

IFRS financial statements Preparation and compliance



IFRS compliance – the role of FD Solutions

We are experienced in the first-time preparation of IFRS financial statements as required by the London Stock Exchange and with the continuing reporting obligations for future periods. Our staff have first-hand experience of complex group structures within a listed environment, with team members available who have fulfilled the role of Finance Director within the PLC world.

FD Solutions staff can extract the necessary reports and projections required within IFRSs to support “fair value valuation” aspects and are experienced in liaising with external valuation specialists where they’re needed including complex IFRS2 share-based payment valuations, intellectual property and valuation of financial investments and derivative financial instruments. We project-manage the production process to ensure that compliant financial statements are prepared and announced within regulation periods specified by the Stock Exchange.

The information selected below illustrates selected areas of our previous work. This has been extracted from more than one group. Note that IFRSs provide for extensive additional disclosures of both financial and non-financial information. However, IFRSs do not replace the disclosures required by the Companies Acts 1985 and 2006 as implemented over the next two years.

Set out in the 34-page PDF on this website are extracts of IFRS format financial statements. These are drawn from several clients and the “note references” are contextual only.

Consolidated Income Statement

ABC Company – Practical IFRS Solutions
The extracts contain information from more than one client

	Note	Year ended 31 December 2006 US\$000	Year ended 31 December 2005 US\$000
Revenue	5	109,433	20,357
Cost of sales		(54,692)	(14,863)
Gross profit		54,741	5,494
Other operating income	6	2,877	1,473
Distribution expenses		(4,148)	(86)
Administrative expenses		(15,692)	(6,954)
Other operating expenses	7	(4,700)	(640)
Operating profit/(loss)	8	33,078	(713)
Financial income	12	3,860	277
Financial expense	13	(5,660)	(647)
Net financing costs		(1,800)	(370)
Profit/(loss) before tax		31,278	(1,083)
Taxation	14	(12,420)	(1,090)
Profit/(loss) for the year attributable to equity shareholders		18,858	(2,173)
Basic and diluted earnings/(loss) per share	15	\$0.40	\$(0.05)

All amounts relate to continuing operations.

Consolidated Balance Sheet

Note

2006

2005

ABC Company – Practical IFRS Solutions
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		US\$000	US\$000
Non-current assets			
Property, plant and equipment	16	85,316	49,797
Mining properties	17	809,592	761,975
Exploration and evaluation costs	18	950	9,013
Intangible assets	19	857	1,092
Long-term inventory and ore stockpile	22	7,549	-
Other financial assets	21	2	1,713
		904,266	823,590
Current assets			
Inventories	22	21,571	7,629
Trade and other receivables	23	93,716	20,112
Cash and cash equivalents	24	204,752	87,887
		320,039	115,628
Total assets		1,224,305	939,218
Equity and liabilities			
Equity attributable to shareholders			
Share capital	25	8	8
Share premium		97,658	97,429
Capital contributions		510,000	510,000
Translation reserve		27,408	(41)
Retained earnings		19,687	714
Total equity		654,761	608,110
Non-current liabilities			
Interest-bearing loans and borrowings	27	217,503	24,543
Other financial liabilities	28	3,022	1,197
Provisions	29	401	241
Deferred tax liabilities	31	293,155	271,134
		514,081	297,115
Current liabilities			
Interest-bearing loans and borrowings	27	1,564	20,878
Trade and other payables	30	48,211	10,959
Current tax payable	30	5,688	2,156
		55,463	33,993
Total equity and liabilities		1,224,305	939,218

Consolidated Cash Flow Statement

Note Year ended Year ended

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	31 December 2006 US\$000	31 December 2005 US\$000
Cash flows from operating activities		
Profit/(loss) before tax for the year	31,278	(1,083)
<i>Adjustments for:</i>		
Depreciation, depletion and amortisation	8 9,122	1,411
Foreign exchange (loss)/gain	(296)	8
Interest paid	2,715	647
Interest received	(3,860)	(277)
Amortisation of bond issue costs	222	-
Provision against non-current financial asset	1,713	-
Loss on disposal of non-current assets	3,075	640
Equity-settled share-based payment expenses	26 115	2,887
Cash flows from operating activities before changes in working capital and provisions	44,084	4,233
Increase in trade and other receivables	23 (73,565)	(6,095)
(Increase)/decrease in inventories	22 (13,611)	5,511
Increase on long-term inventory	22 (5,567)	-
Increase in trade and other payables	30 37,363	888
Taxation paid	(1,810)	-
(Decrease)/increase in provisions	(280)	241
Cash (absorbed by)/generated from operating activities	(13,386)	4,778
Cash flows from investing activities		
Additions of property, plant and equipment	16 (39,770)	(6,930)
Additions to mining properties	-	(114)
Proceeds from the disposal of non-current assets	1,349	385
Additions of exploration and evaluation costs	18 (540)	(4,491)
Cash held in subsidiary companies at the date of acquisition	-	565
Net cash from investing activities	(38,961)	(10,585)
Cash flows from financing activities		
Proceeds from the issue of share capital	-	106,507
Share issue costs	-	(9,070)
Proceeds from the issue of senior loan notes and bonds	27 195,808	24
Issue of promissory notes	-	3,007
Repayment of borrowings	(25,044)	(6,284)
Interest paid	(2,715)	(647)
Interest received	3,860	277
Repayment of finance lease liabilities	27/28 (2,697)	(120)
Net cash from financing activities	169,212	93,694
Net increase in cash and cash equivalents	116,865	87,887
Cash and cash equivalents at 1 January 2006	87,887	-
Cash and cash equivalents at 31 December 2006	24 204,752	87,887

ABC Company – Practical IFRS Solutions
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Statement of Changes in Equity for the Group

For the year ended 31 December 2006

	Share Capital US\$000	Share Premium US\$000	Capital Contributions US\$000	Translation Reserve US\$000	Retained Earnings US\$000	Total US\$000
Balance at 1 January 2005	-	-	-	-	-	-
Foreign exchange on translation of foreign operations	-	-	-	(41)	-	(41)
Net loss recognised directly in equity	-	-	-	(41)	-	(41)
Losses after tax for the period	-	-	-	-	(2,173)	(2,173)
Total recognised in income and expense for the period	-	-	-	(41)	(2,173)	(2,214)
Shares issued in the period	8	106,499	-	-	-	106,507
Share issue costs	-	(9,070)	-	-	-	(9,070)
Equity-settled share-based payments	-	-	-	-	2,887	2,887
Capital contribution	-	-	510,000	-	-	510,000
Balance at 31 December 2005	8	97,429	510,000	(41)	714	608,110
Balance at 1 January 2006	8	97,429	510,000	(41)	714	608,110
Foreign exchange on translation of foreign operations	-	-	-	27,449	-	27,449
Net profit recognised directly in equity	-	-	-	27,449	-	27,449
Profit after tax for the year	-	-	-	-	18,858	18,858
Total recognised in income and expense for the year	-	-	-	27,449	18,858	46,307
Equity-settled share-based payments	-	-	-	-	115	115
Adjustment to share issue costs	-	229	-	-	-	229
Balance at 31 December 2006	8	97,658	510,000	27,408	19,687	654,761

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Selected notes forming part of the financial statements

2 Basis of preparation and accounting policies

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as “the Group”). The parent company financial statements present information about the Company as a separate entity and not about its group.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and also in accordance with the Companies Act 1985.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these financial statements.

Judgments made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

a. Amendments to published standards and interpretations to existing standards effective in 2006 adopted by the Group

- *IFRIC 4, Determining whether an Arrangement contains a Lease* (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (‘the asset’); and (b) the arrangement conveys a right to use the asset. Management assessed the impact of IFRIC 4 on the Group’s operations by reviewing all the existing arrangements. There was no impact of the adoption of IFRIC 4 on the results or net assets of the Group.

- *IAS 39 (Amendment), The Fair Value Option* (effective from 1 January 2006). The amendment changes the identification of financial instruments classified at fair value through profit and loss account and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of the financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group applied this amendment from 1 January 2006, which has no impact on the results or net assets of the Group.

- *IAS 21 (Amendment), Net Investment in a Foreign Operation* (effective 1 January 2006). This amendment requires exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. In particular, it relates to treatment of such monetary items that are denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The Group applied this amendment from 1 January 2006, which has no impact on the results or net assets of the Group.

b. Standards, interpretations and amendments to published standards effective in 2006 but are not relevant to the Group

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are currently not relevant to the Group’s operations:

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- *IAS 19 (Amendment), Employee Benefits* (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group's operations, as the Group does not have any defined benefit employment benefit schemes as of 31 December 2006, 2005 and 2004.

- *IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-group Transactions* (effective from 1 January 2006). This amendment allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intra-group transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2006, 2005 and 2004.

- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts* (effective from 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

- *IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources* (effective from 1 January 2006). The first of these amendments is not relevant to the Group's operations as the Group is not a first-time adopter of IFRS. The Group is in compliance with the requirements of the amendment to IFRS 6.

- *IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (effective from 1 January 2006). IFRIC 5 is not relevant to the Group's operations.

- *IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective from 1 December 2005). IFRIC 6 is not relevant to the Group's operations.

c. *Standards, amendments and interpretations to published standards which have not been endorsed by the EU and are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but the Group has decided not to adopt early. These are:

- *IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of IFRS7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the

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capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 to the accounts for the year beginning on 1 January 2007.

- *IFRS 8, Operating Segments* (effective from 1 January 2009). This standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The Group will apply this standard in the accounting period beginning on 1 January 2009 and the application will not result in any impact on the results or net assets of the Group.

- *IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which the entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group as none of the Group companies has a currency of a hyperinflationary economy as its functional currency.

- *IFRIC 8, Scope of IFRS 2* (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving issuance of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to the situations where the identifiable consideration received is less than the fair value of the equity instruments issued. The effect of this interpretation has been assessed by management and the application will not result in any impact on the results or net assets of the Group.

- *IFRIC 9, Reassessment of embedded derivatives* (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires the entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The effect of this interpretation has been assessed by management and the application will not result in any impact on the results or net assets of the Group.

- *IFRIC 10, Interim Financial Reporting and Impairment* (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the Group's financial statements.

- *IFRIC 11, IFRS 2 – Group and Treasury Share Transactions* (effective for accounting periods beginning on or after 1 March 2007). Share-based payment transactions in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). As the Group has not entered into any such share based payment transactions, adoption of this standard is not expected to have any impact on the Group's financial statements.

- *IFRIC 12, Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations due to the absence of such arrangements.

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d. *Basis of consolidation*

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries (“the Group”) as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

e. *Business combinations*

The consolidated financial statements incorporate the results of business combinations using the purchase method other than disclosed below. In the consolidated balance sheet, the acquiree’s identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

On 26 September 2005 the Company acquired the entire share capital of XYZ Limited. As the controlling party of XYZ Limited and ABC Company were the same, the acquisition has been accounted for as a capital contribution with the assets and liabilities acquired initially recognised at fair value and a corresponding increase to equity credited to the capital contributions reserve.

f. *Revenue*

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. As sales from gold contracts are subject to customer survey adjustment, sales are initially recorded on a provisional basis using the Group’s best estimate of the contained metal. Subsequent adjustments are recorded in revenue to take into account final assay and weight certificates from the refinery, if different from the initial certificates. The differences between the estimated and actual contained gold have not been significant historically.

g. *Foreign currency*

In accordance with IAS21, transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the functional currency) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement. The presentational currency for the Group consolidated financial statements is the US dollar. This is also the functional currency of the Company and is considered by the Board also to be appropriate for the purposes of preparing the Group financial statements.

On consolidation, results of overseas operations are translated into US dollars, the presentational currency of the Group, at rates approximating to those ruling when the transaction took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of an overseas entity are treated as assets and liabilities of the overseas entity and translated at the rate ruling at the balance sheet date. The functional currency of XYZ Group Limited (the main operating company of the Group) is the AAA Republic dollar. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised directly in equity (the “translation reserve”).

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h. Classification of financial instruments issued by the Group

In accordance with IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

i. Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors) but also include other types of contractual monetary assets. These assets are carried at amortised cost less any provision for impairment.

j. Joint ventures

Jointly controlled entities are included in the financial statements using proportionate consolidation. The share of each of the jointly controlled entity's assets, liabilities, income and expenses are combined on a line-by-line basis with those of the group. Any premium paid for an interest in a jointly controlled entity above the fair value of the group's share of identifiable assets, liabilities and contingent liabilities is treated as goodwill.

Profits and losses arising on transactions between the group and jointly controlled entities are recognised only to the extent of unrelated investors' interests in the entity. The investor's share in the jointly controlled entity's profits and losses resulting from these transactions is eliminated against the asset or liability of the joint venture arising on the transaction.

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k. *Property, plant and equipment*

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement within cost of sales and administrative expenses on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

· Freehold buildings	11 - 50 years
· Machinery and equipment	2 - 35 years
· Vehicles	4 - 10 years
· Other	1.5 – 17 years

Expenses incurred in respect of the maintenance and repair of property, plant and equipment are charged against income when incurred. Refurbishment and improvement expenditure, where the benefit is expected to be long lasting, is capitalised as part of the appropriate asset.

Assets under construction are carried at cost less any recognised impairment loss. Cost includes interest capitalised and associated borrowing costs.

l. *Exploration and evaluation*

Exploration and evaluation costs includes costs incurred on projects where insufficient work has been performed to confirm whether significant mineralization exists or whether the project is economically feasible. Costs are capitalised as intangible assets until the decision is made to proceed to development, whereupon the related expenditures are transferred to non-current assets as mining properties, or until the projects are determined not to be commercially viable, whereupon the related costs are written off to the income statement.

m. *Mining properties*

Once a decision is made to proceed with the development of a mining project, exploration and evaluation expenditure other than that on buildings, machinery and equipment is capitalised under non-current assets as mining properties, together with any amount transferred from exploration and development. Mining properties are amortised over the estimated life of the reserves on a 'unit of production' basis.

n. *Impairment*

The carrying amount of the non-current assets of the group is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use, the expected future cash flows from the assets is determined by applying a discount rate to the anticipated pre-tax future cash flows. Impairment is recognised in the income statement to the extent that the carrying amount exceeds the assets' recoverable amount. The revised carrying amounts are amortised in line with group accounting policies. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Assets are grouped at the lowest levels for

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which there are separately identifiable cash flows (cash generating units) for purposes of assessing impairment. Estimates of future discounted cash flows are subject to risks and uncertainties including the future gold price. It is therefore reasonably possible that changes could occur which may affect the recoverability of assets.

o. Stripping costs

All stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of inventory produced during the period that the stripping costs are incurred.

p. Intangible assets

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation of intangible assets is charged to cost of sales over the following periods:

Mining and other licenses	3 - 4 years
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q. Financial assets

Loans and receivables, which comprise non-derivative financial assets with fixed and determinable payments that are not quoted on an active market and arise principally through the provision of goods and services to customers (trade debtors) and Company loans to subsidiary undertakings, are stated at cost less any provision for impairment.

r. Inventories

Raw materials which consist of tools for development activities, spare parts, diesel fuel and various materials used in mining operations are valued at the lower of cost and net realisable value. The basis on which cost is derived is a weighted average cost formula.

Finished goods (comprising cathodic sludge, cathodic gold, free gold, flotation and gravitational concentrate, quartzite ore and doré bars) are stated at the lower of weighted average cost or net realisable value. Costs include direct materials, direct labour costs and production overheads (including the depreciation/depletion of relevant property, plant and equipment and mining properties). Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Long-term inventories comprise ore stockpiles being treated on heap leach pads. These stockpiles are depleted based upon expected grades and recovery rates. As product is extracted a charge is made to cost of sales for the relevant proportion of costs.

s. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

t. Other financial liabilities

Trade payables and other short-term monetary items are recognised at amortised cost.

u. Interest-bearing loans and borrowings

Bank borrowings are initially recognised at the amount advanced less any transaction costs directly

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attributable to the borrowings. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption as well as any interest or coupon payable while the liability is outstanding.

Other interest-bearing borrowings including bonds and loan notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

v. Pensions

Defined contribution plans

The Group contributes to certain defined contribution pension and employee benefit schemes on behalf of its employees. These costs are charged to the income statement on an accruals basis.

w. Share-based payment transactions

The Company awards share options to certain Company Directors to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest only where vesting is dependent upon the satisfaction of service and non-market vesting conditions.

x. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are made for the estimated rehabilitation costs relating to areas disturbed during the mines' operation up to the reporting date but not yet rehabilitated. Provision has been made in accordance with local legislation.

The estimated cost of rehabilitation includes the current cost of re-contouring, top-soiling and re-vegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which may be incurred due to the impact of possible changes in environmental legislation.

The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a liability with a corresponding asset included in mining property and development assets.

y. Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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z. Financing costs

Financing costs comprise interest payable on bank loans, bonds and finance leases. Interest payable is recognised in profit or loss as it accrues, using the effective interest method unless such interest is attributable to 'assets under construction' and qualifies for capitalisation under IAS 23.

aa. Taxation

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

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

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

4 Accounting estimates and judgments

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions 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:

Capitalised mining costs and mining resources

The Group's reserves of precious metals ("mining properties") are estimates based upon geological studies. Over the longer term the actual mineable resources achieved may vary significantly from the current estimates. The Group periodically updates estimates of reserves and assesses those for indicators of impairment relating to its capitalised mining costs.

Base of mining operations

The Group's primary base of operations is in a former Soviet Republic. Laws relating to commercial operations, taxation and future dividend payments are still under development and there may be unforeseen changes to the operating and fiscal environment. The financial statements have been prepared on the assumption that no significant adverse changes to the economic, regulatory and fiscal environment will arise.

Carrying values of inventory

The Group monitors internal and external indicators of impairment relating to its inventory. Management has considered whether any indicators of impairment have arisen over certain spares, materials, tools and equipment held in inventory. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequently to 31 December 2006.

Carrying values of property, plant and equipment

The Group monitors internal and external indicators of impairment relating to its property, plant and equipment. Management has considered whether any indicators of impairment have arisen over

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certain assets relating to the Group's mining operations. After assessing these, management has concluded that no impairment has arisen in respect of these assets during the year and subsequently to 31 December 2006.

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of certain assets, changes to the estimates used can result in significant variations in the carrying value.

Fair value of financial instruments

The Group determines the fair value of financial instruments that are not quoted, based on estimates using present values or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Where market prices are not readily available, fair value is either based on estimates obtained from independent experts or quoted market prices of comparable instruments. In that regard, the derived fair value estimates cannot be substantiated by comparison with independent markets and, in many cases, could not be realised immediately.

Income taxes

The Group is subject to income tax in the Republic of ABC and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. See also note 34.

Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each balance sheet date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

Share-based payments

In order to calculate the charge for share-based payments as required by IFRS2, the Group makes estimates principally relating to assumptions used in its option-pricing model as set out in note 26.

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5 Revenue (example 1, simple format)

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those other segments. The Group operated in the year in one segment, the mining and production of gold in the Former Soviet Union. The revenues from this segment are analysed as follows:

	Year ended 31 December Group 2006 US\$000	Year ended 31 December 2005 US\$000
By product		
Cathodic sludge	101,827	16,998
Free gold	4,696	1,841
Flotation and gravitational concentrate	2,355	602
Quartzite ore	555	138
Cathodic gold	-	682
Dore bars	-	96
	109,433	20,357
By destination market		
Market 1	64,090	-
Market 2	17,856	10,633
Market 3	15,893	1,805
Market 4	8,685	7,178
Market 5	2,909	741
	109,433	20,357

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Segmental results by operation (a more complex disclosure)

The Group manufactures and sells Acme branded leisure clothing through wholesale and retail channels. The Group's manufacturing operations also supplies a small amount of non-Acme branded product directly to third parties. The Group also receives licence income in respect of the brand. The Group operates in three business areas, wholesale operations, retail operations and manufacturing operations. These are the primary business segments of the Group.

Primary Segments	2006 Wholesale US\$000	2006 Retail US\$000	2006 Manufacturing US\$000	2006 Total US\$000
Revenue – product sales	63,622	12,786	789	77,197
Revenue – licence income	2,916	-	-	2,916
Inter-segmental revenues	18,489	-	25,198	43,687
Total segmental revenues	85,027	12,786	25,987	123,800
Eliminated	(18,489)	-	(25,198)	(43,687)
Net segmental revenue	66,538	12,786	789	80,113
Segmental result	3,122	198	4,406	7,726
Interest payable and similar charges				(5,632)
Interest receivable and similar income				142
Income taxes				3,197
Profit/(loss) attributable to equity shareholders				5,433
Segmental assets	48,865	2,293	28,972	80,130
Segmental liabilities	(58,572)	(1,577)	(14,276)	(74,425)
Segmental net assets/(liabilities)	(9,707)	716	14,696	5,705
<i>Other segmental items</i>				
Capital expenditure (including acquisitions)				
Property, plant and equipment	17,042	54	435	17,531
Intangible assets	36,239	-	-	36,239

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Note continued

Depreciation and amortisation

Property, plant & equipment	1,179	71	762	2,012
Intangible assets	2,242	-	-	2,242
	<hr/>			

Impairment charges

Goodwill	1,092	-	-	1,092
Intangible assets	14,499	-	-	14,499
	<hr/>			

Also disclose information by secondary formats where significant, ie. geographical are of operation and/or sales.

Other notes and disclosures

9 Auditors' remuneration

Amounts receivable by auditors and their associates in respect of:	Year ended 31 December Group and Company 2006 US\$000	Year ended 31 December Group and Company 2005 US\$000
Audit of financial statements of the Group	385	250
Transaction advisory services relating to the placing and global offer ¹	-	738
	<hr/>	<hr/>
	385	988

¹ Of the amounts paid for the transaction advisory services in 2005 \$338,000 was charged to the income statement and \$400,000 was charged to the share premium account.

² A total of \$480,000 was paid to the auditors and their associates in respect of Senior Loan Note issue costs. These costs have been set against the proceeds and are being amortised over the term of the loan notes.

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10 Staff numbers and costs	Year ended 31 December Group 2006	Year ended 31 December Group 2005
The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:	Number	Number
Management	165	117
Supply	56	64
Construction and maintenance	31	116
Research and exploration	100	82
Security	181	174
Mining activities	2,933	2,659
	3,466	3,212

For the year ended 31 December 2006 the Company had no employees other than three non-executive Directors (2005: three).

	Year ended 31 December Group 2006 US\$000	Year ended 31 December Group 2005 US\$000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries (including Directors' emoluments)	12,367	2,317
Social security and other pension costs	1,729	284
	14,096	2,601

13 Financial expense	Year ended 31 December Group 2006 US\$000	Year ended 31 December Group 2005 US\$000
Interest on senior loan notes	2,865	-
Bond interest	193	181
Bank interest	831	431
Interest on finance leases	1,324	35
Interest on promissory notes	16	-
Other interest	209	-
Amortisation of issue costs	222	-
	5,660	647

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14 Taxation		Year ended 31 December Group 2006 US\$000	Year ended 31 December Group 2005 US\$000
Recognised in the income statement	Note		
Current tax expense		(5,275)	(1,421)
Deferred tax expense	31	(7,353)	331
Withholding taxes recoverable		208	-
Total tax charge		<u>(12,420)</u>	<u>(1,090)</u>
Reconciliation of effective tax rates		US\$000	US\$000
Profit/(loss) before tax		31,278	(1,083)
Tax using domestic rates of corporation tax of 30%		(9,383)	325
<i>Effect of:</i>			
Effect of expenses not deductible for tax purposes		(3,317)	(1,293)
Utilisation of brought forward losses		280	(122)
Total tax charge for the period		<u>(12,420)</u>	<u>(1,090)</u>

The deferred tax expense for the year primarily relates to revenue recognised in the income statement during the current year which will be assessed for income tax in 2007.

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15 Earnings/(loss) per share

The calculation of basic earnings per share is based upon the net profit after tax attributable to the ordinary shareholders of US\$18,858,000 (2005: a loss of US\$2,173,000) and a weighted average number of shares in issue, for the year to 31 December 2006 of 47,100,000

	Year ended 31 December 2006 Group	Year ended 31 December 2005 Group
Basic earnings/(loss) per share	\$0.40	\$(0.05)
	US\$000	US\$000
Profit/(loss) attributable to ordinary shareholders	18,858	(2,173)
	Number	Number
Weighted average number of shares in issue	47,100,000	40,212,371

	2006 Number
Number of ordinary shares in issue at 1 January 2006 and 31 December 2006	47,100,000
Weighted average number of ordinary shares at 31 December 2006	47,100,000

The numerator for the calculation of the basic earnings per share is the profit after tax of US\$18,858,000 (2005: a loss of \$2,173,000). The denominator for the calculation of the basic earnings per share is 47,100,000 (2005 40,212,371).

Diluted earnings per share

The calculation of the diluted profit per share is based upon the net profit after tax attributable to the ordinary shareholders of US\$18,858,000 and a weighted average number of shares in issue, for the year to 31 December 2006 of 47,114,309. No diluted loss per share was been calculated in respect of the period ended 31 December 2005 as the Group incurred a loss for that period.

	2006
Diluted earnings per share	\$0.40
	US\$000
Profit attributable to ordinary shareholders	18,858
Weighted average number of shares in issue	47,114,309

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16 Property, plant and equipment Group Cost	Freehold Land US\$000	Freehold Buildings US\$000	Assets under Construction US\$000	Machinery and Equipment US\$000	Vehicles US\$000	Other US\$000	Total US\$000
Balance at 1 January 2005	-	-	-	-	-	-	-
Acquisitions through business combinations	92	21,689	14,876	8,447	2,798	858	48,760
Other acquisitions	-	1,028	689	4,851	312	50	6,930
Disposals	-	(773)	(472)	(240)	(84)	(4)	(1,573)
Effect of movements in foreign exchange	-	2	2	1	-	-	5
Balance at 31 December 2005	92	21,946	15,095	13,059	3,026	904	54,122
Additions	90	234	35,682	3,751	5,245	374	45,376
Transfers from assets under construction	83	34,449	(34,247)	42	8	(335)	-
Transfer to mining property	-	-	(3,633)	-	-	-	(3,633)
Disposals	(4)	(984)	(2,221)	(1,289)	(602)	(351)	(5,451)
Effect of movements in foreign exchange	4	257	987	1,293	137	36	2,714
Balance at 31 December 2006	265	55,902	11,663	16,856	7,814	628	93,128
Depreciation and impairment							
Balance at 26 September 2005	-	-	-	-	-	-	-
Acquisitions through business combinations	-	1,514	-	2,114	459	327	4,414
Depreciation charge for the period	-	219	-	121	85	16	441
Disposals	-	(402)	-	(100)	(28)	-	(530)
Balance at 31 December 2005	-	1,331	-	2,135	516	343	4,325
Transfer from assets under construction	-	177	-	(85)	2	(94)	-
Depreciation charge for the year	-	1,652	-	1,873	732	48	4,305
Disposals	-	(195)	-	(571)	(51)	(215)	(1,032)
Effect of movements in foreign exchange	-	464	-	(278)	27	1	214
Balance at 31 December 2006	-	3,429	-	3,074	1,226	83	7,812
Net book value							
At 31 December 2006	265	52,473	11,663	13,782	6,588	545	85,316
At 31 December 2005	92	20,615	15,095	10,924	2,510	561	49,797

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Note 16 continued

The net book value of non-current assets held under finance leases was:

	2006 Group US\$000	2005 Group US\$000
Cost	7,238	1,632
Depreciation	(717)	(164)
Net book value	<u>6,521</u>	<u>1,468</u>

17 Mining properties

**Group
US\$000
Restated**

Cost

At 1 January 2005	-
Acquisitions through business combinations-restated	762,595
Capitalised in the period	<u>114</u>
Balance at 31 December 2005-restated	762,709
Transfer from assets under construction (note 16)	3,633
Transfer from exploration and evaluation costs (note 18)	8,627
Transfer to inventories	(1,982)
Exchange adjustments	<u>41,845</u>
Balance at 31 December 2006	<u>814,832</u>

Depletion and impairment

At 1 January 2005	-
Depletion charge for the period	<u>(734)</u>
Balance at 31 December 2005	(734)
Exchange adjustments	(9)
Depletion charge for the year	<u>(4,497)</u>
Balance at 31 December 2006	<u>(5,240)</u>

Net book value

At 31 December 2006	<u>809,592</u>
At 31 December 2005	<u>761,975</u>

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		Group US\$000
18 Exploration and evaluation costs		
Cost		
Balance at 1 January 2005		-
Acquisitions through business combinations		4,593
Capitalised costs		4,420
Balance at 31 December 2005		<u>9,013</u>
Additions		540
Transfers		(8,627)
Exchange adjustments		24
Balance at 31 December 2006		<u>950</u>
19 Intangible assets		Group Mining and other Licences US\$000
Cost		
Balance at 1 January 2005		-
Acquisitions through business combinations		1,257
Balance at 31 December 2005		<u>1,257</u>
Disposals		(6)
Exchange adjustments		(67)
Balance at 31 December 2006		<u>1,184</u>
Amortisation and impairment		
Balance at 1 January 2005		-
Amortisation for the period		(165)
Balance at 31 December 2005		<u>(165)</u>
Amortisation for the year		(321)
Disposals		1
Exchange adjustments		158
Balance at 31 December 2006		<u>(327)</u>
Net book value		
At 31 December 2006		<u>857</u>
At 31 December 2005		<u>1,092</u>

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Examples of the presentation and disclosure of financial investments.

Available-for-sale investments at market value

	2007 Group US\$000	2006 Group US\$000
At 1 July	3,348	5,722
Additions	4,307	416
Disposals	(285)	-
Adjustment to market fair value	(2,199)	(2,790)
At 30 June	<u>5,171</u>	<u>3,348</u>

Analysis of investments held:

Australia CCC Limited	864	3,063
Kangaroo Gold Plc	-	285
XYZ Limited Depository Receipts	4,307	-
	<u>5,171</u>	<u>3,348</u>

Australia CCC Limited is listed on both the London Alternative Investment Market and on the Australian Stock Exchange. The company conducts gold mining operations in the Ukraine.

The XYZ Limited global depository receipts (GDRs), each of which grants the holder the right to one ordinary share in XYZ Limited, are listed on the London Stock Exchange. The company conducts gold mining operations primarily in the former Soviet Union. The Group holds 220,322 GDRs from its initial allocation of 3,541,666 received from the sale of DDD Mining Company Limited and certain other assets (note 7). The balance of 3,321,344 GDRs have been allocated to a dividend in specie by the Company (see notes 33 and 43).

Available-for-sale investments at cost

	2007 Group US\$000	2006 Group US\$000
At 1 July	895	-
Additions	-	895
At 30 June	<u>895</u>	<u>895</u>

Analysis of investments held:

Waltzing Matilda Energy Limited	<u>895</u>	<u>895</u>
---------------------------------	------------	------------

Waltzing Matilda Energy Limited is unlisted and incorporated in the Isle of Man. The Group holds 12.5 million ordinary shares representing 10% of the total capital of the company. The shares of this company are not listed on any market and the current value is difficult to determine. Accordingly, the investment is stated at cost.

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22 Inventories	Group 2006 US\$000	Group 2005 US\$000
Long-term inventory and ore stockpile	7,549	-
Raw materials and consumables	6,774	4,201
Work in progress	1,345	519
Finished goods	13,452	2,909
	<u>21,571</u>	<u>7,629</u>

The Group consumed US\$25,563,000 of raw materials and consumables during the year (2005: US\$339,000). There were no provisions against inventories at 31 December 2006 (2005: US\$1,305,000).

23 Trade and other receivables	Group 2006 US\$000	Group 2005 US\$000
Trade receivables	71,047	11,369
Other debtors	21,894	8,626
Prepaid expenses	775	117
	<u>93,716</u>	<u>20,112</u>

Analysis of significant bad debts required.

24 Cash and cash equivalents	Group 2006 US\$000	Group 2005 US\$000
Cash available on demand	12,905	4
Short-term deposits	186,126	87,883
Short-term investments	5,721	-
Cash per balance sheet and per the cash flow statement	<u>204,752</u>	<u>87,887</u>

Cash available on demand and short-term deposits consist of cash.

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26	Equity-settled share-based payment transactions <i>Simple example</i>	2006	2005
		Number of	Number of
		options	options
	Outstanding at 1 January	53,334	-
	Granted in the period	-	453,334
	Exercised in the period	-	(400,000)
	Lapsed during the period	-	-
		<hr/>	<hr/>
	Outstanding at 31 December	53,334	53,334
		<hr/>	<hr/>
	Exercisable at 31 December	-	-
		<hr/>	<hr/>

\$115,000 (2005: \$2,887,000) has been charged to the Group and Company income statements for the year to 31 December 2006 being the apportioned amount of the fair value of the outstanding options at the date of grant.

The following options to purchase the Company's ordinary shares were outstanding at 31 December 2006:

	Total
	<hr/>
Number of options granted on 1 December 2005	53,334
Number of employees	2
Share price of options granted on 1 December 2005	\$15
Exercise price	<hr/> \$15

The options vest on 1 December 2008 and are exercisable until 1 December 2011.

The outstanding options at 31 December 2006 were valued at the date of grant by the Directors based on advice from an independent valuer who assessed the valuation using a binomial option valuation model under the assumptions listed below. Under these assumptions, the total value of the charge arising from these options is \$5.88 per share option or \$313,000 in total. The total charge will be spread over the period to 1 December 2008.

The principal assumptions used within the stock option valuation model, which are unchanged as at 31 December 2006, were as follows:

Fair Value of the share price at date of grant issued (flotation price)	\$15
Interest rate per annum (zero coupon gilt yield at option grant date)	4.2%
Dividend yield	2.5%
Volatility (two year average of volatility of close competitor companies)	39%
Vesting time in years	3
Employee exit rate	0%

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Example of more complex share-based payment disclosure

Share options	2007 Number of options	2007 Exercise price GBP	2006 Number of options	2006 Exercise price GBP
At 1 July	12,599,333	-	6,180,000	£0.12-£0.7875
Granted in year	100,000	£0.54	6,271,000	£0.54
Granted in year	-	-	250,000	£0.62
Exercised in year	(140,000)	£0.12	(10,000)	£0.12
Exercised in year	(66,667)	£0.225	(66,667)	£0.235
Lapsed in year	(40,000)	£0.54	(25,000)	£0.54
Cancelled in year	(2,705,000)	£0.54	-	-
At 30 June	9,747,666		12,599,333	

All the options granted are defined under IFRS2 as being equity-settled. The fair values for the options granted after 1 December 2005 (which had not vested as at 1 July 2005) have been measured at grant date using an actuarial binomial model. The inputs to that model as at the grant-date are set out in the tables below. At 30 June 2007 the number of options which were exercisable was 6,500,999.

XYZ Limited share options

Option price (GBP)	Average grant date share price (GBP)	Average expected volatility (% pa)	Average risk-free interest rate (% pa)	Average dividend yield (% pa)	Average implied option life (years)	Average fair value per option (GBP)	Amount expensed in the 2007 accounts (\$'000)
£0.22	£0.231	67%	3.4%	1.7%	3.0	£0.117	4
£0.225	£0.221	67%	3.5%	1.7%	3.1	£0.110	3
£0.235	£0.231	67%	3.5%	1.7%	3.0	£0.114	2
£0.54	£0.562	46%	4.2%	5.0%	1.4	£0.096	67
£0.5575	£0.547	60%	4.2%	1.7%	2.9	£0.237	34
£0.62	£0.610	45%	4.3%	5.0%	2.5	£0.177	44
£0.7875	£0.773	55%	4.7%	5.0%	2.8	£0.338	7
Adjustment for changes in assumptions in respect of vesting conditions							18
Total charge for the year (2006: \$1,186,000)							179

Details of share options awarded to Directors are set out in the Directors' Report (page 7).

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27	Interest-bearing loans and borrowings	Note	Group 2006 US\$000	Group 2005 US\$000
	<i>Non-current</i>			
	Bank loans		-	4,174
	Bonds	32	21,615	20,369
	Senior loan notes (secured) ⁵	32	195,888	-
			217,503	24,543
	<i>Current</i>			
	Bank loans		-	17,457
	Leases	32	1,564	414
	Promissory notes		-	3,007
			1,564	20,878

⁵ \$200,000,000 of Senior loan notes were issued by the Company in the year raising \$195,808,000 after expenses. At 31 December 2006 an amount of \$80,000 had been added to the net amount received representing amortisation of the costs of issue.

28	Non-current liabilities – other financial liabilities	Note	Group 2006 US\$000	Group 2005 US\$000
	Lease liabilities	32	3,022	1,197

29	Provisions	Group 2006 US\$000	Group 2005 US\$000
	<i>Within non-current liabilities</i>		
	Balance at 1 January	241	-
	Foreign exchange adjustments	13	-
	Charged to the income statement	147	241
	Balance at 31 December	401	241

The provision represents a statutory reserve for potential future liabilities in respect of site closure and environmental 'clean up' costs. There are no current plans for the early closure of any of the Group's mines.

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30 Current liabilities – trade and other payables	Group 2006 US\$000	Group 2005 US\$000
Trade payables	35,080	3,632
Current tax payable	5,688	2,156
Other tax and social security payable	4,239	1,173
Interest payable	4,025	1,314
Other creditors and accruals	4,867	4,840
	53,899	13,115

31 Deferred tax assets and liabilities	Group 2006 US\$000	Group 2005 US\$000 Restated
<i>Recognised deferred tax assets and liabilities</i>		
Deferred tax assets and liabilities are attributable to the following:		
Temporary differences relating to:		
Non-current assets	284,228	271,327
Other	8,927	(193)
Net deferred tax liabilities	293,155	271,134

The deferred tax liability recognised in respect of the temporary differences relating to non-current assets arose principally as a result of the fair value adjustment to mining properties, which arose on the acquisition of AAA project.

No deferred tax asset has been recognised in respect of the carried forward tax losses of approximately \$3,217,000 (2005: \$1,808,000) arising in the Company as the recoverability of excess management expenses in future periods is uncertain.

<i>The movement on the deferred tax account is as shown below:</i>	Group 2006 US\$000	Group 2005 US\$000 Restated
At 1 January	271,134	-
Short term differences relating to revenue recognition	8,927	331
Amount credited to income statement in respect of amortisation of mining property	(1,574)	-
Arising on fair value adjustments to acquired assets	-	270,996
Foreign exchange adjustments arising in respect of deferred taxation on mining property	14,574	-
Foreign exchange adjustments arising in respect of subsidiary companies	94	(193)
Net deferred tax liabilities	293,155	271,134

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32 Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

	Effective Interest Rate %	Group Total US\$000	Group 0 – 1 Years US\$000	Group 2 – 5 Years US\$000	Group 5 – 10 Years US\$000
Cash and cash equivalents	4.5%	204,752	204,752	-	-
Senior Loan notes ⁶	9.375%	(195,888)	-	-	(195,888)
Bonds	10.4%	(21,615)	-	(21,615)	-
Leases ⁷	10.5%	(4,586)	(1,564)	(3,022)	-
		<u>(17,337)</u>	<u>203,188</u>	<u>(24,637)</u>	<u>(195,888)</u>

	Effective Interest Rate %	Company Total US\$000	Company 0 – 1 Years US\$000	Company 2 – 5 Years US\$000	Company 5 – 10 Years US\$000
Cash and cash equivalents	4.5%	186,413	186,413	-	-
Senior Loan notes ⁶	9.375%	(195,888)	-	-	(195,888)
		<u>(9,475)</u>	<u>186,413</u>	<u>-</u>	<u>(195,888)</u>

⁶ The Senior Loan Notes have been issued by the Company and are listed on the Luxembourg stock exchange. The loan notes are repayable in full in 2013. The loan notes are unconditionally and irrevocably guaranteed on a joint and several basis by ZZZ Limited, YYY LLP and XXX LLP each of which is a wholly owned indirect subsidiary of the Company.

⁷ The leases are finance leases contracted in various countries in respect of plant and equipment in use by the Group within those countries. The holders of the finance leases have a lien over the plant and equipment specific to the item or group of items being financed.

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32a *Risk and sensitivity analysis*

The Group and Company ("The Group") are exposed through its operations to one or more of the following financial risks:

Foreign currency risk, fair value and cash flow interest rate risk, liquidity risk, market price risk and credit risk. The policy for managing these risks is set by the Board and all such risks are managed at a Group level within the organisation. The policies for these risks are described further below:

Foreign currency risk

Foreign exchange risk arises due to the Group's primary revenues being in US dollars, which is also the presentational currency whilst the Group's principal operating costs are denominated in [Currency of operation local currency] which is the principal functional currency or currencies of the Group's operating subsidiaries.

The Group has a general policy of not hedging against foreign currency risk. In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange rates could have an impact on consolidated earnings.

Fair value and cash flow interest rate risk

The Group utilises or intends to utilise fixed and variable rate loans and floating rate bonds. The Board intends to repay all fixed rate borrowings in the next period. The Board sets a policy for each material borrowing dependent upon the prevailing market conditions and the terms available in respect of each particular financial instrument and the interest rates attaching thereto. The Board seeks to achieve an appropriate balance of exposure to these risks.

Liquidity risk

The liquidity risk of the Group is managed centrally. New borrowings are taken on where additional funds are required. Surplus funds not allocated to future investment and working capital requirements are used to repay existing loans and bonds. The Group intends to maintain a balance of funding designed to reduce liquidity risks whilst also seeking to minimise the costs of borrowing.

Market price risk

As an 'unhedged gold producer', the Group is exposed to market price risk from its current activities. The Group manages this risk centrally with reference to annual budgets and periodic forecasts including sensitivity analyses of projected production rates and Gold market prices.

Credit risk

The Group is exposed to credit risk arising from credit sales of its product to customers. Due to the nature of the market, the Group's principal customers are concentrated on a small number of significant entities. It is the Board's policy to assess the credit risk of all new customers before entering into contracts and also, where possible, to trade only with established entities.

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- a) *Example of IFRS acquisition table disclosure with fair value adjustments, formal valuation exercises are required in respect of all significant assets and liabilities contracted.*

Acquiree's provisional net assets at the acquisition date:	Book Value	Fair Value Adjustments	Fair Value
	US\$000	US\$000	US\$000
Property, plant and equipment – AAA project	23,000	-	23,000
Negotiation rights – BBB project	-	57,279	57,279
Property, plant and equipment	3,500	-	3,500
Investments and options for mining projects	100	10	110
Trade and other payables ⁸	(9)	(10,493)	(10,502)
Net identifiable assets and liabilities	<u>26,591</u>	<u>46,796</u>	<u>73,387</u>
Consideration shares ⁹			72,887
Estimated costs and fees			500
Total consideration			<u>73,387</u>

No identifiable goodwill has arisen in respect to this transaction. The surplus of value of the consideration over the other separable net assets and liabilities of the acquired group has been attributed to the value of the negotiation rights in respect of the Jeeroy mining licences. There is no guarantee that the lapsed mining licences will reinstated.

There is no cash element payable to WWW Group Limited in respect of this initial proposed purchase.

⁸ The fair value adjustment to payables represents additional potential liabilities identified during due diligence.

⁹ Comprising 3,541,666 new ordinary shares in the Company valued at \$20.58 per share being the price of an equivalent GDR on 10 May 2007, the date of completion.

- b) On 14 February 2007 FFF Limited was successful in the auction for acquiring Romanian assets for a consideration of \$7 million. The 50% share of these assets not which were not owned by the Group at the date of completion were subsequently acquired and are included in the acquired assets in note 'a' above.
- c) On 19 April 2007 the Group and its joint venture partner, dissolved Soviet-Far East Mining Company Limited and distributed its assets and liabilities to the partners in proportion to their shareholding. No gain or loss arose on this transaction.
- d) On 10 May 2007 the Company issued 3,541,666 new ordinary shares of £0.0001 each at a price of \$20.58 per share for a consideration of \$73,387,000.

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34 Commitments and contingencies

(a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group.

As at 31 December 2006 and 2005 the Group was not involved in any significant legal proceedings, including arbitration.

(b) AAA Republic taxation contingencies

i) *Inherent uncertainties in interpreting tax legislation*

The Group is subject to uncertainties relating to the determination of its tax liabilities.

The tax system and tax legislation in AAA Republic have been in force for only a relatively short time and are subject to frequent changes and varying interpretations. Management's interpretations of such legislation in applying it to business transactions of the Group may be challenged by the relevant tax authorities and, as a result, the Group may be assessed on additional tax payments including fines, penalties and interest charges, which could have a material adverse effect on the Group's financial position and results of operations. Such uncertainties may in particular relate to the valuation of the taxable base for excess profits tax purposes.

In relation to excess profits tax, the tax law gives no explicit guidance on how the tax base should be determined for individual sub-surface use contracts relevant to certain members of the Group. In the event of a successful challenge by the tax authorities, the Group may be liable for additional payments of excess profits tax. Depending on the interpretation adopted and the amounts, if any, that are involved, this could have a significant adverse impact on the Group's financial position and on its profit or loss for a reporting period. Under such circumstances, there would also be a consequential significant adverse impact on all subsequent periods due to the cumulative nature of the excess profits tax calculations.

(ii) *Period for additional tax assessments*

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of the excess profits tax they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract.

(iii) *Possible additional tax liabilities*

The Directors believe that the Group is in substantial compliance with tax legislation and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant Government authorities may take a differing position with regard to the interpretation of contractual provisions or tax legislation. The resulting effect of this matter is that significant additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

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(c) Insurance

The insurance industry in AAA Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have third party liability coverage in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. There is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(d) Environmental contingencies

Environmental regulations in AAA Republic are continually evolving. The outcome of the environmental regulations under proposed or future environmental legislation cannot be estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements. A provision has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 29).

(e) Use of sub-soil rights

In AAA Republic, all sub-soil reserves belong to the State, with the Ministry of Energy and Mineral Resources (the 'Ministry') granting exploration and production rights to third party bodies. Sub-soil rights are not granted in perpetuity and any renewal must be agreed before the expiration of the relevant current contract or license. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations in respect of the individual contract or license granted. The Group believes that it is in substantial compliance with the terms of its sub-soil agreements.

(f) Capital commitments

Under the terms of the \$100 million Senior Loan notes issued in the period (refer to note 27) the Group has allocated \$80 million for investment in new property, plant and equipment at the Group's three main mining and production sites at ABC, DEF and GHI all of which are in the AAA Republic. At 31 December 2006 approximately \$40 million had been expended or contracted on these projects. The Group is committed to complete these projects.

36 Related-party transactions

a) During the year the Group sold materials and services to XYZ Limited to the value of \$569,000 (2005: nil). XYZ Limited is 50% owned by the Group.

b) Year-end balances arising from the sale of materials and services:

	Group	Group
	US\$000	US\$000
XYZ Limited	569	-

There were no related party transactions arising in the Company during the year or outstanding balances to related parties at the year end. **Note: Related parties include directors, key personnel, and shareholders, providers of finance, joint venture parties and potentially local authorities where profit share arrangements exist.**