statement of comprehensive income over the remaining life of the Hedge
- forwards (settlements scheduled between the reporting date and 30 June 2012) will be recorded at fair value in the financial statements
- all movements in the fair value of the unsettled hedge money and the forwards is accounted for through the profit or loss.

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## 24. Derivative financial instruments (continued)

The fair value of the Hedge as at 30 June 2010 has been determined, for the purposes of these financial statements, using forward gold prices, interest rates and exchange rates to perform a discounted cash flow analysis. In addition, the discounted cash flow analysis incorporated the following adjustments, which were not based on directly observable market data (please refer to note 30 for further details):

- a gold price spread applied to the gold futures curve to derive a London Gold PM Fix forward curve
- a credit adjustment based on an appropriate credit spread for Norton, and
- the probability of Norton being required to make payment of the fair value of the Hedge.

At 30 June 2010, the group had the following net derivative instruments. In accordance with AASB 132 Financial Instruments Presentation, paragraph 42, these disclosures are on a net basis as the group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

| | Fixed forwards | |
|---|---|---|
| **Hedging position** | **Ounces** | **AUD/oz** |
| Financial year ending 30 June 2011 | 70,000 | 875 |
| Financial year ending 30 June 2012 | 70,000 | 875 |
| Total | 140,000 | |

To the extent of the financial liability, the counterparty has a first ranking fixed and floating charge over the assets of the group. The reported fair values of derivative instruments do not represent an admission of liability or an agreement to make payment.

## 25. Acquisition of subsidiaries

**30 June 2009 – acquisition of Bellamel Mining Pty Ltd [formerly known as Bellamel Mining Limited]**

On 11 September 2008, Norton Gold Fields Limited acquired all of the issued shares in Bellamel Mining Limited. Total consideration for the acquisition was the issue of 72,000,021 fully paid ordinary shares assigned a fair value of $10.579 million based on the closing share prices on the date of each share issue transaction. Bellamel Mining Limited was delisted 31 December 2008 following the compulsory acquisition and has subsequently been converted to a private company: Bellamel Mining Pty Ltd (Bellamel Mining).

Bellamel Mining currently holds gold projects in Kalgoorlie, Western Australia. The principal activity of Bellamel Mining was exploration.

The acquired business contributed revenues of $223,000 and net loss before tax of $413,000 to the group for the period from 11 September 2008 to 30 June 2010. The amounts of revenue and net profit for the full year, if Bellamel Mining had been acquired at the start of the financial year, could not be practicably measured.

| Details of net assets acquired are as follows: | **2009 $'000** |
|---|---|
| Purchase consideration | |
| Shares issued as consideration | 10,579 |
| Direct costs relating to the acquisition – paid in cash | 370 |
| Direct costs relating to the acquisition – accrual | 250 |
| Total purchase consideration | 11,199 |
| | |
| Fair value of net identifiable assets acquired (refer below) | 11,199 |

The group has taken up the fair value of the assets and liabilities of Bellamel Mining Pty Ltd at acquisition. Fair values are based on discounted cash flows where applicable.



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## 25. Acquisition of subsidiaries (continued)

### 30 June 2009 – acquisition of Bellamel Mining Pty Ltd (continued)

The assets and liabilities arising from the acquisition are as follows:

| | Fair value $'000 |
|---|---|
| Cash | 3,496 |
| Receivables | 204 |
| Deferred tax asset | 2,523 |
| Other assets | 1,804 |
| Property, plant and equipment | 201 |
| Exploration, development and mine properties | 7,249 |
| Payables | (230) |
| Provisions | (1,840) |
| Deferred tax liability | (2,208) |
| Net identifiable assets acquired | 11,199 |

## 26. Contributed equity

### (a) Share capital

| | 2010 $'000 | 2010 Shares | 2009 $'000 | 2009 Shares |
|---|---|---|---|---|
| Fully paid ordinary shares | 128,345 | 619,221,158 | 69,885 | 420,566,344 |
| Convertible note equity component | 1,109 | - | 1,109 | - |
| | 129,454 | 619,221,158 | 70,994 | 420,566,344 |

### (b) Movements in ordinary share capital

| | Note | Number of shares | Issue price $ | $'000 |
|---|---|---|---|---|
| Balance – 30 June 2008 | | 334,601,323 | | 59,286 |
| Bellamel takeover consideration | *(i)* | 68,839,380 | 0.15 | 10,326 |
| Bellamel takeover consideration | *(i)* | 3,160,641 | 0.08 | 253 |
| Employee employment contract performance share issues | *(ii)* | 3,965,000 | - | - |
| Employee options exercised | *(iii)* | 100,000 | 0.20 | 20 |
| | | 410,666,344 | | 69,885 |
| J. Parker employee share scheme issue | *(iv)* | 9,900,000 | - | - |
| Balance – 30 June 2009 | | 420,566,344 | | 69,885 |
| Employee employment contract performance share issues | *(ii)* | 1,305,000 | - | - |
| Employee options exercised | *(iii)* | 750,000 | 0.20 | 150 |
| Placement net of transaction costs | *(v)* | 123,369,229 | 0.33 | 40,500 |
| Placement net of transaction costs | *(vi)* | 79,830,585 | 0.25 | 19,957 |
| Forfeit of J Parker employee share scheme issue | *(iv)* | (6,600,000) | - | - |
| | | | | 130,492 |
| Less: Transaction costs arising on share issues | | | | (3,067) |
| Deferred tax credit recognised directly in equity | | | | 920 |
| | | 619,221,158 | | 128,345 |

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**26. Contributed equity (continued)**

*(i)* *Bellamel takeover consideration*
See Note 25 for further information.

*(ii)* *Employee Employment Contract Performance Share Issues*
Ordinary shares were issued to a number of employees (both Key Management Personnel and other employees) as part of their employment contracts subject to various vesting conditions. Nil consideration was paid by the employees. Refer Note 39 for further information.

*(iii)* *Exercise of Options*
See Note 39 for further information for options issued in the current or previous financial year.

(iv) *J. Parker Employee Share Scheme Issue*
See Note 28 for further information.

(v) *Share placement of $40.500 million*
The company raised $40.500 million as announced on 19 October 2009, via a share placement at 32.83 cents per share with international investors Sprott Asset Management LP, Libra Advisors LLC, Baker Steel Capital Managers LLPand GoldMax Asia Investment Limited.

(vi) *Share placement of $19.57 million*
On 20 March 2010 the company announced a private placement with China Precious Metal Resources Holdings Co. Ltd a Hong Kong Listed company at 25 cents per share.

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll each share is entitled to one vote. Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised share capital and issued shares do not have a par value.

**(d) Equity component of convertible notes**

This equity component relates to the value of conversion rights relating to the 11% convertible notes included in non-current interest-bearing liabilities (refer Note 22).

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## 26. Contributed equity (continued)

### (e) Options

Information relating to share-based payments, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 39.

As at 30 June 2010, the number of options to purchase ordinary shares in the company were as follows:

| Type | Number of options at 30 June 2010 | Number of options at 30 June 2009 | Exercise price | Expiry date |
|---|---|---|---|---|
| Type 1 | 8,275,400 | 8,281,400 | $0.20 | 8 October 2010 |
| Type 2 and 3 | 17,415,800 | 17,634,800 | $0.20 | 8 August 2010 |
| Type 5 | 3,000,000 | 3,000,000 | $0.12 | 4 December 2010 |
| Type 6 | 2,000,000 | 2,000,000 | $0.20 | 4 December 2010 |
| Type 7 | - | 35,386,528 | $0.20 | 27 August 2009 |
| Type 9 | 2,000,000 | 2,000,000 | $0.20 | 14 August 2010 |
| Type 10 | - | 1,210,000 | $0.20 | 14 April 2010 |
| Type 11 | 100,000 | 500,000 | $0.50 | 14 April 2011 |
| Type 12 | - | 1,000,000 | $0.40 | 31 December 2012 |
| Type 13 | 740,000 | 1,165,000 | $0.20 | 10 October 2010 |
| Type 14 | 760,000 | 890,000 | $0.20 | 28 April 2011 |
| Type 15 | 1,000,000 | 1,000,000 | $0.30 | 31 December 2011 |
| Type 16 | 300,000 | 300,000 | $0.35 | 31 December 2011 |
| Type 17 | 600,000 | - | $0.20 | 31 December 2010 |
| Type 18 | 600,000 | - | $0.21 | 30 June 2011 |
| | 36,791,200 | 74,367,728 | | |

### (f) Capital management

The group's objectives when managing capital are to maintain a strong capital base capable of withstanding cash flow variability, whilst providing the flexibility to pursue its goals. The group aims to maintain an optimal capital structure to minimise cost of capital and maximise shareholder returns. The group's capital program is reviewed, updated and approved by the board at least annually.

The capital structure of the group consists of debt in the form of convertible notes as disclosed in Note 22, cash and cash equivalents and equity.

The group balances its overall capital structure through the following mechanisms: the issue of new shares, share buy-backs, capital returns, as well as the issue of new debt or redemption of existing debt.

The group's gearing ratio is monitored and maintained at a level that is appropriate for its growth plans. The group calculates its gearing ratio as net debt divided by total capital. Net debt is calculated as debt (convertible notes) less cash and cash equivalents. Total capital is calculated as total equity less net debt. At 30 June 2010 the group's cash and cash equivalents exceeded its total debt resulting in the zero gearing ratio. However the conversion of the group's gold hedge derivative into a senior note (refer note 36) subsequent to 30 June 2010, will result in a significant increase in the gearing ratio. The group will seek to reduce this increase in the gearing ratio over the short to medium term down to an appropriate level. The group's gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

| | Notes | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| Total debt | 22 | 37,092 | 36,413 |
| Less: cash and cash equivalents | 12 | (68,517) | (45,356) |
| Net debt | | (31,425) | (8,943) |
| Total equity | | 77,906 | 45,122 |
| Total capital | | 46,481 | 36,179 |
| Gearing ratio | | (67%) | (25%) |

The group is not subject to any externally imposed capital requirements.



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## 27. Reserves and accumulated losses

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $'000 | $'000 |
| **(a) Reserves** | | |
| Hedge reserve | (14,865) | (22,298) |
| Share-based payment reserve | 9,015 | 9,287 |
| | (5,850) | (13,011) |
| **Movements:** | | |
| *Hedge reserve* | | |
| Balance 1 July | (22,298) | (38,070) |
| Mark-to-market net adjustment | - | 14,160 |
| Deferred tax | - | (4,248) |
| Allocation of reserve recognised in profit / (loss) | 10,618 | 8,372 |
| Deferred tax | (3,185) | (2,512) |
| Balance 30 June | (14,865) | (22,298) |
| *Share-based payments reserve* | | |
| Balance 1 July | 9,287 | 6,124 |
| Option expense | (272) | 3,163 |
| Balance 30 June | 9,015 | 9,287 |

### (b) Retained earnings / (Accumulated losses)

Movements in retained earnings /( accumulated losses) were as follows:

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Balance 1 July | (12,861) | 3,914 |
| Net loss for the year | (32,837) | (16,775) |
| Balance 30 June | (45,698) | (12,861) |

### (c) Nature and purpose of reserves

*Hedge reserve*
The hedge reserve represents the amount fixed at 15 September 2008 refer note 24 and is reclassified as a separate line item through the consolidated statement of comprehensive income over the remaining life of the hedge agreement.

*Share-based payments reserve*
The share-based payments reserve is used to recognise the fair value of share based payments provided to employees as part of their remuneration.



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## 28. Key Management Personnel disclosures

### i. Key Management Personnel compensation

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Short-term employee benefits | 1,886,790 | 1,644,467 |
| Post-employment benefits | 191,100 | 194,965 |
| Termination benefits | 938,658 | - |
| Share-based payments | (442,643) | 1,298,734 |
| Total | 2,573,905 | 3,138,166 |

### ii. Equity instrument disclosures relating to Key Management Personnel

*Option holdings*
The number of options over ordinary shares in the company held during the financial year by Key Management Personnel of the group, including their personally related entities, are set out below. There were no vested but unexercisable options at the end of the financial year.

| Name | Balance at start of year Number | Cancelled during the year Number | Other changes during the year* Number | Balance at end of year Number | Vested and exercisable at end of year Number |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **Directors** | | | | | |
| A. Anthony McLellan | 5,000,000 | - | (5,000,000) | - | - |
| Jon B. Parker | 2,000,000 | - | (2,000,000) | - | - |
| A. Timothy Prowse | 8,680,000 | - | - | 8,680,000 | 8,680,000 |
| **Other Key Management Personnel** | | | | | |
| W. Andre Labuschagne | 1,000,000 | (1,000,000) | - | - | - |
| Total | 16,680,000 | (1,000,000) | (7,000,000) | 8,680,000 | 8,680,000 |

* Represent movements for executives / senior management that are no longer in the company's employment at year end.

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**28. Key Management Personnel disclosures (continued)**

**Equity instrument disclosures relating to Key Management Personnel (continued)**

| Name | Balance at start of year Number | Granted during the year Number | Exercised during the year Number | Balance at end of year Number | Vested and exercisable at end of year Number |
|---|---|---|---|---|---|
| **2009** | | | | | |
| **Directors** | | | | | |
| A. Anthony McLellan | 5,000,000 | - | - | 5,000,000 | 5,000,000 |
| Jon B. Parker | 2,000,000 | - | - | 2,000,000 | 2,000,000 |
| A. Timothy Prowse | 8,680,000 | - | - | 8,680,000 | 8,680,000 |
| **Other Key Management Personnel** | | | | | |
| W. Andre Labuschagne | 1,000,000 | - | - | 1,000,000 | 1,000,000 |
| Total | 16,680,000 | - | - | 16,680,000 | 16,680,000 |

*Share holdings*

The numbers of shares in the company held during the financial year by Key Management Personnel of the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at st of year Number | Net changes – purchases (sales) Number | Other changes* Number | Remuneration during the year Number | Balance at 30 June Number | Balance held nominally Number |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **Directors** | | | | | | |
| Jon B. Parker | 14,095,500 | - | (14,095,500) | - | - | - |
| A. Timothy Prowse | 21,700,001 | - | - | - | 21,700,001 | - |
| Ian McCauley | 59,550,000 | (41,750,000) | - | - | 17,800,000 | 17,800,000 |
| **Other Key Management Personnel** | | | | | | |
| Simon Brodie | 875,000 | - | (875,000) | - | - | - |
| W. Andre Labuschagne | 800,000 | - | - | - | 800,000 | - |
| Jonathan Price | 700,000 | - | (700,000) | - | - | - |
| Total | 97,720,501 | (41,750,000) | (15,670,500) | - | 40,300,001 | 17,800,000 |

* Represent movements for executives / senior management that are no longer in the company's employment at year end.

| Name | Balance at start of year Number | Net changes – purchases (sales) Number | Exercise of options Number | Remuneration during the year Number | Balance at 30 June Number | Balance held nominally Number |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **Directors** | | | | | | |
| Jon B. Parker | 4,195,500 | - | 9,900,000 | - | 14,095,500 | 4,195,500 |
| A. Timothy Prowse | 21,700,001 | - | - | - | 21,700,001 | - |
| Ian McCauley | 64,550,000 | (5,000,000) | - | - | 59,550,000 | 59,550,000 |
| **Other Key Management Personnel** | | | | | | |
| Simon Brodie | - | - | - | 875,000 | 875,000 | - |
| W. Andre Labuschagne | 300,000 | - | - | 500,000 | 800,000 | - |
| Jonathan Price | - | - | - | 700,000 | 700,000 | - |
| Total | 90,745,501 | (5,000,000) | 9,900,000 | 2,075,000 | 97,720,501 | 63,745,500 |

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## 28. Key Management Personnel disclosures (continued)

**Equity instrument disclosures relating to Key Management Personnel (continued)**

Mr I. McCauley, as a director and shareholder of BPI Norton Pty Ltd, also controls 50 convertible notes (total convertible to 20,000,000 ordinary shares).

### iii. Loans with Key Management Personnel

In the previous financial year, 9,900,000 ordinary shares were issued to J. Parker, of which 6,600,000 shares were subject to share price conditions. On the resignation of Mr Parker the 6,600,000 shares were forfeited and as a result the company have bought back the shares in terms of the employee share scheme buy-back arrangement approved and announced on 12 May 2010. The vested 3,300,000 ordinary shares are subject to dealing restrictions until the loan is repaid.

Due to the loan being limited recourse, equity contributions are only recognised on receipt of loan repayments.

Loan repayments of $nil were received during the financial year.

### iv. Other transactions with Key Management Personnel

Consulting fees of $134,950 (2009: $11,700) were paid to A. Anthony McLellan on normal commercial terms and conditions.

Consulting fees of $70,600 (2009: $143,000) were paid to J P Strategic Insights, an entity associated with Jon Parker, on normal commercial terms and conditions.

Consulting fees of $52,009 (2009: nil) were paid to Bokiboo, an entity associated with Simon Brodie, on normal commercial terms and conditions.

Consulting fees of $5,500 was paid to M Wheatly prior to his appointment as non-executive director.

During the financial period, the group engaged RMM Capital to provide assistance with share placements. Services were provided at an arm's length basis at market prices to the group. A total of $14,870 (2009: $41,000) was paid during the financial year. Mark McCauley is an Executive Director of RMM Capital.

## 29. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| **(a) Audit services** | | |
| BDO Audit (QLD) Pty Ltd firm | | |
| Audit and review of financial reports | 115,528 | 178,727 |
| Total remuneration for audit services | 115,528 | 178,727 |
| **(b) Non-audit services** | | |
| BDO Audit (QLD) Pty Ltd audit firm: | | |
| Litigation assistance | 7,295 | - |
| Total remuneration for non-audit services | 7,295 | - |
| Total remuneration | 122,823 | 178,727 |

## 30. Financial instruments

### (a) Financial risk management objectives, policies and processes

The group's corporate treasury function provides services to the business and monitors and manages the financial risks relating to the operations of the group. These risks include market risk (including gold price risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management program focuses on managing these risks and implementing and monitoring of controls around the cash management function.

Risk management is centrally managed by group treasury which operates under a policy framework that involves overview by senior management and the board of directors. Group treasury identify, qualify, evaluate and where considered prudent, manage financial risks in accordance with established written policies covering specific areas.

Excluding derivative instruments, there have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

### (b) Financial instruments held by group

| | Consolidated | |
|---|---|---|
| | 2010<br>$'000 | 2009<br>$'000 |
| **Financial assets** | | |
| Cash and cash equivalents | 68,517 | 45,356 |
| *At amortised cost* | | |
| Other receivables | 3,663 | 2,351 |
| Interest receivable | 841 | 179 |
| Other assets | 18,770 | 18,451 |
| | 91,791 | 66,337 |
| **Financial liabilities** | | |
| *At amortised cost* | | |
| Trade creditors and other payables | 26,400 | 22,659 |
| Convertible notes | 37,092 | 36,413 |
| *At fair value* | | |
| Derivative instruments | 107,000 | 74,156 |
| | 170,492 | 133,228 |

### (c) Price risk

The group is predominantly exposed to gold price risk see note 30(g). The exposure is closely monitored and where it is considered prudent may be managed with financial derivatives in accordance with the approved policy framework. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provides written principles on this risk. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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**30. Financial instruments (continued)**

**(d) Credit risk**

The group's carrying amounts of financial assets recognised in the Statement of financial position, and disclosed in more detail in the notes to the financial statements, best represent the group's maximum exposure to credit risk at the reporting date.

The group treasury policies for deposit transactions require deposit with financial institutions holding a benchmark credit rating. At balance date, cash and deposits were held with National Australia Bank, Suncorp-Metway, Westpac, Bank of Western Australia and ANZ. Cash has been spread over these major financial institutions to reduce credit risk. For receivables refer to Note 12.

**(e) Liquidity risk**

The liquidity position of the group is managed to ensure sufficient liquid funds are available to meet the group's financial commitments in a timely and cost-effective way. The group evaluates operating cash flows regularly and assesses performance against capital commitments to ensure liquidity.

The contractual maturity of the group's financial liabilities are as follows:

| Financial liabilities | Carrying Amount $'000 | Contractual Cash flows $'000 | < 6 months $'000 | 6 months – 12 months $'000 | 1 year to 3 years $'000 | >3 years $'000 |
|---|---|---|---|---|---|---|
| **Group, 30 June 2010** | | | | | | |
| Trade creditors | 26,400 | 26,400 | 26,400 | - | - | - |
| Convertible notes | 37,092 | 42,844 | 2,107 | 2,072 | 38,665 | - |
| Derivative instruments | 107,000 | 107,000 | - | - | 107,000 | - |
| Total | 170,492 | 176,244 | 28,507 | 2,072 | 145,665 | - |
| **Group, 30 June 2009** | | | | | | |
| Trade creditors | 22,659 | 22,659 | 22,659 | - | - | - |
| Convertible notes | 36,413 | 47,024 | 2,107 | 2,073 | 42,844 | - |
| Derivative instruments | 74,156 | 74,156 | - | - | - | 74,156 |
| Total | 133,228 | 143,839 | 24,776 | 2,073 | 42,844 | 74,156 |

A significant portion of financial liabilities are within 1 to 3 years. In addition, the group holds sufficient financial assets that are either cash or cash equivalents as operating capital. The group also holds assets that will be converted to cash in the ordinary course of operations to meet liabilities in the short term, such as receivables and inventories.



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**30. Financial instruments (continued)**

**(f) Interest rate risk**

The group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Generally no interest is receivable or payable on the group's trade and other receivables or payables. Details on interest rates and maturities are located at Note 12 and Note 19.

The group's interest rate risk in liabilities is primarily due to the convertible notes, which are fixed at an 11% rate for the life of the Note and borrowings (equipment loans) fixed at the prevailing rate for one year.

There is no material impact on the group's net profit or other equity reserves from a significant increase or decrease in interest rates.

**(g) Fair value of financial instruments**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2),and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table present the group asset and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Group, 30 June 2010** | | | | |
| **Financial assets** | | | | |
| Cash and cash equivalents | 68,517 | - | - | 68,517 |
| Other receivables | 3,663 | - | - | 3,663 |
| Interest receivable | 841 | - | - | 841 |
| Other assets | 18,770 | - | - | 18,770 |
| **Total financial assets** | 91,791 | - | - | 91,791 |
| **Financial liabilities** | | | | |
| Trade creditors and other payables | 26,400 | - | - | 26,400 |
| Convertible notes | - | 37,092 | - | 37,092 |
| Derivative instruments | - | - | 107,000 | 107,000 |
| **Total financial liabilities** | 26,400 | 37,092 | 107,000 | 170,492 |

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. These items are included in level 1.
- the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period current the group has determined the fair value of:
  - convertible notes using estimated discounted cash flows included in level 2.
  - derivative instruments with LBCC are calculated using observable and non-observable inputs, included in level 3.



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## 30. Financial instruments (continued)

### (g) Fair value of financial instruments (continued)

The changes in level 3 for the year ended 30 June 2010 are as follows:

| | Derivative instrument $'000 |
|---|---|
| Opening balance | 74,156 |
| Loss recognised in profit or loss | 32,844 |
| Closing balance | 107,000 |

The reported fair values of derivative instruments do not represent an admission of liability or an agreement to make payment.

The fair value of the Derivative instrument as at 30 June 2010 has been determined, for the purposes of these financial statements, using forward gold prices, interest rates and exchange rates to perform a discounted cash flow analysis. In addition, the discounted cash flow analysis incorporated the following adjustments, which were not based on directly observable market data:

- a gold price spread applied to the gold futures curve to derive a London Gold PM Fix forward curve
- a credit adjustment based on an appropriate credit spread for Norton, and
- the probability of Norton being required to make payment of the fair value of the Hedge.

Gold price spread
The underlying price of the derivative instrument is the London Gold PM Fix spot price. A forward curve for this gold price is not available. Using the Gold, 100 oz (USD/troy ounce) forward curve, an average historical spread was calculated over the last three and half years (2009: last two years) of US$1.69/0z (2009: US$0.82/0z) to the London Gold PM Fix price to derive a London Gold PM Fix forward curve.

Credit risk adjustment
The valuation of the derivative instrument has utilised an upper and lower credit spread ranging from 0% to 25%. Twenty-five percent was determined as the current credit spread based on analysis of comparable bonds of similar sized resource companies as Norton.

Probability of payment
Pursuant to the terms of the derivative instrument, Norton is not required to make any hedge payments which may otherwise be due to LBCC under the derivative instrument, while the events of default of both LBHI and LBCC continue. Provided the company is not itself in default (which would provide LBCC with certain rights), the company's position is that it would only become liable to settle any outstanding amounts with respect to the Hedge if both LBCC and LBHI emerge from Chapter 11, the derivative instrument is successfully assigned to a third party, or the US Bankruptcy Court otherwise orders the company to do so (**Payment Events**). The company has entered into agreement to settle the LBCC hedge litigation as announced on 19 July 2010, which followed the 13 May 2010 announcement that the litigation process had been adjourned until 14 July 2010 allowing the parties to pursue mediation sanctioned by the US Bankruptcy Court. Final execution is subject to, amongst other things, approval of the convertible note holders.

For the purposes of these financial statements, a probability of payment has been incorporated into the fair value of the Derivative instrument. A probability of 80 % (2009: 87.5 to a 100%) of fair value was used in determining the fair value of derivative instrument at 30 June 2010.

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**30. Financial instruments (continued)**

**(g) Fair value of financial instruments (continued)**

Determination of the derivative instrument fair value

The valuation has been set at the midpoint of the upper and lower levels of the valuation, after taking into account the possible credit spread and probability ranges outlined above. The midpoint has been selected as any acquirer taking on this liability would expect a reasonable spread to justify the risks associated with both the ongoing legal case and Norton's credit risk and gold price fluctuation.

The valuation is summarised below:

| | Asset/(liability) 2010 $'000 | Asset/(liability) 2009 $'000 |
|---|---|---|
| Upper range | | |
| - This is based on a credit spread of 0% and probability of payment of 100% | (114,172) | (87,126) |
| Lower range | | |
| - This is based on a credit spread of 25% and probability of payment of 80% (2009: 87.5%) | (98,471) | (61,186) |
| Mid point | (106,321) | (74,156) |

The fair value of the derivative instrument is disclosed as $107 million (2009: $74,156 million) which aligns with the 30 June 2010 valuation and equates to the commercial settlement as discussed above under probability of payment.

The reported fair values of derivative instruments do not represent an admission of liability or an agreement to make payment.

Sensitivity analysis

(i) Change in market based inputs

The following table summarises the sensitivity of the derivative instrument fair value to management's assessment of reasonably possible changes in gold prices and interest rates. The sensitivity to gold prices and interest rates have been applied independently.

| | Profit will increase/(decrease) by 30 June 2010 $'000 | Profit will increase/(decrease) by 30 June 2009 $'000 |
|---|---|---|
| **Interest rates:** | | |
| - **50 basis point increase** | 322 | 343 |
| - **50 basis point decrease** | (322) | (348) |
| **Gold price:** | | |
| - **10% increase** | (13,071) | (19,737) |
| - **10% decrease** | 13,071 | 19,737 |

(ii) Change in inputs not based on observable market data

The upper and lower ranges in the valuation as outlined above represent the fair value impact of reasonably possible changes in inputs not based on observable market data.

Apart from the derivative instrument above the carrying value is a reasonable approximation of the fair value.

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## 31. Contingencies

The parent entity and group had no contingent liabilities at 30 June 2010, except for the following:

**Lehman Brothers**

On 29 August 2007, Norton Gold Fields Limited entered into a gold hedge with Lehman Brothers Commercial Corporation (LBCC). The agreement was to expire on 30 June 2012. On 15 September 2008, Lehman Brothers Holdings Inc (LBHI), the holding company of Lehman, filed a bankruptcy petition in the United States. In October 2008, LBCC also filed a petition. Filing a bankruptcy petition is an event of default under the hedge agreement.

Provided the company is not itself in default (which would provide LBCC with certain rights), the company's position is that it would only become liable to settle any outstanding amounts with respect to the Hedge if both LBCC and LBHI emerge from Chapter 11, the Hedge is successfully assigned to a third party, or the US Bankruptcy Court otherwise orders Norton to do so.

The current status of the company's obligations under the gold hedge is summarised in the company's ASX release dated 29 April 2009. As set out in that announcement, on 13 November 2008, LBHI, LBCC and its affiliated entities filed a Motion ('Motion') seeking permission from the Bankruptcy Court to allow those entities to transfer, assign or terminate each derivative contract in accordance with certain procedures outlined in the Motion, which, if granted, would obviate the need for further court approvals for such transfer, assignment or termination. The Hedge is a derivative contract which falls under the ambit of the relief sought by the Lehman entities in the Motion.

On 29 November 2008, Norton filed an Objection to the Motion. Among other things, one of the principal points raised in the Objection in opposition to the Motion is that the Hedge is not capable of assignment under the US Bankruptcy Code in that it is an indivisible component of a financial accommodation and transaction, and that any attempt at separation would be inconsistent with the substance of the overall financial transaction and applicable law.

In the event that Lehman is successful in its motion and the Hedge is assigned, it is likely that Norton's Hedge will cease to be subject to an event of default. For the financial year ending 30 June 2010 these conditions have not changed. The company has however entered into agreement to settle the LBCC hedge litigation as announced on 19 July 2010, which followed the 13 May 2010 announcement that the litigation process had been adjourned until 14 July 2010 allowing the parties to pursue mediation sanctioned by the US Bankruptcy Court. Final execution is subject to, amongst other things, approval of the convertible note holders. Please also refer to note 36 for further details.

## 32. Commitments

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| **Lease commitments** | | |
| *Operating leases* | | |
| Commitments in relation to operating leases in existence at the reporting date but not recognised as liabilities are payable as follows: | | |
| Within one year | 132 | 127 |
| Later than one year but not later than five years | 102 | 234 |
| | 234 | 361 |

The property lease is a non-cancellable lease with a four-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 4% per annum. An option exists to renew the lease at the end of the four-year term for an additional term of four years. The lease allows for subletting of all lease areas.

**32. Commitments (continued)**

| | Consolidated | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| **Exploration commitments** | | |
| *Commitments for payments under exploration permits at the reporting date but not recognised as liabilities payable are estimated as follows:* | | |
| Within one year | 8,252 | 7,094 |
| Later than one year but not later than five years | 27,989 | 23,670 |
| Later than five years | 54,771 | 45,667 |
| | 91,012 | 76,431 |

So as to maintain current rights to tenure of various exploration tenements, the entity will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements, are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished.

| | Consolidated | |
|---|---|---|
| | **2010 $'000** | **2009 $'000** |
| **Capital commitments** | | |
| *Commitments for payments for capital expenditure contracted at the reporting date but not recognised as liabilities payable are estimated as follows:* | | |
| Within one year | - | 96 |
| Later than one year but not later than five years | - | - |
| Later than five years | - | - |
| | - | 96 |

**33. Related party transactions**

**(a) Parent entity**

The ultimate Australian parent entity is Norton Gold Fields Limited.

**(b) Subsidiaries**

Interests in subsidiaries are set out in Note 35.

**(c) Key Management Personnel**

Disclosures relating to Key Management Personnel are set out in Note 28 and Note 39.

**(d) Transactions with related parties**

Balances and transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. There were no transactions between the group and other related parties.

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## 34. Parent entity information

*Corporations Act* requirements to prepare parent entity (Norton Gold Fields Limited) financial statements where consolidated financial statements are prepared have been removed and replaced by the new regulation 2M.3.01 which requires that only the following should be disclosed in respect to the parent entity. The consolidated financial statements incorporate the assets, liabilities and results of Norton Gold Fields Limited in accordance with the accounting policy described in Note 3(b).

| Norton Gold Fields Limited | Consolidated 2010 $'000 | 2009 $'000 |
|---|---|---|
| Current assets | 68,011 | 47,821 |
| Non Current assets | 136,803 | 103,805 |
| Total assets | 204,814 | 151,626 |
| Current liabilities | 2,175 | 14,166 |
| Non current liabilities | 144,348 | 110,572 |
| Total liabilities | 146,523 | 124,738 |
| Net assets | 58,291 | 26,888 |
| Contributed equity | 129,454 | 70,994 |
| Reserves | (5,850) | (13,011) |
| Accumulated losses | (65,313) | (31,095) |
| Total shareholder's equity | 58,291 | 26,888 |
| Loss for the year | (34,215) | (19,713) |
| Total comprehensive loss | (26,782) | (3,941) |

*Guarantees*
No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries except for the deed of cross guarantee referred to in note 35(b).

*Contractual commitments*
The only contractual commitment entered into is that of the lease of property, the details are disclosed in Note 32.

*Contingent liabilities*
Please refer to Note 31 for details on contingent liabilities for the group that also includes the parent entity.

## 35. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 3.

| Name of entity | Country of incorporation | Class of shares | Equity holding 2010 % | Equity holding 2009 % |
|---|---|---|---|---|
| Paddington Gold Pty Ltd | Australia | Ordinary | 100% | 100% |
| Norton Gold Mines Pty Ltd | Australia | Ordinary | 100% | 100% |
| Australian Geoscientists No 2 Pty Ltd | Australia | Ordinary | 70% | 70% |
| Norton Gold Holdings Pty Ltd | Australia | Ordinary | 100% | 100% |
| Norton Coal Pty Ltd | Australia | Ordinary | 100% | 100% |
| Bellamel Mining Pty Ltd | Australia | Ordinary | 100% | 100% |
| Mount Morgan Mine Pty Ltd | Australia | Ordinary | 100% | 100% |

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**35. Subsidiaries (continued)**

**(a) Relief from preparation of financial reports for wholly owned Australian subsidiaries**

A deed of cross guarantee between Norton Gold Fields Limited, Paddington Gold Pty Ltd, Norton Gold Mines Pty Ltd and Norton Gold Holdings Pty Ltd was enacted during the 2009 financial year and relief was obtained from preparing a financial report for the wholly owned subsidiaries under ASIC Class Order 98/1418. Under the deed, each entity guarantees to support the liabilities of each other entity. The above companies represent the Closed Group under the Class Order and as there are no other parties to the deed of cross guarantee that are consolidated by Norton Gold Fields Limited, they also comprised the Extended Closed Group.

The following information summarises the consolidated statement of comprehensive income and movements in accumulated losses for the year ended 30 June 2010 and the consolidated statement of financial position as at 30 June 2010 for the Closed Group as described above.

**Consolidated statement of comprehensive income**

| | 2010 | 2009 |
|---|---|---|
| | $'000 | $'000 |
| Revenue | 173,106 | 161,640 |
| Cost of sales | (154,114) | (124,263) |
| **Gross profit** | **18,992** | **37,377** |
| Other income | 1,408 | 1,776 |
| Administrative expenses | (6,797) | (7,381) |
| Impairment | (12,900) | (4,720) |
| Fair value adjustments | (32,844) | (35,548) |
| Hedging loss | (10,618) | (9,816) |
| **Loss before net finance costs** | **(42,759)** | **(18,312)** |
| Finance income | 3,741 | 2,507 |
| Financial expense | (4,877) | (5,384) |
| **Loss before tax** | **(43,895)** | **(21,189)** |
| Income tax benefit | 10,580 | 4,080 |
| **Loss for the year attributable to the owners of the company** | **(33,315)** | **(17,109)** |
| **Other comprehensive income** | | |
| Cash flow hedges: | | |
| Gains/ (losses) arising on hedge during the year | - | 14,160 |
| Deferred hedging loss | 10,618 | 8,372 |
| Income tax on items of other comprehensive income | (3,185) | (6,760) |
| **Other comprehensive income for the year, net of tax** | **7,433** | **15,772** |
| **Total comprehensive loss for the year** | **(25,882)** | **(1,337)** |

**35. Subsidiaries (continued)**

**Statement of financial position**

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | 68,464 | 45,001 |
| Trade and other receivables | 4,060 | 2,959 |
| Inventories | 28,411 | 19,642 |
| Total Current Assets | 100,935 | 67,602 |
| **Non-current Assets** | | |
| Trade and other receivables | 13,428 | 1,344 |
| Deferred tax assets | 28,288 | 19,353 |
| Other financial assets | 11,700 | 11,199 |
| Exploration costs and purchased mine properties | 64,778 | 59,467 |
| Capitalised mining costs | 21,991 | 19,420 |
| Property, plant and equipment | 19,588 | 15,022 |
| Other assets | 16,075 | 16,644 |
| Total Non-current Assets | 175,848 | 142,449 |
| Total Assets | 276,783 | 210,051 |
| **Current Liabilities** | | |
| Trade and other payables | 26,361 | 22,438 |
| Financial liabilities | - | 2,547 |
| Provisions | 1,655 | 3,567 |
| Total Current Liabilities | 28,016 | 28,552 |
| **Non-current Liabilities** | | |
| Financial liabilities | 37,092 | 36,413 |
| Provisions | 22,015 | 21,673 |
| Deferred tax liabilities | 5,091 | 4,469 |
| Derivative financial instruments | 107,000 | 74,156 |
| Total Non-current Liabilities | 171,198 | 136,711 |
| Total Liabilities | 199,214 | 165,263 |
| **Net Assets** | 77,569 | 44,788 |
| **Equity** | | |
| Contributed equity | 129,454 | 70,994 |
| Reserves | (5,375) | (13,011) |
| Accumulated losses | (46,510) | (13,195) |
| **Total Equity** | 77,569 | 44,788 |



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**35. Subsidiaries (continued)**

**Statement of changes in equity**

| | Contributed equity $'000 | Hedge reserve $'000 | Share-based payments reserve $'000 | Retained earnings / (Accumulated losses) $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | **60,395** | **(38,070)** | **6,124** | **3,914** | **32,363** |
| Contributions of equity, net of transaction costs and deferred tax | 10,599 | - | - | - | 10,599 |
| Non-cash share based payments | - | - | 3,163 | - | 3,163 |
| Comprehensive income | | | | | |
| - Net loss after tax | - | - | - | (17,109) | (17,109) |
| - Allocation of hedge reserves | - | 15,772 | - | - | 15,772 |
| **At 30 June 2009** | **70,994** | **(22,298)** | **9,287** | **(13,195)** | **44,788** |
| Contributions of equity, net of transaction costs and deferred tax | 58,460 | - | - | - | 58,460 |
| Non-cash share based payments | - | - | 203 | - | 203 |
| Comprehensive income | | | | | |
| - Net loss after tax | - | - | - | (33,315) | (33,315) |
| - Allocation of hedge reserves | - | 7,433 | - | - | 7,433 |
| **At 30 June 2010** | **129,454** | **(14,865)** | **9,490** | **(46,510)** | **77,569** |

**36. Events occurring after the balance sheet date**

On 19 July 2010 Norton Goldfields Limited entered into an agreement to settle its hedge litigation with Lehman Brothers Commercial Corporation. The gold hedge with Lehman Brothers Commercial Corporation (Lehman) will be cancelled in exchange for payment to Lehman of AUD $10 million upfront and the issuance of a Senior Secured Note for AUD $97 million to be repaid over 4 years. The agreement represents the best available outcome for the shareholders. The settlement offers the company greater certainty and will allow the group to move forward and focus on expanding production and reducing costs.

The closing of settlement is subject to, amongst other things certain approvals (including approval by the company's existing convertible note holders).

Except for the settlement on hedge litigation discussed above no matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the consolidated group, the result of those operations, or the state of affairs of the consolidated group in future financial years.

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## 37. Reconciliation of loss after income tax to net cash from operating activities

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and short term deposits. Full details of cash and cash equivalents is at Note 12.

| | Consolidated | |
|---|---|---|
| | 2010 $'000 | 2009 $'000 |
| **Reconciliation from the net loss after tax to the net cash from operating activities** | | |
| Net loss | (32,837) | (16,775) |
| *Adjustments for:* | | |
| Depreciation and amortisation | 20,896 | 16,219 |
| Impairment of mine properties | 12,900 | 3,612 |
| Interest on unwinding of convertible notes discount | 679 | 1,122 |
| Exploration written off | - | 1,108 |
| Rehabilitation estimates capitalised to mining properties | (3,500) | - |
| Tax amounts related to financial instruments not in operating activities | - | (5,657) |
| Profit on disposal of property plant and equipment | (15) | - |
| Reclassification of hedge reserve | 10,618 | 8,372 |
| Fair value movement of gold put options | - | 1,618 |
| Fair value movement of forward gold hedges | 32,844 | 33,929 |
| Non-cash share based payment | (272) | 3,163 |
| *Changes in operating assets and liabilities* | | |
| (Increase)/decrease in current receivables | (2,081) | 4,663 |
| (Increase)/decrease in inventories | (8,769) | (39) |
| (Increase)/decrease in deferred tax | (10,903) | 105 |
| Increase/(decrease) in current payables | 3,741 | (5,595) |
| Decrease in current provisions | (1,372) | (852) |
| Decrease in current financial derivative liabilities | - | (9,044) |
| Increase in non-current provisions | 752 | 1,824 |
| Decrease in non-current financial derivative liabilities | - | (5,116) |
| Increase in hedge reserve | - | 15,772 |
| **Net cash from operating activities** | 22,681 | 48,429 |

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## 38. Loss per share

| | Consolidated | |
|---|---|---|
| | 2010 Cents | 2009 Cents |
| Basic loss per share | (6.3) | (4.2) |
| Diluted loss per share | (6.3) | (4.2) |

**Information concerning earnings per share:**

(a) Earnings used for basic and diluted EPS is a loss after tax of $32,837,000 (2009: $16,775,000).

(b) The convertible notes are not considered dilutive as the impact of interest expense makes these potential shares anti-dilutive.

(c) In 2010, the options are not considered dilutive as the company and group made a loss for the year, and are therefore not included in the calculation of diluted earnings per share. The options disclosed in Note 28 and 39 could potentially dilute basic earnings per share in the future.

(d) Reconciliation of weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share is as follows:

| | 2010 Number | 2009 Number |
|---|---|---|
| Number used in calculating basic earnings per share | 524,207,754 | 399,200,813 |
| Weighted average number of options outstanding | - | - |
| Number used in calculating diluted earnings per share | 524,207,754 | 399,200,813 |

## 39. Share-based payments

### (a) Options

The group has an ownership-based compensation scheme for all employees of the group. In accordance with the provisions of the Employee Share Option Plan as approved by shareholders on 29 November 2005, employees are granted options to purchase ordinary shares as recommended by senior management and approved by the board of directors. The exercise price is set at a price similar to the market price of Norton Gold Fields Limited ordinary share capital at the time of recommendation. Vesting conditions, if any, are determined by senior management and the board of directors. No amounts are paid or payable by the recipient on receipt of the option. Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

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**39. Share-based payments (continued)**

Set out below is a summary of options granted that are exercisable or have been exercised at 30 June 2010:

| | Grant date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Cancelled during the year Number | Expired during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|---|---|
| **Issued in 2010** | | | | | | | | | | |
| Type 17 | 10/12/2009 | 31/12/2010 | $0.20 | - | 600,000 | - | - | - | 600,000 | 600,000 |
| Type 18 | 10/12/2009 | 30/06/2011 | $0.21 | - | 600,000 | - | - | - | 600,000 | 600,000 |
| **Issued in prior years** | | | | | | | | | | |
| Type 16 | 29/04/2009 | 31/12/2011 | $0.35 | 300,000 | - | - | - | - | 300,000 | 300,000 |
| Type 15 | 29/04/2009 | 31/12/2011 | $0.30 | 1,000,000 | - | - | - | - | 1,000,000 | 1,000,000 |
| Type 14 | 29/04/2009 | 28/04/2011 | $0.20 | 890,000 | - | - | - | (130,000) | 760,000 | 760,000 |
| Type 13 | 10/10/2008 | 10/10/2010 | $0.20 | 1,165,000 | - | (200,000) | - | (225,000) | 740,000 | 740,000 |
| Type 12 | 01/12/2007 | 31/12/2012 | $0.40 | 1,000,000 | - | - | (1,000,000) | - | - | - |
| Type 11 | 14/04/2008 | 14/04/2011 | $0.50 | 500,000 | - | - | (400,000) | - | 100,000 | 100,000 |
| Type 10 | 14/04/2008 | 14/04/2010 | $0.20 | 1,210,000 | - | (325,000) | | (885,000) | - | - |
| Type 9 | 23/08/2007 | 14/08/2010 | $0.20 | 2,000,000 | - | - | | - | 2,000,000 | 2,000,000 |
| Type 7 | 27/08/2007 | 27/08/2009 | $0.12 | 35,386,528 | - | - | | (35,386,528) | - | - |
| Type 6 | 14/11/2006 | 04/12/2010 | $0.20 | 2,000,000 | - | - | | - | 2,000,000 | 2,000,000 |
| Type 5 | 14/11/2006 | 04/12/2010 | $0.12 | 3,000,000 | - | - | | - | 3,000,000 | 3,000,000 |
| Type 3 | 30/04/2005 | 08/09/2010 | $0.20 | 2,094,800 | - | - | | - | 2,094,800 | 2,094,800 |
| Type 2 | 25/02/2005 | 08/08/2010 | $0.20 | 15,540,000 | - | (219,000) | | - | 15,321,000 | 15,321,000 |
| Type 1 | 15/09/2005 | 08/10/2010 | S0.20 | 8,281,400 | - | (6,000) | | - | 8,275,400 | 8,275,400 |
| | | | | 74,367,728 | 1,200,000 | (750,000) | (1,400,000) | (36,626,528) | 36,791,200 | 36,791,200 |

| **Weighted average exercise prices of share options for each of the following groups are:** | Cents |
|---|---|
| Balance of options at start of the year | 16.5 |
| Options granted during the year | 20.5 |
| Options exercised during the year | 20.0 |
| Options cancelled during the year | 42.9 |
| Options expired during the year | 12.3 |
| Balance of options at the end of the year | 19.8 |
| Option Exercisable at the end of the year | 19.8 |

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.28 years (2009: 1.86 years).

**39. Share-based payments (continued)**

Set out below are summaries of shares granted during the previous financial year that are accounted for as options:

| | Grant date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised/ Forfeit during the year Number | Expired during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | | |
| JP T1 | 3/07/2008 | 2/7/2018 | $0.2513 | 3,300,000 | - | - | - | 3,300,000 | 3,300,000 |
| JP T2 | 3/07/2008 | 2/7/2018 | $0.2513 | 3,300,000 | - | (3,300,000) | - | - | - |
| JP T3 | 3/07/2008 | 2/7/2018 | $0.2513 | 3,300,000 | - | (3,300,000) | - | - | - |
| | | | | 9,900,000 | - | (6,600,000) | - | 3,300,000 | 3,300,000 |

| | Grant date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Expired during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|---|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | | |
| JP T1 | 3/7/2008 | 2/7/2018 | $0.2513 | - | 3,300,000 | - | - | 3,300,000 | 3,300,000 |
| JP T2 | 3/7/2008 | 2/7/2018 | $0.2513 | - | 3,300,000 | - | - | 3,300,000 | - |
| JP T3 | 3/7/2008 | 2/7/2018 | $0.2513 | - | 3,300,000 | - | - | 3,300,000 | - |
| | | | | - | 9,900,000 | - | - | 9,900,000 | 3,300,000 |

Refer Note 28 for further information on shares issued to Jon B. Parker, which are accounted for as options.

*Fair value of options granted*

The assessed fair value at grant date of options granted was determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2010 included:

**Type 17 – options to Norton Gold Field employees**

(a) options are granted for no consideration
(b) exercise price $0.20
(c) grant date: 25 May 2009
(d) vesting after 12 months employment
(e) expiry date: 31 December 2010
(f) share price at grant date: $0.1475
(g) expected price volatility of the shares: 100% in the expected life of option
(h) expected dividend yield: 0%
(i) risk-free interest rate: 4%
(j) fair value estimated: $87,138

**Type 18 – options to Norton Gold Field employees**

(a) options are granted for no consideration
(b) exercise price $0.21
(c) grant date: 13 July 2009
(d) vesting after 12 months employment
(e) expiry date: 30 June 2011
(f) share price at grant date: $0.195
(g) expected price volatility of the shares: 100% in the expected life of option
(h) expected dividend yield: 0%
(i) risk-free interest rate: 4%
(j) fair value estimated: $58,200

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

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**39. Share-based payments (continued)**

**(b) Ordinary Shares**

(i) *Key Management Personnel*

The table below sets out the information on shares granted as remuneration to Key Management Personnel in the current and prior financial year and the performance conditions required for vesting. The board in its discretion determines the conditions of the shares including number, expiry and vesting conditions.

| Name | Granted No. | Grant date | Fair value per share at grant date $ | Vested at 30 June 2010 No. | Vesting conditions | Possible vesting date |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Terence Moylan | 700,000 | 10/03/2010 | $0.205 | nil | 12 months after employment date | March 2011 |
| | 600,000 | 10/03/2010 | $0.205 | Nil | Issuer Conversion Right available on convertible notes | December 2010 |
| | 700,000 | 10/03/2010 | $0.205 | Nil | VWAP of Ordinary shares is 70c for 5 consecutive days | June 2013 |
| W. Andre Labuschagne | 750,000 | 1/09/2009 | $0.195 | Nil | 37.5c per share closing price for 20 consecutive days | December 2010 |
| | 750,000 | 1/09/2009 | $0.195 | Nil | VWAP of Ordinary shares is 70c for 5 consecutive days | June 2013 |
| **2009** | | | | | | |
| Jon B. Parker | 3,300,000 | 3/7/2008 | $0.2513 | 3,300,000 | Vested 1 January 2009 | January 2009 |
| | 3,300,000 | 3/7/2008 | $0.2513 | Nil | VWAP5* is 85c | June 2012 |
| | 3,300,000 | 3/7/2008 | $0.2513 | Nil | VWAP5* is $1.20 | June 2014 |

The Issuer Conversion Right on the convertible notes requires the issue of the convertible notes takes place and that the ordinary share price for NGFL shares is over 37.5c for 20 consecutive trading days.

VWAP means the volume weighted average trading price of shares on ASX over a period of time.

Fair value per share is calculated as the closing share price of Norton Gold Fields Limited on grant date

No shares were issued to Key Management Personnel, in the financial year.

There were no shares issued in the previous financial year except those issued to Mr J Parker treated as options

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**39. Share-based payments (continued)**

(ii) *Employees (other than Key Management Personnel)*

The table below sets out the information on shares granted as remuneration to employees in the current and previous financial year and the performance conditions required for vesting. The board in its discretion determines the conditions of the shares including number, expiry and vesting conditions.

Some of these shares had vested at 30 June 2010, and are included in share capital at Note 28. The table below outlines whether the shares were vested at 30 June 2010. The value of the shares are expensed on a pro-rata basis from grant date to the expected vesting date.

| | Granted No. | Grant date | Value per share at grant date | Vested at 30 June 2010 | Other changes 30 June 2010 | Vesting conditions | Expiry |
|---|---|---|---|---|---|---|---|
| | | | $ | No. | No. | | |
| **2010** | | | | | | | |
| Paddington Gold employee | 350,000 | 01/10/2009 | $0.245 | - | - | 12 months after employment date | Nil |
| Paddington Gold employee | 350,000 | 01/10/2009 | $0.245 | - | - | VWAP of ordinary shares is 70c for five consecutive days | Nil |
| Paddington Gold employee | 350,000 | 01/02/2010 | $0.20 | - | - | 12 months after employment date | Nil |
| Paddington Gold employee | 490,000 | 03/01/2009 | $0.285 | - | - | 12 months after employment date | Nil |
| Paddington Gold employee | 420,000 | 03/01/2009 | $0.285 | - | - | Issuer Conversion Right available on convertible notes | Nil |
| Paddington Gold employee | 490,000 | 03/01/2009 | $0.285 | - | - | VWAP of ordinary shares is 70c for five consecutive days | Nil |
| Paddington Gold employee | 490,000 | 01/9/2009 | $0.195 | - | - | 12 months after employment date | Nil |
| Paddington Gold employee | 420,000 | 01/09/2009 | $0.195 | - | - | Issuer Conversion Right available on convertible notes | Nil |
| Paddington Gold employee | 490,000 | 01/09/2009 | $0.195 | - | - | VWAP of ordinary shares is 70c for five consecutive days | Nil |

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## 39. Share-based payments (continued)

| | Granted No. | Grant date | Value per share at grant date | Vested at 30 June 2010 | Other changes 30 June 2010 | Vesting conditions | Expiry |
|---|---|---|---|---|---|---|---|
| | | $ | No. | No. | | | |
| **2009** | | | | | | | |
| Paddington Gold employee | 490,000 | 15/08/08 | $0.21 | 490,000 | - | 12 months after employment date | Nil |
| Paddington Gold employee | 420,000 | 15/08/08 | $0.21 | nil | (420,000) | Issuer Conversion Right available on convertible notes | Nil |
| Paddington Gold employee | 490,000 | 15/08/08 | $0.21 | nil | (490,000) | VWAP of ordinary shares is 70c for five consecutive days | Nil |
| Paddington Gold employee | 490,000 | 18/08/08 | $0.22 | 490,000 | - | 12 months after employment date | Nil |
| Paddington Gold employee | 420,000 | 18/08/08 | $0.22 | nil | - | Issuer Conversion Right available on convertible notes | Nil |
| Paddington Gold employee | 490,000 | 18/08/08 | $0.22 | - | - | VWAP of ordinary shares is 70c for five consecutive days | Nil |
| Paddington Gold employee | 175,000 | 07/01/09 | $0.09 | 175,000 | - | 12 months after employment date | Nil |
| Paddington Gold employee | 150,000 | 07/01/09 | $0.09 | 150,000 | - | Homestead underground set up, decline developed and ore production | Nil |
| Paddington Gold employee | 175,000 | 07/01/09 | $0.09 | - | - | VWAP of ordinary shares is 70c for five consecutive days | Nil |
| Paddington Gold employee | 490,000 | 04/02/09 | $0.12 | 490,000 | - | JORC compliant reserves of 1.5Moz before 30 June 2010 | Nil |
| Paddington Gold employee | 420,000 | 04/02/09 | $0.12 | - | 420,000 | Issuer Conversion Right available on Convertible Notes | Nil |
| Paddington Gold employee | 490,000 | 04/02/09 | $0.12 | - | 490,000 | VWAP of ordinary shares is 70c for five consecutive days | Nil |

The Issuer Conversion Right on the convertible notes requires that nine months elapse from the issue of the convertible notes (i.e. from 27 August 2008 to 27 May 2009) and that the ordinary share price for NGFL shares is over 37.5c for 20 consecutive trading days.

VWAP means the volume weighted average trading price of shares on ASX over a period of time.

The value per share is calculated as the closing share price of Norton Gold Fields Limited on grant date

The weighted average price of shares issued in the financial year to employees was $0.28 (2009: $0.17) per share.

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## 39. Share-based payments (continued)

### (c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| Ordinary shares issued | 134 | 2,257 |
| Options (forfeit) / issued | (406) | 906 |
| | (272) | 3,163 |

100% of share-based payment expenses relate to equity settled share-based payment transactions.