

Good Mining (International) Limited

International GAAP®

Illustrative financial statements for
the year ended 31 December 2011

Based on International Financial Reporting
Standards in issue at 30 September 2011

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Abbreviations and key

The following styles of abbreviation are used in this set of International GAAP Illustrative Financial Statements:

IAS 33.41	International Accounting Standard No. 33, paragraph 41
IAS 1.BC.13	International Accounting Standard No. 1, Basis for Conclusions, paragraph 13
IFRS 2.44	International Financial Reporting Standard No. 2, paragraph 44
SIC 29.6	Standing Interpretations Committee Interpretation No. 29, paragraph 6
IFRIC 4.6	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee) Interpretation No. 4, paragraph 6
IAS 39.IG.G.2	International Accounting Standard 39 – Implementation guidance for IAS 39 Section G: Other, paragraph G.2
IAS 39.AG.71	International Accounting Standard 39 – Appendix A – Application Guidance, paragraph AG71
ISA 700.25	International Standard on Auditing No. 700, paragraph 25
Commentary	The commentary explains how the requirements of IFRS have been implemented in arriving at the illustrative disclosure.
GAAP	Generally Accepted Accounting Principles / Practice
IASB	International Accounting Standards Board
Interpretations Committee	IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee (IFRIC))
SIC	Standing Interpretations Committee

Introduction

This publication contains an illustrative set of consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), for Good Mining (International) Limited (Good Mining), a fictitious group of mining companies, for the year ended 31 December 2011.

Objective

This set of illustrative statements is one of many prepared by Ernst & Young to assist you in preparing your own financial statements. The series of model accounts currently available comprises:

- ▶ Good Group (International) Limited
- ▶ Good Group (International) Limited - *Illustrative interim condensed consolidated financial statements*
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Bank (International) Limited
- ▶ Good Insurance (International) Limited
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Investment Fund Limited (Equity)
- ▶ Good Investment Fund Limited (Liability)
- ▶ Good Petroleum (International) Limited
- ▶ Good Construction Group (International) Limited

Good Mining's activities include mineral exploration, mine development and production. This publication illustrates IFRS disclosures specific to the mining industry, rather than by companies in general.

Therefore, some commonly found transactions and their disclosures have been deliberately omitted or simplified because they are illustrated in other Ernst & Young illustrative financial statement publications, such as Good Group (International) Limited 2011. We refer readers to these other publications for a greater understanding of other presentation and disclosure requirements that are not specific to the mining industry.

Exploration, development and production accounting is complex, with a variety of accounting policy choices available to a company to account for transactions in the exploration and evaluation phase. The challenge for the industry is to produce decision-useful financial statements through effective presentation and disclosure. Unfortunately, differences in accounting policies and their application makes comparability more difficult and increases complexity.

IFRS prescribes minimum standards of disclosure. It is important to provide additional disclosure to explain any unusual circumstances faced by a mining industry company. In addition, accounting policy choices made by a company need to be disclosed in detail to aid the reader in comparing companies in the mining industry.

This publication illustrates what we consider to be best practice disclosure and focuses on those areas of IFRS reporting that rely heavily on the professional judgement of management.

These illustrative disclosures are not the only acceptable form of presentation, but they reflect leading practice in the mining industry. They do not take account of country or stock market regulations in any given jurisdiction. It is essential to refer to the relevant accounting standards and/or specific jurisdictional requirements and when necessary, to seek appropriate professional advice where there may be doubt as to the requirements.

We hope you will find this a useful guide when preparing your next set of IFRS-based financial statements. If you require any further information on matters included in this publication, please contact your nearest Ernst & Young mining professional.

Basis of preparation and presentation

This publication is based on the requirements of IFRS standards and interpretations as issued by the IASB in issue at 30 September 2011 and applicable to financial statements for the year ending 31 December 2011. Details of which standards and interpretations have been adopted, have been included in the notes to these illustrative financial statements. The impact of new accounting standards and interpretations issued but not yet effective, which may apply to Good Mining and its subsidiaries (the "Group") at some point in the future, have been included in these illustrative financial statements as appropriate. For details of other standards and interpretations issued but not yet effective which may apply to your particular entity, we refer readers to either the commentary sections contained herein, or to Good Group (International) Limited 2011 illustrative financial statements, for the details of such and the appropriate illustrative disclosures.

Background facts

The Group is a gold and copper exploration, development and production company whose activities include the exploration for and development of gold and copper mineral deposits and the production and sale of gold bullion and gold and copper metal concentrate. All its operations are located in Metalville (a fictitious country).

International Financial Reporting Standards

The abbreviation IFRS is defined in IAS 1.7 and IAS 8.5 as “Standards and Interpretations issued by the International Accounting Standards Board (IASB)”. They comprise:

- ▶ International Financial Reporting Standards
- ▶ International Accounting Standards
- ▶ IFRIC Interpretations

And

- ▶ SIC Interpretations

Thus, when financial statements are described as complying with IFRS, it means that they comply with the entire hierarchy of pronouncements sanctioned by the IASB.

International Accounting Standards Board (IASB)

The IASB is the independent standard-setting body of the IFRS Foundation (an independent, not-for-profit private sector organisation working in the public interest). The IASB members (currently 15 full-time members) are responsible for the development and publication of IFRS, including the IFRS for Small and Medium Entities and for approving interpretations of IFRS as developed by the IFRS Interpretations Committee. In fulfilling its standard-setting duties, the IASB follows a due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment, is an important component.

The IFRS Interpretations Committee

The IFRS Interpretations Committee (Interpretations Committee) (formerly the International Financial Reporting Interpretations Committee (IFRIC)) is a committee appointed by the IFRS Foundation Trustees that assists the IASB in establishing and improving standards of financial accounting and reporting for the benefit of users, preparers and auditors of financial statements.

The Interpretations Committee addresses issues of reasonably widespread importance, rather than issues of concern to only a small set of entities. Its interpretations cover:

- ▶ Newly identified financial reporting issues not specifically addressed in IFRS
- ▶ Issues where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authoritative guidance, with a view to reaching a consensus on the appropriate treatment

And

- ▶ Advising the IASB of issues to be considered in the Improvements to IFRS project

Introduction *continued*

IFRS as at 30 September 2011

The standards and interpretations applied in these illustrative financial statements are the versions that were in issue at 30 September 2011 and effective for periods commencing on or after 1 January 2011.

These include the following:

International Financial Reporting Standards (IFRS)

IFRS 3	<i>Business Combinations (Revised in 2008)</i>
IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
IFRS 7	<i>Financial Instruments: Disclosures</i>
IFRS 8	<i>Operating Segments</i>

International Accounting Standards (IAS)

IAS 1	<i>Presentation of Financial Statements</i>
IAS 2	<i>Inventories</i>
IAS 7	<i>Statement of Cash Flows</i>
IAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 10	<i>Events after the Reporting Period</i>
IAS 12	<i>Income Taxes</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 17	<i>Leases</i>
IAS 18	<i>Revenue</i>
IAS 19	<i>Employee Benefits</i>
IAS 21	<i>The Effects of Changes in Foreign Exchange Rates</i>
IAS 23	<i>Borrowing Costs</i>
IAS 24	<i>Related Party Disclosures</i>
IAS 27	<i>Consolidated and Separate Financial Statements (Revised in 2008)</i>
IAS 31	<i>Interests in Joint Ventures</i>
IAS 32	<i>Financial Instruments: Presentation</i>
IAS 33	<i>Earnings per Share</i>
IAS 36	<i>Impairment of Assets</i>
IAS 37	<i>Provisions, Contingent Liabilities and Contingent Assets</i>
IAS 38	<i>Intangible Assets</i>
IAS 39	<i>Financial Instruments: Recognition and Measurement</i>

Interpretations

IFRIC 1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>
IFRIC 5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>

Introduction continued

The following standards and interpretations have not been illustrated in these financial statements:

IFRS 1	<i>First-time Adoption of International Financial Reporting Standards (illustrated in Appendix 1)</i>
IFRS 2	<i>Share-based Payment</i>
IFRS 4	<i>Insurance Contracts</i>
IFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IAS 11	<i>Construction Contracts</i>
IAS 20	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 26	<i>Accounting and Reporting by Retirement Benefit Plans</i>
IAS 28	<i>Investment in Associates</i>
IAS 29	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 34	<i>Interim Financial Reporting (refer to the separate EY publication: Good Group (International) Limited Illustrative Interim Condensed Consolidated Financial Statements)</i>
IAS 40	<i>Investment Property</i>
IAS 41	<i>Agriculture</i>
IFRIC 2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 14	<i>IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
IFRIC 17	<i>Distributions of Non-cash Assets to Owners</i>
IFRIC 18	<i>Transfers of Assets from Customers</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
SIC 7	<i>Introduction of the Euro</i>
SIC 10	<i>Government Assistance - No Specific Relation to Operating Activities</i>
SIC 12	<i>Consolidation - Special Purpose Entities</i>
SIC 13	<i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>
SIC 15	<i>Operating Leases - Incentives</i>
SIC 21	<i>Income Taxes - Recovery of Revalued Non-Depreciable Assets</i>
SIC 25	<i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>
SIC 27	<i>Evaluating the Substance of Transactions in the Legal Form of a Lease</i>
SIC 29	<i>Service Concession Arrangements: Disclosures</i>
SIC 31	<i>Revenue - Barter Transactions Involving Advertising Services</i>
SIC 32	<i>Intangible Assets - Web Site Costs</i>

Introduction *continued*

When applicable, standards also include the amendments resulting from improvements to IFRS issued in May 2010.

It is important to note that the IASB may issue new and revised standards and interpretations subsequent to 30 September 2011. Therefore, users of this publication are advised to verify that there have been no changes in the IFRS requirements between 30 September 2011 and the date on which their financial statements are authorised for issue. Any standards issued but not yet effective need to be considered in the disclosure requirements of a reporting entity.

Changes in the 2011 edition of Good Mining (International) Limited financial statements

There are no major changes from the 2010 edition in these illustrative financial statements. Either the new and amended standards and interpretations had no impact on the Group at all, or they only resulted in an update to the Group's stated accounting policies.

Even though IFRIC Interpretation 20 (IFRIC 20) *Stripping Costs in the Production Phase of a Surface Mine* was not issued by 30 September 2011, this edition of Good Mining includes some additional commentary as follows:

IFRIC Interpretation 20 (IFRIC 20) - Deferred stripping (refer note 2.4(p))

During July 2011, the IFRS Interpretations Committee finalised its interpretation entitled *Stripping Costs in the Production Phase of a Surface Mine*. In September 2011, the IASB ratified the Interpretation and the final Interpretation (to be known as IFRIC Interpretation 20) is expected to be issued in October 2011. It is to have an effective date of 1 January 2013. Therefore, it has not impacted the 2011 financial statements of Good Mining. However, the commentary to accounting policy note 2.4(p) *Deferred stripping costs* has been updated to include some discussion of what we expect the key requirements of the Interpretation will be.

As the Interpretation had not been released at the time of finalising Good Mining 2011, illustrative disclosures regarding the full impact of adopting IFRIC 20 have not been provided in this version. However, we plan to issue an addendum to Good Mining once the Interpretation has been issued and we have completed detailed discussions with a broad range of industry participants to obtain a thorough understanding of how the requirements of IFRIC 20 will be applied in practice. This addendum will provide some illustrative disclosures on the impact of adopting IFRIC 20.

Allowed alternative accounting treatments in the mining industry

In some cases, IFRS permits alternative accounting treatments for similar transactions, events and/or conditions. Preparers of financial statements should choose the treatment that is most relevant to their business.

IAS 8 requires an entity to select and apply its accounting policies consistently for similar transactions, and/or other events and conditions, unless an IFRS specifically requires or permits categorisation of items for which different policies may be appropriate. Where an IFRS requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category. Therefore, in the majority of instances, once a choice of one of the alternative treatments has been made, it becomes an accounting policy and must be applied consistently. Changes in accounting policy should only be made if required by a standard or interpretation, or if the change results in the financial statements providing reliable and more relevant information.

These alternative treatments have been highlighted within the illustrative financial statements for Good Mining as part of the accounting policies note commentary.

Financial review

Many companies present a financial review by management in their annual report, which is outside the scope of the financial statements. IFRS does not require the presentation of such information, although IAS 1.13 gives a brief outline of what may be included in such a report. The IASB issued an IFRS Practice Statement *Management Commentary* in December 2010 which provides a broad, non-binding framework for the presentation of a management commentary that relates to financial statements that have been prepared in accordance with IFRS. If a company decides to follow the guidance in the Practice Statement, management is encouraged to explain the extent to which the Practice Statement has been followed. A statement of compliance with the Practice Statement is only permitted if it is followed in its entirety. The content of a financial review by management is often determined by local market requirements or issues specific to a particular jurisdiction. Therefore, no financial review by management has been included in this publication.

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Good Mining (International) Limited

Consolidated Financial Statements

31 December 2011

General information

Directors

M Lawley (Chairman)

S Vlahovier (Chief Executive Officer)

M Toolman

T Warrington

M Herbert

T Whelands

J Lumingstone

L Higglay

F MacGillson

Company Secretary

V Tidiman

Registered Office

Homefire House

Ashdown Square, Metalcity

Metalville

Solicitor

Solicitors & Co.

7 Scott Street, Metalcity

Metalville

Bankers

Bank Plc

10 George Street, Metalcity

Metalville

Auditor

Chartered Accountants & Co.

17 Metalville High Street, Metalcity

Metalville

Independent auditors' report to the members of Good Mining (International) Limited

We have audited the accompanying consolidated financial statements of Good Mining (International) Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Chartered Accountants & Co.

27 January 2012

17 Metalville High Street, Metalcity

Metalville

Commentary

The audit report has been prepared in accordance with ISA 700 (Redrafted) *Forming an Opinion and Reporting on Financial Statements* which is applicable for audits of financial statements for periods beginning on or after 15 December 2010.

The audit report may differ depending on the requirements of the relevant jurisdiction.

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Consolidated statement of comprehensive income for the year ended 31 December 2011

Year ended	Notes	31 December	31 December	IAS 1.10(b) IAS 1.51(b)(c) IAS 1.51(d)(e)
		2011	2010	
		US\$ million	US\$ million	
Revenue	7	3,828	2,917	IAS 1.82(a)
Cost of sales		(1,556)	(1,219)	IAS 1.99, IAS 1.103
Gross profit		2,272	1,698	IAS 1.85, IAS 1.103
Other income		41	76	IAS 1.85
Gain / (loss) on sale of property, plant and equipment		11	(11)	IAS 1.98(c)
Impairment of goodwill		(15)	-	IAS 1.85
Gain on derivative financial instruments	27	2	9	IAS 1.85
Share of joint venture's net profit	4	16	25	IAS 1.82(c)
Other expenses		(193)	(128)	IAS 1.103
General and administrative costs		(180)	(205)	IAS 1.103
Operating profit		1,954	1,464	IAS 1.85
Finance revenue	7	24	25	IAS 1.82(a)
Finance costs		(94)	(40)	IAS 1.82(b)
Profit before income tax		1,884	1,449	IAS 1.85
Income tax expense	8	(797)	(529)	IAS 1.82(d), IAS 12.77
Profit for the year		1,087	920	IAS 1.82(f)
Other comprehensive income		-	-	IAS 1.82(g)
Total comprehensive income for the year, net of tax		1,087	920	IAS 1.82(i)
Basic and diluted earnings per ordinary share (US\$ per share)	9	0.70	0.96	IAS 33.66

Commentary

The above disclosure is an illustration of an entity that elects to present a single statement of comprehensive income. It is also acceptable to present a separate income statement and statement of comprehensive income. Good Mining does not have any items of other comprehensive income. The nil line item for other comprehensive income is included for illustrative purposes only. The Group may have omitted the line item as this is nil, hence not material. Please refer to Good Group (International) Limited 2011 illustrative financial statements for additional details and examples of items to be included in other comprehensive income.

Consolidated statement of financial position

as at 31 December 2011

	Notes	2011 US\$ million	2010 US\$ million	IAS 1.10(a) IAS 1.51(b)(c) IAS 1.51(d)(e)
Assets				
Non-current assets				
Exploration and evaluation assets	11	759	501	IAS 1.60, IAS 1.66 IAS 1.54(c), IFRS 6.15, IFRS 6.23
Mine properties	12	4,943	3,706	IAS 1.54(a)
Property, plant and equipment	13	238	227	IAS 1.54(a)
Intangible assets	14	53	27	IAS 1.54(c)
Equity-accounted investment in joint venture	4	114	98	IAS 1.54(e)
Restricted cash	19	50	50	IAS 7.48-49
Deferred tax assets	8	83	57	IAS 1.54(o), IAS 1.56
Total non-current assets		6,240	4,666	
Current assets				
Inventories	17	93	88	IAS 1.60, IAS 1.66 IAS 1.54(g)
Trade and other receivables	18	618	599	IAS 1.54(h)
Cash and cash equivalents	19	458	489	IAS 1.54(i)
Other financial assets	27	22	20	IAS 1.54(d)
Total current assets		1,191	1,196	
Total assets		7,431	5,862	
Equity and liabilities				
Shareholders' equity				
Issued capital	20	1,564	1,564	IAS 1.54(r)
Retained earnings		3,192	2,455	IAS 1.54(r)
Total shareholders' equity		4,756	4,019	
Non-current liabilities				
Pension benefit obligation	16	20	18	IAS 1.60, IAS 1.69 IAS 1.54(l), IAS 19.120
Interest-bearing loans and borrowings	21	532	315	IAS 1.54(m)
Deferred tax liabilities	8	468	386	IAS 1.54(o), IAS 1.56
Provisions	22	610	373	IAS 1.54(l)
Total non-current liabilities		1,630	1,092	
Current liabilities				
Pension benefit obligation	16	2	2	IAS 1.60, IAS 1.69 IAS 1.54(l), IAS 19.120
Accounts payable and accrued liabilities	23	567	516	IAS 1.54(k)
Taxes payable		365	166	IAS 1.54(n)
Interest-bearing loans and borrowings	21	82	51	IAS 1.54(m)
Provisions	22	29	16	IAS 1.54(l)
Total current liabilities		1,045	751	
Total liabilities		2,675	1,843	
Total liabilities and shareholders' equity		7,431	5,862	

Consolidated statement of financial position continued

Commentary

IAS 1 requires an entity to present a statement of financial position at the beginning of the earliest comparative period when it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements (IAS 1.10(f)). In these situations, IAS 1.39 states that an entity must present, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

Good Mining has not provided a restated comparative set of statement of financial position for the beginning of the earliest comparative period, as the new accounting policies adopted have not caused any material retrospective restatement or reclassification of items in the financial statements. Refer to Good Group (International) Limited 2011 illustrative financial statements for an example of a statement of financial position at the beginning of the earliest comparative period and its effect on the relevant note disclosures.

In accordance with IAS 1.60, the Group has classified its statement of financial position into current and non-current assets, and current and non-current liabilities. IAS 1 requires that entities should present assets and liabilities broadly in order of their liquidity when this presentation is reliable and more relevant.

Consolidated statement of changes in equity for the year ended 31 December 2011

		Issued capital	Retained earnings	Total equity	IAS 1.106(d)
	Notes	US\$ million	US\$ million	US\$ million	IAS 1.51(d)(Xe)
Balance at 1 January 2010		836	1,675	2,511	
Profit for the year		–	920	920	IAS 1.106(d)(i)
Other comprehensive income		–	–	–	IAS 1.106(d)(ii)
Total comprehensive income		–	920	920	IAS 1.106(a)
Issue of share capital	20	728	–	728	IAS 1.106(d)(iii)
Dividends paid	10	–	(140)	(140)	IAS 1.106(d)(iii), 107
Balance at 1 January 2011		1,564	2,455	4,019	
Profit for the year		–	1,087	1,087	IAS 1.106(d)(i)
Other comprehensive income		–	–	–	IAS 1.106(d)(ii)
Total comprehensive income		–	1,087	1,087	
Dividends paid	10	–	(350)	(350)	IAS 1.106(d)(iii), 107
Balance at 31 December 2011		1,564	3,192	4,756	

Consolidated statement of cash flows

for the year ended 31 December 2011

Year ended		31 December 2011 US\$ million	31 December 2010 US\$ million	
	Notes			IAS 7.10 IAS 1.10(d) IAS 1.51(d)(e) IAS 7.18(b)
Cash flows from operating activities				
Profit before income tax from operations		1,884	1,449	
Adjustments to add / (deduct) non-cash items:				IAS 7.20(b)
Depreciation, depletion and amortisation	6	642	293	
Unrealised gain on derivative financial instruments		(3)	(5)	
Unwinding of discount on rehabilitation	22	27	28	
Impairment of mine properties	6	33	9	
Gain on sale of mine properties	6	(39)	(58)	
(Gain) / loss on sale of property, plant and equipment	6	(11)	11	
Impairment of exploration and evaluation assets	6	5	6	
Reversal of previously impaired exploration and evaluation assets	6	(16)	-	
Impairment of goodwill	15	15	-	
Gain on sale of exploration and evaluation assets	6	(1)	-	
Other non-cash income and expenses		(3)	(1)	
Unsuccessful exploration and evaluation expenditures	11	90	75	
Add: interest expense (disclosed in financing activities)		67	12	
Deduct: interest income (disclosed in investing activities)		(20)	(24)	
Working capital adjustments:				IAS 7.20(a)
Change in trade and other receivables		(19)	(207)	
Change in inventories		(5)	(3)	
Change in trade and other payables relating to operating activities		35	142	
Income tax paid		(737)	(678)	IAS 7.35
Net cash flows from operating activities		1,944	1,049	
Cash flows from investing activities				
Investment in exploration and evaluation assets	11	(358)	(293)	IAS 7.21 IAS 7.16(a)
Expenditures on mine development		(1,108)	(1,433)	IAS 7.16(a)
Expenditures on other intangible assets	14	(5)	(4)	IAS 7.16(a)
Expenditures on property, plant and equipment	13	(1)	(32)	IAS 7.16(a)
Acquisition of a subsidiary, net of cash acquired	3	(439)	-	IAS 7.39
Proceeds on disposal of exploration and evaluation assets	11	22	-	IAS 7.16(b)
Proceeds on disposal of mine properties		110	98	IAS 7.16(b)
Proceeds on disposal of property, plant and equipment assets		24	12	IAS 7.16(b)
Interest received from investing activities		20	24	IAS 7.31
Net cash used in investing activities		(1,735)	(1,628)	
Cash flow from financing activities				
Proceeds from issuance of shares	20	-	728	IAS 7.21 IAS 7.17(a)
Proceeds from loans and borrowings		331	-	IAS 7.17(c)
Payments of loan and borrowings		(114)	(32)	IAS 7.17(d)
Interest paid		(64)	(20)	IAS 7.31
Dividends paid	10	(350)	(140)	IAS 7.31
Net cash (used in)/from financing activities		(197)	536	
Net increase/(decrease) in cash		12	(43)	
Cash and cash equivalents, beginning of period	19	438	481	
Cash and cash equivalents, end of period	19	450	438	IAS 7.45

IAS 7.48

Consolidated statement of cash flows *continued*

Commentary

IAS 7.18 allows entities to report cash flows from operating activities using either the direct method or the indirect method. The Group presents its cash flows using the indirect method.

The Group has reconciled profit before tax to net cash flows from operating activities. However, a reconciliation from profit after tax is also acceptable under IAS 7.

IAS 7.33 permits interest paid to be shown as operating or financing activities and interest received to be shown as operating or investing activities, as deemed relevant for the entity. The Group has elected to classify interest received as cash flows from investing activities.

IAS 7.16 states that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Therefore, if an entity adopted a policy of expensing exploration and/or evaluation costs, the related cash flows could not be classified as part of investing activities. Instead they would need to be classified as part of operating activities. The Group capitalises exploration and evaluation assets in certain situations, therefore, the related cash flows have been classified as investing cash flows.

Notes to the consolidated financial statements

1. Corporate information

IAS1.138 (a)

The consolidated financial statements of Good Mining (International) Limited (Good Mining) for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 27 January 2012. Good Mining is a limited company incorporated and domiciled in Metalville whose shares are publicly traded.

IAS 1.51(a),(b),
(c)

IAS 10.17

The principal activities of the Group are the exploration for, development and production of gold bullion and gold/copper in concentrate.

IAS 1.138(a)
IAS 1.138(b)

2.1 Basis of preparation

The consolidated financial statements comprise Good Mining (as the parent) and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

IAS 1.112(a)
IAS 1.16

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest million (US\$ million), except when otherwise indicated.

IAS 1.117(a)
IAS 1.51(d), (e)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

IAS 27.12
IAS 27.26

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

IAS 27.22
IAS 27.23
IAS 27.24

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

IAS 27.20

Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, the non-controlling interest are allocated their share of the total comprehensive income of the period, even if that results in a deficit balance.

IAS 27.28

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

IAS 27.30

- ▶ Derecognises the assets (including goodwill) and liabilities of the subsidiary
- ▶ Derecognises the carrying amount of any non-controlling interest
- ▶ Derecognises the cumulative translation differences recognised in equity
- ▶ Recognises the fair value of the consideration received
- ▶ Recognises the fair value of any investment retained
- ▶ Recognises any surplus or deficit in profit or loss
- ▶ Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

IAS 27.34

IAS 27.41

2.2 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. However, actual outcomes would differ from these estimates if different assumptions were used and different conditions existed.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required, and where actual results were to differ, may materially affect the financial position or financial results reported in future periods. Further information on each of these and how they impact the various accounting policies is located in the relevant notes to the financial statements.

IAS 1.122,
IAS 1.125

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(a) Ore reserve and mineral resource estimates

IAS 1.125

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the ore body and suitable production techniques and recovery rates. Such an analysis requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body.

The Group estimates and reports ore reserves under the principles contained within the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (December 2004), known as the JORC Code, which is prepared by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia. The JORC Code requires the use of reasonable investment assumptions – including:

- ▶ Future production estimates - which include proved and probable reserves, resource estimates and committed expansions;
- ▶ Expected future commodity prices, based on current market price, forward prices and the Group's assessment of the long-term average price; and
- ▶ Future cash costs of production, capital expenditure and rehabilitation obligations.

Consequently, management will form a view of forecast sales prices, based on current and long-term historical average price trends. For example, if current prices remain above long-term historical averages for an extended period of time, management may assume that lower prices will prevail in the future and as a result, those lower prices are used to estimate reserves under the JORC Code. Lower price assumptions generally result in lower estimates of reserves.

As the economic assumptions used may change and as additional geological information is produced during the operation of a mine, estimates of reserves may change. Such changes may impact the Group's reported financial position and results which include:

- ▶ The carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated future cash flows
- ▶ Depreciation and amortisation charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change
- ▶ Capitalised stripping costs recognised in the statement of financial position or charged to profit or loss may change due to changes in stripping ratios
- ▶ Provisions for rehabilitation and environmental provisions may change - where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- ▶ The recognition and carrying value of deferred income tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

Commentary

Definitions and disclosure of reserve and resource information within the financial statements is currently not covered by IFRS. General industry practice, when reporting under IFRS, is to exclude information regarding life of mine assumptions used in determining reserves from the financial statements. Similarly, reserves are not specifically recognised as an asset on the statement of financial position but are included in mine properties. However, IAS 1 paragraph 125 requires disclosure about key sources of estimation uncertainty: a paragraph on the uncertainties surrounding the estimation of remaining economically recoverable reserves, and a description of the method used by the entity in estimating economically recoverable reserves (e.g., JORC Code methodologies) will be covered in the appropriate note(s).

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(b) Exploration and evaluation expenditure (Note 11)

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a JORC resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

(c) Deferred stripping expenditure (Note 2.4 (p))

The Group defers stripping (waste removal) costs incurred during the production phase of its operations. This calculation requires the use of judgements and estimates relating to the expected tonnes of waste to be removed over the life of the mining area and the expected economically recoverable reserves to be extracted as a result. This information is used to calculate the average life of mine strip ratio (expected waste to expected mineral reserves ratio). Changes in a mine's life and design will usually result in changes to the average life of mine strip ratio. These changes are accounted for prospectively.

(d) Production start date (Note 12)

IAS 1.125

The Group assesses the stage of each mine under construction to determine when a mine moves into the production stage. This being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to commence. At this point, all related amounts are reclassified from "Mines under construction" to "Producing mines" and/or "Property, plant and equipment". Some of the criteria used to identify the production start date will include, but are not limited to:

- ▶ Level of capital expenditure incurred compared to the original construction cost estimates
- ▶ Completion of a reasonable period of testing of the mine plant and equipment
- ▶ Ability to produce metal in saleable form (within specifications)
- ▶ Ability to sustain ongoing production of metal

When a mine development/construction project moves into the production stage, the capitalisation of certain mine development/construction costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

(e) Units of production depreciation (Notes 12 and 13)

Estimated economically recoverable reserves are used in determining the depreciation and/or amortisation of mine specific assets. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. Numerous units of production (UOP) depreciation methodologies are available to choose from. The Group adopts a Run of the Mine (ROM) tonnes of ore produced methodology for mining costs and an ounces/pounds of metal produced methodology for post-mining costs. Changes are accounted for prospectively.

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(f) Mine rehabilitation provision (Note 2.4 (k) and Note 22)

The Group assesses its mine rehabilitation provision at each reporting date. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate amount payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates (3% (2010: 3%)), and changes in discount rates (4% (2010: 4%)). These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at reporting date represents management's best estimate of the present value of the future rehabilitation costs required.

IAS 1.122

(g) Impairment of assets (Notes 11, 12, 13, 14 and 15)

The Group assesses each asset or cash generating unit (CGU) (excluding goodwill, which is assessed annually regardless of indicators) every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves (see Note 2.2(a) Ore reserves and minerals resource estimates above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Management has assessed its CGUs as being an individual mine site, which is the lowest level for which cash inflows are largely independent of those of other assets.

(h) Recovery of deferred income tax assets (Note 8)

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred income tax assets are recognised in the statement of financial position. Deferred income tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred income tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred income tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Notes to the consolidated financial statements

2.2 Significant accounting judgements, estimates and assumptions *continued*

(i) Pension benefits obligation (Note 16)

The accounting policy applied by the Group for defined benefit pension schemes requires management to make judgements as to the nature of such benefits provided by each scheme which thereby determines the classification of each scheme. The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are required to be determined annually using actuarial valuations. An actuarial valuation involves making various estimates and assumptions. These include the determination of the future returns on each different type of scheme asset, discount rate, future salary increases, employee attrition rates, mortality rates, expected remaining periods of service of employees and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates on corporate bonds in the respective currency with at least an AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation, unless the obligations relate to a country that is considered to not have a deep market in corporate bonds. In these situations, the government rate on bonds with similar maturities is used. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

(j) Inventories (Note 17)

Net realisable value tests are performed at least annually and represent the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained gold ounces based on assay data, and the estimated recovery percentage based on the expected processing method.

Stockpile tonnages are verified by periodic surveys.

(k) Fair value hierarchy (Note 27)

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(l) Contingencies (Note 24)

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

Notes to the consolidated financial statements

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations

IAS 8.14

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended standards and interpretations effective as of 1 January 2011:

Commentary

Only those new and amended standards and interpretations that actually impact either the financial position, financial results, disclosures or stated accounting policies of the Group are listed below. Entities are not required to disclose the impact of such standards or interpretations if they will have no impact on the Group at all. For details of other new and amended standards and interpretations, refer below for the remaining list. Example disclosures for these new standards or interpretations can be found in Good Group (International) Limited 2011 illustrative financial statements.

New and amended standards and interpretations effective as of 1 January 2011

- ▶ IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- ▶ IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- ▶ Improvements to IFRSs (May 2010)
 - IFRS 3 *Business Combinations* - measurement options available for non-controlling interest (NCI) effective 1 July 2010
 - IFRS 7 *Financial Instruments: Disclosures* - collateral and qualitative disclosures
 - IAS 1 *Presentation of Financial Statements* - analysis of other comprehensive income

The impact of the adoption of these standards or interpretations is described below.

IAS 24 *Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarify in which circumstances persons and key management personnel affect related party relationships of an entity. While the adoption of the amendment did not have any current impact on the financial position or performance, or disclosures of the Group, as all required information is currently being appropriately captured and disclosed, it is relevant to the application of the Group's accounting policy in identifying future potential related party relationships.

IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Metalville; therefore, the amendment of the Interpretation had no effect on the financial position, financial performance, stated accounting policy or other disclosures of the Group.

Improvements to IFRSs

In May 2010, the Board issued its third omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to the stated accounting policies of the Group but did not have any impact on the financial position or performance of the Group on initial application.

- ▶ IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2.
- ▶ IFRS 7 *Financial Instruments: Disclosures*: The amendment was intended to simplify the disclosures required, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- ▶ IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may either be in the statement of changes in equity or in the notes to the financial statements.

Notes to the consolidated financial statements

2.3 Changes in accounting policies and disclosures *continued*

Other new and amended standards and interpretations effective for the 2011 year

- ▶ IAS 32 *Financial Instruments: Presentation* (Amendment) – classification of rights issues
- ▶ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Other amendments, resulting from Improvements to IFRS, to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- ▶ IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- ▶ IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- ▶ IAS 27 *Consolidated and Separate Financial Statements*
- ▶ IAS 34 *Interim Financial Statements*
- ▶ IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

For further information on these and the associated illustrative disclosures, please refer Good Group (International) Limited 2011 illustrative financial statements.

Commentary

In some jurisdictions, the adoption of IFRS for reporting purposes may be subject to a specific legal process (e.g., in the European Union or Australia). In those jurisdictions, the effective dates may therefore be different from the IASB's effective date. Nevertheless, all new standards and interpretations shall be considered for disclosure, as standards issued but not yet effective in accordance with IAS 8.30 when an entity provides a complete set of financial statements, irrespective of whether the legal process referred to above has been completed.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies

IAS 1.10(e)

(a) Interests in joint ventures

IFRS defines joint control as the contractually agreed sharing of control over an economic activity, and this exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the “venturers”).

(i) Jointly controlled assets

A jointly controlled asset (JCA) involves joint control and often joint ownership by the Group and other venturers of assets contributed to, or acquired for the purpose of, the joint venture, without the formation of a corporation, partnership or other entity.

IAS 31.57
IAS 31.21

Where the Group’s activities are conducted through JCAs, the Group recognises its share of the jointly controlled assets and liabilities it has incurred, its share of liabilities incurred jointly with other venturers, related revenue and operating costs in the financial statements and a share of production.

(ii) Jointly controlled entities

A jointly controlled entity (JCE) is a corporation, partnership or other entity in which each venturer holds an interest. A JCE operates in the same way as other entities, except that a contractual arrangement establishes joint control. A JCE controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in JCEs are accounted for using the equity method.

IAS 31.57
IAS 31.38

Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group’s share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

IAS 28.11
IAS 28.23

The profit or loss reflects the Group’s share of the results of operations of the joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income or the statement of changes in equity, as appropriate. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

IAS 28.39

The share of the joint venture’s net profit/(loss) is shown on the face of the statement of comprehensive income. This is the profit/(loss) attributable to venturers in the joint venture.

IAS 28.22

The financial statements of the JCE are prepared for the same reporting period as the venturer. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

IAS 28.37(e)
IAS 28.26

(iii) Reimbursement of the joint venture operator’s costs

When Good Mining, acting as an operator, receives reimbursement of direct costs recharged to the joint venture, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint venture and therefore have no effect on profit or loss.

IAS 31.52

In many cases, Good Mining also incurs certain general overhead expenses in carrying out activities on behalf of the joint venture. As these costs can often not be specifically identified, joint venture agreements allow the operator to recover the general overhead expenses incurred by charging an overhead fee that is based on a fixed percentage of the total costs incurred for the year, often in the form of a management fee. Although the purpose of this recharge is very similar to the reimbursement of direct costs, Good Mining is not acting as an agent in this case. Therefore, the general overhead expenses and the overhead fee are recognised in profit or loss as an expense and income, respectively.

Commentary

Good Mining accounts for its interest in the jointly controlled entity using the equity method. IAS 31.30 requires the use of proportionate consolidation, but does allow for equity accounting as an alternative.

The other type of joint venture contemplated by IAS 31 (not disclosed above because it is not relevant to Good Mining) is a jointly controlled operation (JCO). Such a joint venture is described as an arrangement which involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer’s employees alongside the venturer’s similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(a) Interests in joint ventures *continued*

Commentary *continued*

IFRS 11 *Joint Arrangements* was issued in May 2011 effective for annual reporting periods commencing on or after 1 January 2013. IFRS 11 introduces the core principle of accounting for the rights and obligations arising from the joint arrangement. There are only two types of joint arrangements under IFRS 11 – a joint operation or a joint venture. A joint operation is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is defined as a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Current JCAs and JCOs will probably be considered as joint operations under IFRS 11. Current JCEs could either be joint operations or joint ventures, the classification of which will depend upon the rights and obligations of the arrangement. For JCEs which are classified as joint ventures under IFRS 11, proportionate consolidation is prohibited and an entity must use equity accounting. To classify a JCE as either a joint operation or a joint venture will require detailed analysis.

(b) Foreign currency translation

The consolidated financial statements are presented in US dollars, which is the parent company's functional currency and the Group's presentation currency. Good Mining does not have any foreign operations. IAS 1.51(d)

Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction. IAS 21.21

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. IAS 21.23

All differences are taken to profit or loss or other comprehensive income, should specific criteria be met. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. IAS 21.28
IAS 21.32

Commentary

Many mining businesses have found that determining the functional currency of their operations is complicated. Determining the functional currency correctly is important because it will, for example: (1) affect volatility of revenue and operating profit resulting from exchange rate movements; (2) determine whether transactions can be hedged or not; (3) influence the identification of embedded currency derivatives; and (4) may give rise to temporary differences that affect profit or loss. While under IAS 21 an entity can select any presentation currency, it does not have a free choice in determining its functional currency. Instead, IAS 21 requires an entity to consider the following factors in determining its functional currency:

- a) The currency that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled);
- b) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and
- c) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

While the currency referred to under (a) above will often be the currency in which sales prices for its goods and services are denominated and settled, this is not always the case. In the mining industry the US dollar is often used as the contract or settlement currency in transactions (e.g., iron ore), but the pricing of transactions is often driven by factors completely unrelated to the US dollar (e.g., demand from China). When this is the case, management may conclude that the US dollar is not the currency that mainly influences the sales price.

In the mining industry, which is international in nature, it is often difficult to determine the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services. Therefore, factor (b) above will often prove to be inconclusive when a particular mineral is mined in many different countries.

It will generally be fairly straightforward to identify the currency that mainly influences an entity's key inputs (e.g. factor (c) above). In developing countries, an entity will often need to import a significant proportion of its key inputs (e.g., fuel, equipment and expatriate workers) and even local inputs in an economy with a high inflation rate will often be linked to the US dollar. In such a case, the local currency is less likely to be the main currency that influences an entity's key inputs. In most developed countries, however, the inputs tend to be denominated in the local currency, although some inputs (e.g., mining equipment) may be denominated in another currency. As the mining industry is capital intensive, the cost of equipment often far exceeds the operating expenses incurred. Given that equipment is often purchased in US dollars, even in developed countries there is a general bias towards the US dollar as the functional currency.

When the factors (a) to (c) above are mixed, as they often are in practice, and the functional currency is not obvious, management should use "its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions". If the above factors are inconclusive, then an entity should also consider the following secondary factors:

- ▶ Currency in which funds from financing activities (i.e., issuing debt and equity instruments) are generated;
- ▶ Currency in which receipts from operating activities are usually retained; and
- ▶ Functional currency of the reporting entity that has the foreign operation as its subsidiary, branch, associate or joint venture.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(b) Foreign currency translation *continued*

Commentary *continued*

Even after considering both the primary and secondary factors, the functional currency of a mining entity may not be obvious because, for example, its revenue is denominated in US dollars while virtually all expenses are denominated in its local currency. Nevertheless, even in that situation management may conclude that revenue, while denominated in US dollars, is in fact influenced by a basket of currencies. It is therefore possible that mining companies operating in a similar environment can reach different conclusions about their functional currency. From observation, it appears that about half of the mining companies outside the United States have concluded that the US dollar is their functional currency.

Finally, IAS 21 requires an entity to determine separately the functional currency of each entity in a consolidated group. There is no concept as the functional currency of the group, only a presentation currency. Therefore, the functional currency of an operating subsidiary will often differ from that of the group's parent and/or foreign sales company to which it sells its production.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects to measure the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. As part of a business combination, the Group assesses whether there are any operating lease contracts of the acquiree that may be onerous - that is, where the lease premiums being paid on that contract exceed the current market rate for such lease arrangements.

IFRS 3.4
IFRS 3.18
IFRS 3.19

IFRS 3.15
IFRS 3.16

IFRS 3.B28-29

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date (being the date the acquirer gains control) through profit or loss.

IFRS 3.42

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured. Subsequent settlement is accounted for within equity. In instances, where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

IFRS 3.58

IFRS 3.54

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

IFRS 3.B63(a)

IAS 36.80

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

IAS 36.86

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(c) Business combinations and goodwill *continued*

Commentary

Definition of a business

Under IFRS 3 (as revised in 2008) Business Combinations

When an entity acquires an asset or a group of assets, careful analysis is required to identify whether what is acquired constitutes a business or represents only an asset or group of assets that does not constitute a business.

A business is defined in IFRS 3 (as revised in 2008) as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants". The main modifications compared to the IFRS 3 (2007) are that IFRS 3 (as revised in 2008):

- ▶ Requires the integrated set of activities and assets to only be "capable" of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. The focus on the capability to achieve the purposes of the business helps avoid the unduly restrictive interpretations that existed under the former guidance;
- ▶ Clarifies the meanings of the terms "inputs", "processes" and "outputs", which helps eliminate the need for extensive detailed guidance and the misinterpretations that sometimes stem from such guidance;
- ▶ Clarifies that inputs and processes applied to those inputs are essential and that although the resulting outputs are normally present, they need not be present for a business to exist; and
- ▶ Clarifies that a business need not include all of the inputs or processes that the seller used in operating that business if a market participant is capable of continuing to produce outputs. This helps avoid the need for extensive detailed guidance and assessments about whether a missing input or process is minor.

In summary, the definition of a business in IFRS 3 (as revised in 2008) may include "integrated sets of activities" that were previously not considered to be businesses. For example, mines in the development stage or potentially in the exploration or evaluation stage, might be considered businesses under IFRS. In general, it is considered that when an activity is moving closer to production, it is more likely the asset or group of assets acquired is considered a business.

Determining whether a particular set of integrated activities and assets is a business may require significant judgement.

Differences between asset purchase transactions and business combinations

The main differences between accounting for an asset purchase and a business combination can be summarised as follows:

- ▶ Goodwill (or a bargain purchase) only arise in business combinations
 - ▶ Assets and liabilities are accounted for at fair value in a business combination, while they are assigned a carrying amount based on their relative fair values in an asset purchase transaction
 - ▶ Transaction costs should be recognised as an expense under IFRS 3 (as revised in 2008), but can be capitalised as part of an asset acquisition
- And
- ▶ In an asset purchase transaction, no deferred tax will arise in relation to acquired assets and assumed liabilities where these amounts differ from their tax bases as the initial recognition exemption for deferred tax under IAS 12 applies

Goodwill in a business combination

Traditionally, many mining companies had always assumed the entire consideration paid for exploration and development assets should be allocated to the identifiable net assets acquired, i.e., any excess of the consideration paid over the fair value of identifiable net assets (excluding mineral reserves acquired) would then have been included within mineral reserves acquired. However, goodwill could arise as a result of purchased synergies, overpayment by the acquirer, or when IFRS requires that acquired assets and/or liabilities are measured at an amount that is not fair value (e.g., deferred taxation). As far as overpayments are concerned, it was concluded that, in practice, it is not possible to identify and reliably measure an overpayment at the acquisition date, and the accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises [IFRS 3.BC382] Therefore, it is not appropriate for mining companies to simply assume under IFRS that goodwill never arises in a business combination and that any differential automatically goes to mineral reserves. Instead, mineral reserves acquired should be valued separately and, any excess of the purchase consideration over and above the value of the identifiable net assets (which includes mineral reserves, resources and acquired exploration potential), should be allocated to goodwill.

Deferred taxation

Under IFRS, an entity is required to provide for deferred taxation on the temporary differences on all identifiable net assets acquired (including mineral reserves), but not on temporary differences related to goodwill. If an excess of the purchase consideration over the fair value of identifiable net assets acquired were to be classified within mineral reserves, IAS 12 would give rise to a deferred income tax liability on the temporary difference. In principle, that would result in an iterative calculation in which the deferred income tax liability recognised would increase the amount attributed to mineral reserves, which would, in turn, give rise to an increase in the deferred income tax liability. Given the high marginal tax rates to which extractive activities are often subject (i.e. tax rates of 60 to 80% are not uncommon) the mineral reserves might end up being grossed up by a factor of 2.5 to 5 (i.e. $1/(1-60\%) = 2.5$). Hence, the reason why any excess of purchase consideration over the fair value of identifiable net assets (excluding mineral reserves) cannot simply be recognised as part of mineral reserves. This issue would not exist if the recognition of the deferred income tax liability were offset by the recognition of goodwill.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(d) Mineral exploration, evaluation and development expenditure

(i) Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

(ii) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

IFRS 6.23

Exploration and evaluation activity includes:

- ▶ Researching and analysing historical exploration data
- ▶ Gathering exploration data through geophysical studies
- ▶ Exploratory drilling and sampling
- ▶ Determining and examining the volume and grade of the resource
- ▶ Surveying transportation and infrastructure requirements
- ▶ Conducting market and finance studies

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless the directors conclude that a future economic benefit is more likely than not to be realised. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

IFRS 6.9

In evaluating if expenditures meet the criteria to be capitalised, several different sources of information are utilised. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

IFRS 6.10

Exploration and evaluation expenditure incurred on licences where a JORC-compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC-compliant resource. Costs expensed during this phase are included in "exploration and evaluation expenditure expensed" in profit or loss.

Commentary

While JORC is Australian-based, most financial statements refer to the relevant National Standard which has mainly been harmonised under the Committee for Mineral Reserves International Reporting Standards (CRIRSCO).

Upon the establishment of a JORC-compliant resource (at which point, the Group considers it probable that economic benefits will be realised), the Group capitalises any further evaluation expenditure incurred for the particular licence as exploration and evaluation assets up to the point when a JORC-compliant reserve is established.

Commentary

The establishment of JORC-compliant reserve is not a requirement, but a convenience in the accounting interpretation of an economically viable project. As it happens, the production of a feasibility study, a JORC-compliant reserve estimate and the establishment of commercial viability, often coincide.

Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. Similarly, the costs associated with acquiring an exploration and evaluation asset (that does not represent a business) are also capitalised. They are subsequently measured at cost less accumulated impairment.

Once JORC-compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to "Mines under construction". No amortisation is charged during the exploration and evaluation phase.

(iii) Farm-outs - in the exploration and evaluation phase

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(d) Mineral exploration, evaluation and development expenditure *continued*

Commentary

A farm-out (from the viewpoint of the transferor) or a farm-in (from the viewpoint of the transferee) is defined in the UK Oil Industry Accounting Committee (OIAC) - Statement of Recommended Practice (SORP) as "the transfer of part of an oil and gas interest in consideration for an agreement by the transferee (farmee) to meet, absolutely, certain expenditure which would otherwise have to be undertaken by the owner (farmor)". (OIAC SORP para 16). Farm-in transactions generally occur in the exploration or development phase and are characterised by the transferor (i.e., farmor) giving up future economic benefits, in the form of reserves, in exchange for a reduction in future funding obligations.

IFRS 6 deals with accounting for exploration and evaluation (E&E) expenditures and does not "address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources" [IFRS 6.4]. That leaves open the question whether farm-in arrangements can ever fall within the scope of IFRS 6. However, as a farm-in arrangement leads to the acquisition of an E&E asset by the farmee and a disposal by the farmor, we believe that a farm-in arrangement would fall within the scope of IFRS 6. Hence an entity has two options:

- (a) Either to develop an accounting policy under IAS 8; or
- (b) To develop an accounting policy under IFRS 6.

In practice, many entities use the second option and apply an accounting policy to farm-in arrangements that is based on their previous national GAAP.

Accounting policies for farm-in arrangements in the E&E phase that are based on an entity's previous national GAAP will often require that:

- ▶ The farmee recognises its expenditure under the arrangement in respect of its own interest and that retained by the farmor, as and when the costs are incurred. The farmee accounts for its expenditures under a farm-in arrangement in the same way as directly incurred E&E expenditure; and
- ▶ The farmor accounts for the farm-out arrangement as follows:
 - The farmor does not record any expenditure made by the farmee on its behalf;
 - The farmor does not recognise a gain or loss on the farm-out arrangement, but rather redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained; and
 - Any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

If an entity applies its previous GAAP accounting policy in respect of farm-in arrangements, we would expect the entity also to make the farm-in disclosures required by its previous GAAP.

(iv) Mines under construction

Upon transfer of "Exploration and evaluation assets" into "Mines under construction" within "Mine properties", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Mines under construction". Development expenditure is net of proceeds from all, but the incidental sale of ore extracted during the development phase. After production starts, all assets included in "Mines under construction" are transferred to "Producing mines" within "Mine properties".

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(d) Mineral exploration, evaluation and development expenditure *continued*

Commentary

Current industry practice on the capitalisation of exploration and evaluation (E&E) costs varies widely between companies. It is important to note that the decision to expense or capitalise E&E costs requires significant judgement and as such it is important that companies provide meaningful disclosures of their accounting policy for the treatment of E&E costs. The commentary below provides guidance on the application of a number of different policies.

Exploration, evaluation and development costs

Successful efforts type of method

Similar to the successful efforts approach more commonly adopted in the oil and gas industry, only those costs that lead directly to the discovery, acquisition or development of specific, discrete mineral reserves are capitalised and become part of the capitalised costs of the cost centre. Under this type of method, an entity will generally consider each individual mineral lease as a cost centre. Costs that are known at the time of incurrence to fail to meet this criterion are generally expensed in the period they are incurred, although some interpretations of a successful efforts type of approach concept would capitalise the cost of unsuccessful areas-of-interest.

When an entity applies such a method under IFRS, it will need to account for prospecting costs incurred before the E&E phase under IAS 16 or IAS 38. As economic benefits are highly uncertain at this stage of a project, prospecting costs will typically be expensed as incurred. Costs incurred to acquire undeveloped mineral rights, however, should be capitalised under IFRS if an entity expects an inflow of future economic benefits.

IFRS 6 does not prescribe any recognition and measurement rules in respect of costs incurred in the E&E stage of a project. Consequently, it would be acceptable for such costs to be either recorded as assets and written off when it is determined that the costs will not lead to economic benefits or expensed when incurred if the outcome is uncertain.

The deferred costs of an undeveloped mineral right may be subject to an impairment test each period with the amount of impairment expensed, or the costs may be kept intact until it is determined whether the area-of-interest contains mineral reserves. However, E&E assets should no longer be classified as such when the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

Other methods of accounting for exploration, evaluation and development costs

Full cost type method

A full cost type of method under most national GAAPs requires that all costs incurred in prospecting, acquiring mineral interests, exploration, appraisal, development, and construction are accumulated in large cost centres. Costs incurred pre-licence must be expensed. However, IFRS 6 does not permit application of the full cost method outside the E&E phase.

There are several other areas in which application of the full cost method under IFRS is restricted because:

- ▶ IFRS 6 requires, when impairment indicators are present, an impairment test in accordance with IAS 36 to be performed
 - ▶ IFRS 6 requires E&E assets to be classified as tangible or intangible assets according to the nature of the assets, even when an entity accounts for E&E costs in relatively large pools, it will still need to distinguish between tangible and intangible assets
- And
- ▶ Once the technical feasibility and commercial viability of extracting mineral resources are demonstrable, IFRS 6 requires E&E assets to be tested for impairment under IAS 36, reclassified in the statement of financial position and accounted for under IAS 16 or IAS 38. This means it is not possible to account for successful and unsuccessful projects within one cost centre or pool

For these reasons, it is not possible to apply the full cost method of accounting under IFRS without making very significant modifications in the application of the method. An entity might want to use the full cost method as its starting point in developing its accounting policy for E&E assets under IFRS. However, it would rarely be appropriate to describe the resulting accounting policy as a "full cost method" because key elements of the full cost method are not permitted under IFRS.

Area-of-interest type of method

Under an area-of-interest type of method, costs incurred for individual geological areas that have characteristics conducive to containing a mineral reserve are deferred as assets pending determination of whether commercial reserves are found. If the area is found to contain commercial reserves, the accumulated costs are capitalised. If the area is found to contain no commercial reserves, the accumulated costs are expensed. Some consider such a method to be a version of a successful efforts type of method that uses an area-of-interest, rather than an individual licence, as its unit of account. Others believe that this method is more like a full cost type of method but applied on an area-of-interest basis. Costs incurred up to the point where an area-of-interest is identified (prospecting costs) are often expensed under the area-of-interest approach. While IFRS 6 will not permit all aspects of an area-of-interest method defined by a national GAAP, an entity that uses relatively small areas-of-interest may be able to implement the method in a meaningful way under IFRS.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(e) Property, plant and equipment and mine properties

(i) Initial recognition

Upon completion of mine construction, the assets are transferred into "Property, plant and equipment" or "Mine properties". Items of property, plant and equipment and producing mine are stated at cost, less accumulated depreciation and accumulated impairment losses. IAS 16.73 (a)
IAS 16.73(a)
IAS 16.30

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment. IAS 16.15
IAS 16.16

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development.

(ii) Depreciation/amortisation

Accumulated mine development costs are depreciated/amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied. The unit of account for run of mines (ROM) costs are tonnes of ore whereas the unit of account for post-ROM costs are recoverable ounces of gold and recoverable tonnes of copper. Rights and concessions are depleted on the unit-of-production basis over the total reserves of the relevant area. The unit-of-production rate for the depreciation/amortisation of mine development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure. IAS 16.73(b)
IAS 16.73(c)

The premium paid in excess of the intrinsic value of land to gain access is amortised over the life of mine.

Other plant and equipment such as mobile mine equipment is generally depreciated on a straight-line basis over their estimated useful lives as follows:

- ▶ Buildings 20 years
- ▶ Plant and equipment 5 to 15 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised. IAS 16.67
IAS 16.68
IAS 16.71

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate. IAS 16.51

Refer to Note 2.4 (p) for the Group's policy on amortisation of stripping costs incurred in the production phase.

Commentary

Reserves base for unit-of-production method of depreciation

An important decision in applying the unit-of-production method is selecting the reserves base that will be used. IFRS does not provide any guidance on the selection of an appropriate reserves base or cost centre for the application of the unit-of-production method. The following reserves bases could in theory be used:

- (a) Proved developed reserves;
- (b) Proved developed and undeveloped reserves;
- (c) Proved and probable reserves; and
- (d) Proved, probable and possible reserves.

It is important that, whatever reserves base is chosen, the costs applicable to that category of reserves are included in the depreciable amount to achieve a proper matching of costs and production. For example, if the cost centre is not fully developed, there may be costs that do not apply, in total or in part, to proved developed reserves, which may create difficulties in matching costs and reserves. In addition, some reserve categories will require future costs to bring them to the point where production may begin.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(e) Property, plant and equipment and mine properties *continued*

Commentary *continued*

Reserves estimates

The reserves estimate to be used when applying the unit-of-production method of depreciation is the best estimate of the reserves at the beginning of the period. However, a revised and more accurate estimate is often available by the end of the period. It could therefore be argued that in order to take into account the most recent information, the opening reserves should be calculated by adding the "closing reserves estimated at the end of the period" to the "current period's production". However, reserve estimates might change for a number of reasons, such as:

- (a) More detailed knowledge about existing reserves (e.g. detailed engineering studies)
- (b) New events that affect the physical quantity of reserves (e.g., major fire in a mine)
- (c) Changes in economic assumptions (e.g., higher commodity prices)

It is generally not appropriate to take account of these events retrospectively. For example, changes in reserves estimates that result from events that took place after the reporting period (such as those under (b) above) are non-adjusting events that should be accounted for prospectively in accordance with IFRS. Changes in reserve estimates that result from "new information or new developments" (such as those under (a) above) are not considered to be corrections of errors; instead they are changes in accounting estimates that should be accounted for prospectively under IFRS (paragraphs 32 to 38 of IAS 8).

Reserves bases

An entity preparing its financial statements under IFRS will need to choose between using "proved developed reserves", "proved developed and undeveloped reserves" and "proved and probable reserves" as its reserves base. Each of these approaches is acceptable under IFRS. Preparers of financial statements should be aware of the difficulties that exist in ensuring that the reserves base and the costs that are being depreciated correspond. Users of financial statements need to understand that comparability between entities reporting under IFRS may sometimes be limited and need to be aware of the impact that each of the approaches has on the depreciation charge that is reported.

I - Proved developed reserves

Under some national GAAPs that have (or had) accounting standards for the extractive industries, an entity is required to use proved developed reserves as its reserves base. An entity would therefore calculate its depreciation charge on the basis of actual costs that have been incurred to date. However, the problem often exists that the cost centre includes capitalised costs that relate to undeveloped reserves. To calculate the depreciation charge correctly, it will be necessary to exclude a portion of the capitalised costs from the depreciation calculation.

II - Proved developed and undeveloped reserves

The IASC's Issues Paper notes that it could be argued that "the choice is either to use: (a) both developed and undeveloped proved reserves and add to the depreciable costs already incurred estimated future development costs applicable to proved undeveloped reserves; or (b) to use proved developed reserves only and withhold from the depreciation computation those development costs applicable to reserves whose remaining development will occur in the future", but that "it is often difficult to allocate costs that have already been incurred between developed and undeveloped reserves".

Therefore, another approach common under IFRS is to use "proved developed and undeveloped reserves" as the reserves base for the application of the unit-of-production method. This approach has the advantage that it effectively straight-lines the depreciation charge per unit of production across the different phases of a project. The entity would therefore define its cost pool (i.e. unit of account) as including both assets that it currently owns and certain future investments. Although there is no precedent within IFRS for using such a widely defined unit of account, such an approach is not prohibited. In practice, it has gained a broad level of acceptance within the extractive industries.

III - Proved and probable reserves

The arguments in favour of using "proved and probable reserves" as the reserves base in applying the unit-of-production method are similar to those discussed at II above. The IASC's Issues Paper summarises the arguments in favour of this approach as follows:

"Proponents of [using "proved and probable reserves" as the reserve base] use the same arguments given for including proved undeveloped reserves and related future costs in calculating depreciation. They point out that in a cost centre in which development has only begun a large part of capitalised prospecting, mineral acquisition, exploration, and appraisal costs may apply to probable reserves. Often in this situation there are large quantities of probable reserves, lacking only relatively minor additional exploration and/or appraisal work to be reclassified as proved reserves. They argue that, in calculating depreciation, it would be possible to defer all costs relating to the probable reserves if either proved developed reserves only, or all proved reserves, were to be used as the quantity on which depreciation is based. They contend that using probable and proved reserves in the reserve base and including in the depreciable costs any additional costs anticipated to explore and develop those reserves provides more relevant and reliable information".

The main drawbacks of this approach are that:

- (1) Estimates of probable reserves are almost certainly different from actual reserves that will ultimately be developed; and
- (2) Estimates of the costs to complete the development are likely to be incorrect because of the potentially long time scales involved.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(e) Property, plant and equipment and mine properties *continued*

(iii) Farm-outs - outside the exploration and evaluation phase

In accounting for a farm-out arrangement the Group:

- ▶ Derecognises the proportion of the asset that it has sold to the farmee;
- ▶ Recognises the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor;
- ▶ Recognises a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. A gain is only recognised when the value of the consideration can be determined reliably. If not, then the Group accounts for the consideration received as a reduction in the carrying amount of the underlying assets; and
- ▶ Tests the retained interest for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

The consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the Group. However, if payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue. Any part of the consideration that is receivable in the form of cash is treated as a definition of a financial asset and is accounted for at amortised cost.

Commentary

As discussed above in note 2.4(d)(v)(iii), a farm-in represents the complete acquisition of a proportion of a property.

Farmee

Therefore, the farmee should:

- ▶ Recognise an asset that represents the underlying (partially) undeveloped interest acquired at cost in accordance with IAS 16 or IAS 38 [IAS 16.15, IAS 38.21]; and
- ▶ Recognise a liability that reflects the obligation to fund the farmor's share of the future investment from which the farmee itself will not derive any future economic benefits.

Farm-in arrangements can be structured in numerous ways, some requiring payment of a fixed monetary amount, while others are more flexible and state, for example, that capital expenditures over the next five years will be paid for by the farmee regardless of what those amounts may be.

In the latter scenario, the farmee should recognise a provision under IAS 37 as the timing and amount of the liability are uncertain. [IAS 37.10]. However, in the former scenario it could be argued that the liability meets the definition of a financial liability under IAS 32 that should be accounted for in accordance with IAS 39 [IAS 32.11].

Farmor

In accounting for a farm-in arrangement the farmor should:

- ▶ Derecognise the proportion of the asset that it has sold to the farmee in accordance with the requirements of IAS 16 or IAS 38 [IAS 16.67, IAS 38.112];
- ▶ Recognise the consideration received or receivable from the farmee, which represents the farmee's obligation to fund the capital expenditure in relation to the interest retained by the farmor;
- ▶ Recognise a gain or loss on the transaction for the difference between the net disposal proceeds and the carrying amount of the asset disposed of. [IAS 16.71, IAS 38.113]. Recognition of a gain would be appropriate only when the value of the consideration can be determined reliably. If not, then the carried party should account for the consideration received as a reduction in the carrying amount of the underlying assets; and
- ▶ Test the retained interest for impairment if the terms of the arrangement indicate that the retained interest may be impaired.

Under IAS 16 and IAS 38, the consideration receivable on disposal of an item of property, plant and equipment or an intangible asset is recognised initially at its fair value by the farmor. However, if "payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with IAS 18 reflecting the effective yield on the receivable" [IAS 16.72, IAS 38.116]. However, any part of the consideration that is receivable in the form of cash will meet the definition of a financial asset under IAS 32 and should be accounted for in accordance with IAS 39, [IAS 32.11], either at amortised cost or fair value depending on how the farmor designates the receivable.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(e) Property, plant and equipment and mine properties *continued*

(iv) Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised. IAS 16.12
IAS 16.13
IAS 16.14

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset(s) which is immediately written off. All other day-to-day maintenance and repairs costs are expensed as incurred.

(f) Other intangible assets

Other intangible assets include computer software.

IAS 38.24

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred. IAS 38.74
IAS 38.33

The useful lives of intangible assets are assessed as either finite or indefinite. IAS 38.88

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible assets. IAS 38.97
IAS 38.104
IAS 38.99

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. IAS 38.107-108
IAS 38.109

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. IAS 38.112-113

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate: IAS 38.54

- ▶ The technical feasibility of completing the intangible asset so that it will be available for use or sale IAS 38.57
 - ▶ Its intention to complete and its ability to use or sell the asset
 - ▶ How the asset will generate future economic benefits
 - ▶ The availability of resources to complete the asset
- And
- ▶ The ability to reliably measure the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied and therefore the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually. IAS 38.74
IAS 36.10(a)

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(g) Impairment of non-financial assets

(i) Assets (excluding goodwill and indefinite life intangibles)

The Group assesses at each reporting date whether there is an indication that an asset (or cash-generating unit (CGU)) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

IAS 36.9
IAS 36.10
IAS 36.18
IAS 36.22
IAS 36.66
IAS 36.59, 60
IAS 36.27

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

IAS 36.33
IAS 36.35

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

IAS 36.60

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase and is recognised through other comprehensive income.

IAS 36.110
IAS 36.114
IAS 36.117
IAS 36.119

(ii) Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(b)
IAS 36.90

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

IAS 36.124

(iii) Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

IAS 36.10(a)

Commentary

IAS 36.96 permits the annual impairment test for a CGU to which goodwill has been allocated to be performed at any time during the year provided it is at the same time each year. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

The same rule applies to indefinite life intangibles. Different CGUs and intangible assets may be tested at different times.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(g) Impairment of non-financial assets *continued*

Commentary *continued*

The level of cash generating units

IAS 36 provides a number of minimum indicators of impairment. However, entities operating within the mining sector may also consider the following:

- ▶ Declines in prices of products or increases in production costs
- ▶ Governmental actions, such as new environmental regulations, imposition of price controls and tax increases
- ▶ Major operational problems or accidents
- ▶ Significant decreases in reserves estimates
- ▶ Increases in the anticipated period over which reserves will be produced
- ▶ Substantial cost overruns during the development and construction phases of a mine

A cash-generating unit (CGU) is defined by IAS 36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In determining appropriate CGUs, an entity will need to consider the following issues, in particular:

- ▶ Is there an active market for intermediate products such as ore or concentrates?
- ▶ Are there external users of the processing assets?
- ▶ Are there mines that are operated as one "complex" though the use of shared infrastructure?
- ▶ Are there stand-alone mines that operate on a portfolio basis?

For most mining companies, the successive stages of the mining and production process are often considered to be one CGU as it is not possible to allocate net cash inflows to individual stages of the process.

Impairment calculations are based on economically recoverable reserves.

The prices to apply to future production

We would generally expect management to make use of prices that are observable in the market as observable market prices are generally more reliable. Inputs to impairment calculations and long-term prices used should be consistent with those used for investment appraisal purposes and will likely be linked to internal long-term planning assumptions.

Foreign currency future cash flows

In accordance with IAS 36, when calculating the value in use of the CGU, future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity then translates the present value of these cash flows using the spot rate at the date of the value in use calculation.

Shared infrastructure

When several mines share infrastructure (e.g., pipelines, railways, ports or refining and smelting facilities) the question arises whether the mines and the shared infrastructure should be treated as a single CGU. Treating the mines and the shared infrastructure together is not appropriate under the following circumstances:

- ▶ If the shared infrastructure is relatively insignificant, it would generally not be appropriate to treat the different mines as part of the same CGU
- ▶ If the mines are capable of selling their product without making use of the shared infrastructure, that again would indicate that they are not part of the same CGU
- ▶ If the shared infrastructure is classified as a corporate asset, which is defined under IAS 36 as "assets other than goodwill that contribute to the future cash flows of both the CGU under review and other CGUs". In that case, the entity should apply the requirements in IAS 36 regarding corporate assets

However, if the conditions above do not apply, then it may be appropriate to treat the mines and the shared infrastructure as one CGU.

Reversal of impairment loss - exploration and evaluation (E&E) assets

Any impairment loss on an E&E asset that has been recognised in accordance with IFRS needs to be reversed when the requirements specified in paragraphs 109 to 123 of IAS 36 have been met. An impairment loss recognised in prior periods for an asset, other than goodwill, shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset will be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. In some circumstances, when an entity recognises an impairment of an E&E asset, it also needs to decide whether or not to derecognise the asset because future economic benefits are no longer expected. If an entity concludes that production is not technically feasible or commercially viable, this provides evidence that the related E&E asset needs to be tested for impairment. Based on such evidence, an entity may also conclude that future economic benefits are no longer expected and the area is to be abandoned.

Although IFRS does not specifically deal with derecognition of E&E assets, the entity should derecognise the E&E asset because: (1) the asset is no longer in the E&E phase and hence outside the scope of IFRS; and (2) other asset standards such as IAS 16 and IAS 38, would require derecognition under those circumstances. Subsequent to derecognition, the cost of an E&E asset that has been de-recognised cannot be re-recognised as part of a new E&E asset nor reversed, unlike the impairment of an E&E asset, which may be reversed (as discussed above).

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(h) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

IFRS 7.21

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

IAS 39.9

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

IAS 39.43

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

IAS 39.38

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, described below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs (as appropriate) in profit or loss.

IAS 39.9

IAS 39.46

IAS 39.AG14

IAS 39.55(a)

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluates its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

IAS 39.50-50D

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

IAS 39.10

IAS 39.11

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

IAS 39.9

IAS 39.46(a)

IAS 39.56

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(h) Financial instruments - initial recognition and subsequent measurement *continued*

(i) Financial assets *continued*

Derecognition

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: IFRS 7.21

- ▶ The rights to receive cash flows from the asset have expired
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either: (a) the Group has transferred substantially all the risks and rewards of the asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. IAS 39.17(a)
IAS 39.18(b)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. IAS 39.20(a)
IAS 39.20(c)
IAS 39.18(b)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. IAS 39.30(a)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. IAS 39.58
IAS 39.59
IFRS 7.B5(f)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. IAS 39.64

IAS 39.63

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss. IAS 39.AG84
IFRS 7.16
IFRS 7.B5(d)(xi)
IFRS
7.B5(d)(xii)
IAS 39.65
IAS 39.AG93

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(h) Financial instruments - initial recognition and subsequent measurement *continued*

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

IFRS 7.21
IAS 39.43
IAS 39.56

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

IAS 39.9
IAS 39.47(a)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

IAS 39.55(a)

Gains or losses on liabilities held for trading are recognised in profit or loss.

IAS 39.47

Financial liabilities designated upon initial recognition at fair value through profit or loss should be designated at the initial recognition date and only if the conditions set out in IAS 39 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss.

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

IAS 39.39

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

IAS 39.41
IAS 39.40

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

IAS 32.42

(iv) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

IAS 39.48A
IFRS 7.27

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(h) Financial instruments - initial recognition and subsequent measurement *continued*

(v) Current versus non-current classification

IAS 1.60

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- ▶ Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- ▶ Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- ▶ Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

(vi) Cash and short-term deposits

IAS 7.6,
IAS 7.7
IAS 7.48-49

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less, but excludes any restricted cash which is not available for use by the group and therefore is not considered highly liquid - for example cash set aside to cover rehabilitation obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

IAS 7.45

(vii) Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the "normal purchase or sale exemption" (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative. Refer note 2.4(m) for more information). For these contracts and the host part of the contracts containing embedded derivatives, they are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

IAS 39.5

Commentary

For those financial instruments not specifically mentioned in the Good Mining accounting policy note (e.g., held to maturity financial investments, available-for-sale financial assets, hedging instruments, etc), please refer to Good Group (International) Limited 2011 illustrative financial statements.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(i) Inventories

Gold bullion, gold and copper in concentrate, metal in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated future sales price of the product the entity expects to realise when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

IAS 2.36(a)
IAS 2.9
IAS 2.6
IAS 2.10

Cost is determined by the weighted-average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end. Separately identifiable costs of conversion of each metal are specifically allocated.

IAS 2.29

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

Commentary

In the mining industry, it is common for more than one product to be extracted from the same reserves (e.g., silver is often found together with gold and copper). In most cases, where more than one product is produced, there is a clear distinction between the main product and the by-product. IAS 2 prescribes that when the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often initially measured at the net realisable value. The remaining costs, if recoverable, are attributed to the main product. As a result, the carrying amount of the main product is not materially different from its cost. IAS 2 does not require extensive disclosures in respect of by-products. However if the amounts are material, disclosure of accounting policies applied to by-products and the line item in which revenues and the carrying amounts of by-products are recorded in the financial statements.

By-products that are significant in value should be accounted for as joint products. Joint products, by definition, are significant in value, which requires an entity to allocate, on a rational and consistent basis, the costs of conversion that are not separately identifiable to each product.

(j) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

IFRIC 4.6

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

IFRIC 4.17

Group as a lessee

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

IAS 17.8
IAS 17.20
IAS 17.25

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

IAS 17.27

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

IAS 17.33

Embedded leases

All take-or-pay contracts are reviewed on inception to determine if they contain any embedded leases.

IFRIC 4.6

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

IAS 17.8
IAS 17.52

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(k) Provisions

(i) General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost in profit or loss.

IAS 37.14

IAS 37.53

IAS 37.54

IAS 37.45

IAS 37.47

IAS 37.60

(ii) Rehabilitation provision

The Group records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

IAS 37.45

IAS 37.47

IAS 37.60

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are expensed as incurred. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs are recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) which is created on an ongoing basis during production are provided for at their net present values and recognised in profit or loss as extraction progresses.

IFRIC 1.8

Changes to estimated future costs are recognised in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognised as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

IFRIC 1.5

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(k) Provisions *continued*

Commentary

Changes to the provision

Where a reduction in a rehabilitation obligation is to be deducted from the cost of the asset, the "cost of the asset" is the written down carrying value of the whole asset (comprising its construction costs and rehabilitation cost). This view is based on the example and associated solution set out in IFRIC 1. The solution does not treat the rehabilitation element as a separate component of the asset. Accordingly, we believe that it would not be appropriate to recognise any gain until the carrying value of the whole asset is extinguished.

IFRIC 1 IE1-4

Deferred tax

Recognition of the rehabilitation asset and liability and the related tax implications has led to two different approaches being adopted by mining entities.

Approach 1: The entity recognises: (1) a deferred income tax asset regarding the temporary difference on the rehabilitation liability; and (2) a deferred income tax liability regarding the temporary difference on the rehabilitation asset. On day one, the deferred income tax asset and deferred income tax liability are equal and opposite and the criteria for offsetting contained in IAS 12 paragraphs 71 and 76 are met so the net amount recognised in the financial statements is zero. However, subsequently, the rehabilitation asset will be amortised at a different rate than the underlying liability, at which point a net deferred income tax asset or liability is recognised.

IAS 12.56
IAS 12.37

Approach 2: The company recognises neither the deferred income tax asset regarding the temporary difference on the rehabilitation liability nor the corresponding deferred income tax liability regarding the temporary difference on the rehabilitation asset. The initial recognition exemption of IAS 12 paragraphs 15 and 24 applies to each separately recognised element in the statement of financial position with no subsequent recognition reassessment.

(iii) Greenhouse gas emissions

IAS 8.10

The Group receives free emission rights in certain countries as a result of the Emission Trading Schemes of those countries. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted the net liability approach to the emission rights granted. Therefore, a provision is only recognised when actual emissions exceed the emission rights granted and still held. The emission costs are recognised as other operating costs.

Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value, and the changes in fair value recognised in profit or loss.

Commentary

IFRIC 3 *Emission Rights* was withdrawn in June 2005 as the IASB is developing guidance on accounting for emission rights. In the absence of specific guidance, management must develop an accounting policy that is relevant and reliable. The Group has applied the net liability approach based on IAS 20.23. However, emission rights received could also be recognised as intangible assets at their fair value with all the disclosures required by IAS 38.

(l) Taxes

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

IAS 12.46

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

IAS 12.61(b))

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(I) Taxes *continued*

(ii) *Deferred income tax*

Deferred income tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

IAS 12.15

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

IAS 12.22(c)

- ▶ Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

IAS 12.39

Deferred income tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

IAS 12.34

- ▶ Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

IAS 12.24

IAS 12.44

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

IAS 12.47

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

IAS 12.74

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances arose. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or in profit or loss.

IAS 12.68

(iii) *Royalties, resource rent tax and revenue-based taxes*

IAS 12.2

In addition to corporate income taxes, the Group's consolidated financial statements also include and recognise as taxes on income, other types of taxes on net income which are calculated based on production.

Royalties, resource rent taxes and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income - rather than based on quantity produced or as a percentage of revenue - after adjustment for temporary differences. For such arrangements, current and deferred income tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The royalties and resource rent taxes payable by Good Mining are considered to meet the criteria to be treated as part of income taxes.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(l) Taxes *continued*

Commentary

The mining industry is subject to numerous fiscal regimes throughout the world. These fiscal regimes may include royalties, production taxes, revenue taxes and others. One issue is determining which of these fiscal regimes represent income taxes and are therefore subject to the accounting required in IAS 12 and which are not income taxes and therefore fall outside the scope of IAS 12. Usually this is required to be considered on a case by case basis.

(iv) Sales tax

IAS 18.8

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- ▶ Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- ▶ Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(m) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

IAS 18.35(a)

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when product is physically transferred onto a vessel, train, conveyor or other delivery mechanisms. Revenue is measured at the fair value of the consideration received or receivable.

IAS 18.14
IAS 18.20
IAS 18.9

The following criteria are also applicable to other specific revenue transactions:

(i) Gold bullion sales

Revenue from gold bullion sales is brought to account when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reasonably estimated. This is generally when the gold is credited to the metal account of the customer.

(ii) Gold and copper in concentrate sales

Contract terms for the Group's sale of gold and copper in concentrate (metal in concentrate) allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment, with a subsequent adjustment made upon final determination and presented as part of "Other Income".

The terms of metal in concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the "quotation period"). Adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlement can be between one and six months.

Sales contracts for metal in concentrate which have provisional pricing features are considered to contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. Accordingly, the embedded derivative, which does not qualify for hedge accounting, is recognised at fair value, with subsequent changes in the fair value recognised in profit or loss each period until final settlement, and presented as "Other Income". Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices for gold and copper.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(m) Revenue Recognition *continued*

(iii) Interest revenue

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest revenue is included in finance income in profit or loss.

IAS 18.30(a)

Commentary

Gold bullion forward sales agreements

It is common for companies in the mining industry to enter into hedging arrangements such as forward contracts, in order to manage exposure to volatile commodity prices. Sales made under gold bullion forward sales agreements may be accounted for as normal sales arrangements (executory contracts), if they meet the requirements in IAS 39 paragraph 5. These include if the obligations under the gold bullion forward sales agreements are met with physical delivery from gold bullion production.

Provisionally priced contracts

Sales contracts for certain commodities often provide for provisional pricing at the time of shipment of metal concentrate, with final pricing based on a market price for a particular future period. The final price may be based on the average price during a subsequent period ("quotational period"), the price on a fixed date after delivery or the amount subsequently realised by the smelter or refinery.

Price adjustment features contained in non-cancellable contracts that are based on quoted market prices for a date subsequent to the date of shipment or delivery are considered to be embedded derivatives that require separation under IAS 39, because the forward price at which the contract is to be settled is not closely related to the spot price. The non-financial contract for the sale of metal concentrate at a future date would be treated as the host contract, while the exposure to the price movements from delivery / shipment date to final payment date would be treated as an embedded derivative.

Prior to delivery, the host contract will be a commodity sales contract. After delivery, once the sale is recognised, the host contract will be a trade receivable. A strong argument can be made that the price adjustment feature will be closely related to a contract to supply a commodity, but not to a debtor. Hence, it should not be necessary to separate the embedded derivative until delivery. Upon initial recognition, the embedded derivative will have a fair value of zero, but subsequently, its fair value will change with reference to the contract price and the forward market rate. The embedded derivative will be recognised as a financial instrument in the statement of financial position.

Changes in the fair value of the embedded derivative should be recognised in profit or loss for the period. Such gains and losses from embedded derivatives could be presented together with those from other derivatives or "other income". There is currently no definitive guidance on the classification of these gains and losses. In practice, many companies include them in revenue. Whichever policy an entity adopts, it is important that disclosure is made of the entity's accounting policy for such gains and losses, including the line item in which they are classified within profit or loss.

When the embedded derivative is separated from the host contract, the host contract will normally meet the revenue recognition criteria (i.e., revenue can be measured reliably) at the date that the metal concentrate is delivered (e.g., passes the ship's rail).

Within the mining industry, the transfer of risks and rewards may be triggered by a number of varying events, depending on the terms and conditions of the relevant contracts. Example of these events may include the point at which the goods are loaded onto ships (i.e., passes the ship's rail), the point at which they are physically received by the smelter or refiner, or the point at which the gold bullion is transferred from a mining company's metal account.

Recognition of revenue at the completion of production

Under some very limited circumstances, some mining companies may be able to recognise revenue upon completion of production of the commodity. Where an entity has entered into a firm contract for the production and delivery of product, the sales price will have been determined and the selling costs incurred. Consequently, provided that the delivery expense and bad debt risk can be satisfactorily assessed, then it may be appropriate to recognise revenue on this basis.

In a very limited number of industries it has become acceptable to recognise revenue at the completion of production, even though a sales contract may not have been entered into. For entities within the mining industry, that practice has been adopted only when the following criteria have been met:

- ▶ The minerals have been extracted
- ▶ Sale is assured under a forward contract or a government guarantee, or an active market exists and there is negligible risk of failure to sell
- ▶ The market price is determinable and stable

The practice of fair valuing inventory is not common in the mining industry, and is generally only seen in companies engaged in speculative trading.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(m) Revenue recognition *continued*

Commentary *continued*

The historical cost principles under IAS 2 do not apply mandatorily to inventories held by producers of minerals and mineral products, to the extent that they are measured at net realisable value (NRV) in accordance with well established industry practice. In order to apply this scope exemption, the changes in NRV must be recognised in profit or loss in the period of the change. It is important to note that the valuation of inventory under this methodology is only permitted if it is accordance with "well established industry practice". In addition, this method of accounting would generally only be acceptable for producers of minerals that hedge their sales, as producers of minerals that do not hedge their sales are exposed to price risk, which does not meet the criteria of a stable market price given the volatile prices of most commodities.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. IAS 23.8
IAS 23.12

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. IAS 23.8
IAS 23.14

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, they generally do not meet the "probable economic benefits" test and also are rarely debt funded. Any related borrowing costs are therefore generally recognised in profit or loss in the period they are incurred.

Commentary

IAS 23 defines borrowing costs as including exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs. The Group would also include foreign exchange differences on directly attributable borrowings as an adjustment to interest costs for capitalisation if the amount was significant. Additionally, the accounting policy would be expanded to include the Group's approach in determining the foreign exchange differences.

The Interpretations Committee concluded that the unwinding of the discount is not a borrowing cost as defined in IAS 23 *Borrowing Costs*, and thus cannot be capitalised under that standard. IFRIC 1.8

(o) Pension benefit obligation

The Group operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at the date. These gains and losses are recognised over the expected average remaining working lives of the employees participating in the plan. IAS
19.120A(b)
IAS 19.64
IAS
12.120A(a)
IAS 19.92
IAS 19.93

Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a defined benefit pension plan, the past service cost is recognised immediately. IAS 19.96

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), plus any actuarial gains (less any losses) not recognised as a result of the treatment above less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. IAS 19.54
IAS 19.58
IAS 19.7
IAS 19.58A

Commentary

The Group recognises the net cumulative unrecognised actuarial gains and losses, which exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date over the remaining working periods of the employees, in accordance with IAS 19.93. This is sometimes referred to as the "corridor approach".

Note that IAS 19 was recently amended. The amendments contain certain significant changes such as, removing the corridor mechanism and the concept of expected returns on plan assets. The amendments are effective for annual periods beginning on or after 1 January 2013.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(p) Deferred stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units of production basis.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs. In such cases, the initial stripping, (i.e., overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

Stripping costs incurred subsequently during the production phase are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine. The amount of stripping costs deferred is based on the strip ratio obtained by dividing the total tonnage of waste expected to be mined over the life of the mine, either by the quantity of ore expected to be mined across the life of the mine or by the quantity of minerals expected to be contained in the ore. Stripping costs incurred in the period are deferred to the extent that the current period ratio exceeds the life of the mine average strip ratio. Such deferred costs are then charged to profit or loss to the extent that, in subsequent periods, the current period ratio falls below the life of mine (or pit) ratio. The life of mine (or pit) ratio is based on economically recoverable reserves of the mine (or pit). Changes are accounted for prospectively, from the date of the change.

Deferred stripping costs are included as part of "Mine properties". These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

Commentary

Deferred stripping costs

In surface mining operations, it is necessary to remove overburden and other waste materials to gain access to ore from which minerals can be extracted. It is generally accepted that the costs of removal (also known as stripping) of overburden and waste materials during the development of a mine (i.e., before production commences) should be capitalised as part of the investment in the construction of the mine. For these purposes, the "mine" is considered to be an asset that is separate from the "mineral rights and mineral reserves" which are outside the scope of IAS 16.

Prior to the issuance of IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (IFRIC 20), there was no consensus regarding the treatment of stripping costs incurred during the production phase. IFRS was not clear on whether stripping costs were to be treated as costs of inventory under IAS 2, capitalised as part of the asset or as a period cost. The issue was referred to the IFRS Interpretations Committee and IFRIC 20 is expected to be issued in October 2011 (refer below for further details).

Prior to the issuance of IFRIC 20, the following three approaches were being used:

- ▶ Expensing of stripping costs as incurred
- ▶ Capitalising stripping costs as a cost of inventory
- ▶ Deferral of stripping costs

Given the varying treatments of stripping costs, it is important that companies disclose:

- ▶ Accounting policies for the treatment of stripping costs
- ▶ The amount of deferred stripping costs
- ▶ The statement of financial position caption in which the deferred stripping costs are recognised

Expensing of stripping costs

In some mining operations, the stripping ratio, which is the ratio between waste and mineral ore extracted, is expected to be relatively consistent over the life of the mine because of the physical characteristics of the mineral deposit. In particular, when an entity uses an extraction method such as strip mining, which only requires the removal of overburden shortly before the mineral ore is extracted, there will be little advance stripping and the period to period fluctuations of stripping costs may be insignificant. In such cases, it is generally considered acceptable to expense stripping costs as a production cost when incurred. This issue was well canvassed in EIC-160 of the Canadian Issues Committee that stripping costs should only be capitalised if the stripping activity results in the betterment of the mineral property.

Capitalising stripping costs into inventory

Application of US GAAP ASC 930-330-25-1 (previously referred to as EITF 04-6 *Accounting for Stripping Costs Incurred during Production in the Mining Industry*, adoption of which was permitted under the hierarchy in IAS 8), has found some acceptance by companies reporting under IFRS, in particular, those that also report financial information under US GAAP. ASC 930-330-25-1 states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of inventory extracted during the period in which the stripping costs are incurred.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(p) Deferred stripping costs *continued*

Commentary *continued*

The ASC 930-330-25-1 approach can lead to earnings volatility when accounting for stripping costs in mines that experience material fluctuation in the ratio of waste to mineral ore mined. It is argued that this earnings volatility only reflects the actual volatility of operational results. However, it could also be argued that the stripping costs incurred in one period are not necessarily related to the production of mineral ore in that period. For example, there are often good operational reasons for stripping overburden well ahead of the period in which production will occur.

Deferral of production costs to match future production

In some mining operations, the stripping costs will vary significantly from period to period because of variations in the thickness of the layer of overburden, the physical properties and shape of the ore body and operational requirements that determine when overburden can be removed. When stripping costs fluctuate significantly between periods, entities generally defer and capitalise excess stripping costs (i.e., costs that do not relate to production in the current period) and allocate those costs to the production derived in later years. Two approaches are commonly applied in practice in determining which portion of the stripping costs should be deferred - the specific identification approach and the average strip ratio approach.

1) The specific identification approach

Under the specific identification approach, the costs for each stripping campaign are allocated to the quantity of mineral ore that becomes accessible. The costs of each stripping campaign are then capitalised and amortised when the related mineral ore is extracted. Although support for this approach can be found in both IAS 2 and IAS 16, the approach is often considered too cumbersome for record keeping and has not been popular in practice. IFRIC 20 effectively requires the application of a form of the specific identification approach.

2) Average strip ratio approach

The average strip ratio approach requires the actual current period ratio of "overburden to mineral ore extracted" to be compared against the expected average over the life of the mine determined in accordance with the mine plan. Excess stripping costs are deferred when the actual strip ratio exceeds the average strip ratio. Deferred stripping costs are expensed in the opposite situation. Whether application of the average strip ratio approach is appropriate depends on the circumstances.

Gradually increasing strip ratio - the average strip ratio approach is not appropriate in this case as it would result in the recognition of a stripping cost liability. In the absence of a legal or constructive obligation to continue to the mine the deposit, an entity should not recognise a liability. If this is the case, then one of the other methods discussed above will be more appropriate.

Gradually decreasing strip ratio - although this situation is unlikely to occur in practice (i.e., typically mining operations will start at the point where the stripping ratio is most favourable), the average strip ratio approach might be considered appropriate,

Substantially constant or stable strip ratio - in this case, the average strip ratio approach is considered acceptable, but the results of the approach will approximate those of the other methods discussed above.

A final scenario which combines elements of the above scenarios, would be one in which the strip ratio fluctuates over time e.g., because the depth of the mineral deposit varies. In such cases, an entity needs to exercise judgement in developing an appropriate accounting policy. An entity that applies the average strip ratio approach should regularly reassess whether the approach is still appropriate. For example, the mining of an unexpected fault should not be capitalised and then spread out over future production but should be recognised as a period cost.

While the average strip ratio approach is imperfect, many entities in the mining industry consider that it provides reliable and more relevant information about their financial position and financial performance than the alternative.

IFRIC Interpretation 20 - Stripping Costs in the Production Phase of a Surface Mine

It is expected that the IFRS Interpretations Committee (the Interpretations Committee) will issue IFRIC 20 (the Interpretation) in October 2011. Set out below is a summary of our understanding of the Interpretation.

The Interpretation considers the different types of stripping costs encountered in a surface mining operation. These costs are separated into those incurred in the development phase of the mine (i.e. pre-production) and those that are incurred in the production phase. Generally, those that are incurred in the development phase of the mine would be capitalised as part of the depreciable cost of building, developing and constructing the mine, under the principles of IAS 16. Ultimately these capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production commences. The stripping costs incurred in the development phase of a mine are not considered by the Interpretation. The Interpretations Committee considered that there was little divergence in practice when accounting for these costs.

Despite the importance of the term "production phase", this is not defined in the Interpretation, or elsewhere in IFRS. The determination of the commencement of the production phase not only affects stripping costs, but also impacts many other accounting issues in the extractives industries. These include the cessation of the capitalisation of other costs, including borrowing costs, the commencement of depreciation/amortisation, and the treatment of certain pre-production revenues.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(p) Deferred stripping costs *continued*

Commentary *continued*

Scope

The Interpretation will apply to all waste removal (stripping) costs that are incurred during the production phase of a surface mine (production stripping costs). The Interpretation limits its scope to only surface mining activity and does not apply to underground mining. Also, the Interpretations Committee decided not to address oil and natural gas extraction, including the question of whether oil sands extraction was a surface mining activity, when it determined the scope of the Interpretation.

The Interpretation then acknowledges that stripping activity undertaken during the production phase may create two benefits – the first being the production of inventory and the second being improved access to ore to be mined in the future. Where the benefits are realised in the form of inventory produced, the production stripping costs shall be accounted for in accordance with IAS 2 *Inventories*. Where the benefit is improved access to ore to be mined in the future, these costs must be recognised as a non-current asset, if the required criteria are met (refer below). The Interpretation refers to this non-current asset as the "stripping activity asset".

Recognition criteria – stripping activity asset

IFRIC 20 states that an entity must recognise a stripping activity asset if, and only if, all of the following criteria are satisfied:

- ▶ It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- ▶ The entity can identify the component of the ore body for which access has been improved; and
- ▶ The costs relating to the improved access to that component can be measured reliably.

Instead of being a separate asset, the stripping activity asset must be accounted for as an addition to, or as an enhancement of, an existing asset. This means that the stripping activity asset will be accounted for as part of an existing asset. IFRIC 20 does not specify whether the stripping activity asset will be a tangible or intangible asset. Instead, it simply states that it should be classified as tangible or intangible according to the nature of the existing asset of which it is part, so it will depend upon whether an entity classifies its mine assets as tangible or intangible.

The Interpretation considers that the stripping activity asset might add to or improve a variety of existing assets, such as: the mine property (land), the mineral deposit itself, an intangible right to extract the ore or an asset that originated in the mine development phase. In most instances, entities classify their producing mine assets as tangible assets; therefore it is likely that the stripping activity assets will also be classified as tangible assets.

For entities that currently present their capitalised stripping costs as an asset separate from their mine assets or mining rights, for example, if they present these as part of other current or non-current assets, upon adoption of IFRIC 20, such amounts will need to be presented as part of the mining related assets (either tangible or intangible), which will be presented within non-current assets.

Initial recognition

The stripping activity asset is to be initially measured at cost. This will be the accumulation of costs directly incurred to perform the stripping activity that benefits the identified component of ore, plus an allocation of directly attributable overhead costs. In the Basis for Conclusions to IFRIC 20, examples of the types of costs that the Interpretations Committee expects would be included as directly attributable overhead costs would be items such as salary costs of the mine supervisor overseeing that component of the mine, and an allocation of rental costs of any equipment that was hired specifically to perform the stripping activity.

The Interpretation acknowledges that some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations are not to be included in the cost of the stripping activity asset. For example, building an access ramp in the area in which the production stripping activity is taking place. These ancillary costs shall be recognised as assets or expensed in accordance with other IFRSs.

Allocating costs between inventory and the stripping activity asset

The Interpretation acknowledges that when inventory is produced at the same time as access to the ore body (to be mined in the future) is improved, it may be difficult in practice to separately identify the costs of the inventory produced and the costs of the stripping activity asset. Given this, the Interpretation will permit an entity to use an allocation approach that is based on a relevant production measure.

The production measure is to be calculated for an identified component of the ore body. It effectively involves a comparison of the expected level of activity for that component of the ore body, with the actual level of activity, to identify when additional activity may be creating a future benefit. Activity incurred at the expected level and the associated costs of such, would form part of the cost of inventory produced. Any excess of actual activity over expected (and the associated cost) may then be considered to represent the stripping activity asset. It is important to note that where actual stripping levels exceed those expected for the identified component, this will not automatically result in the recognition of a stripping activity asset.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(p) Deferred stripping costs *continued*

Commentary *continued*

In determining an appropriate allocation basis, the Interpretation provides a (non-exhaustive) list of some of the possible metrics that could be used. These include:

- ▶ Cost of inventory produced compared with expected cost
- ▶ Volume of waste extracted compared with expected volume, for a given volume of ore production
- ▶ Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced

While this list is non-exhaustive, the Interpretations Committee will make it clear that an allocation basis which uses sales value or relative sales value is not acceptable.

It is worth noting that while the allocation approaches to be included in the Interpretation are similar to the life-of-mine average strip ratio approach used by many entities today, there are differences. The key difference is that the level at which the "expected" level of activity is to be determined may not be the entire ore body. Instead it is required to be determined for each component of the ore body. Refer below for further discussion on determining components of the ore body.

Identifying the component of an ore body

One of the critical steps an entity will need to undertake when applying this new Interpretation will be to identify the component(s) of an ore body. This will be necessary for several reasons:

- ▶ Production stripping costs can only be capitalised as an asset if the component of an ore body for which access has been improved, can be identified;
- ▶ To allocate stripping activity costs between inventory and the stripping activity asset, an entity will need to determine the expected level of activity for each component of an ore body; and
- ▶ The stripping activity asset is required to be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of an ore body that becomes more accessible as a result of the stripping activity.

Despite the importance of this assessment, limited guidance is to be provided within the Interpretation on how to identify the component(s). Although it does appear evident that the Interpretations Committee expects (in most cases) a component to be a subset of the whole ore body. This view is supported in several sections of IFRIC 20.

- ▶ The Basis for Consensus explains that "component" refers to the specific volume of the ore body for which future access is improved by the stripping activity; the identified component of the ore body would typically be a subset of the total ore body of the mine; and a mine may have several components, which are identified during the mine planning stage.
- ▶ The depreciation or amortisation requirements state that the expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets, unless the stripping activity provides improved access to the whole of the ore body.

While determining the component(s) of an ore body will require significant judgement, it is our understanding that the Interpretations Committee's decision not to provide detailed guidance as to exactly what an identified component is and how it should be determined, was deliberate. Requiring entities to make such a determination based upon their mine plans was the Interpretations Committee's way of acknowledging that no two mines were the same. Therefore, trying to provide detailed guidance/specific rules about how to identify the component(s) of an ore body could have lead to an unworkable model.

Given this, it appears evident that the Interpretations Committee is not expecting entities to identify components of an ore body which are not already contemplated in their mine plans. Having said this, given the nature of some mine plans, this may still not be a straight forward exercise, and it will be particularly challenging for the more complex mines. Also, the way an entity refers to the potential component(s) may vary between entities and potentially between different mines of the same entity.

Subsequent measurement

IFRIC 20 will require that after initial recognition, the stripping activity asset must be carried at its cost or revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part. The stripping activity asset is to be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

The Interpretation effectively requires the units of production method to be applied unless another method is more appropriate. As noted earlier, the Interpretations Committee noted that the expected useful life of the identified component that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets, unless the stripping activity provides improved access to the whole of the ore body.

Notes to the consolidated financial statements

2.4 Summary of significant accounting policies *continued*

(p) Deferred stripping costs *continued*

Commentary *continued*

Effective date and transition

IFRIC 20 is to be effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it must disclose that fact.

The Interpretation is to be applied prospectively to production stripping costs incurred on or after the beginning of the earliest period presented. For many entities this means they will need to start tracking the impacts of IFRIC 20 from 1 January 2012.

If an entity has any existing stripping-related asset balances as at the beginning of the earliest period presented, that arose due to stripping activity undertaken during the production phase, it must reclassify this asset as part of an existing asset to which the stripping activity related, to the extent there remains an identifiable component of the ore body with which the stripping activity asset can be associated. Such balances must be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each existing asset balance relates.

Where an entity cannot identify the component of the ore body to which that existing asset balance relates, the asset must be recognised in opening retained earnings at the beginning of the earliest period presented.

Given IFRIC 20 is only expected to be finalised in October 2011, and Good Mining is based upon standards and interpretations in issue at 30 September 2011, the impact of IFRIC 20 and the associated illustrative disclosures, have not been included in this version of Good Mining. Instead, we plan to issue an addendum to Good Mining over the coming months to provide some illustrative disclosures relating to the adoption of IFRIC 20 and its consequential impacts on the statement of financial performance and profit or loss. We will issue this guidance after IFRIC 20 has been issued and entities and EY professionals alike have had sufficient time to fully analyse the practical implications.

Notes to the consolidated financial statements

2.5 Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects will have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards and interpretations (where applicable) when they become effective.

IAS 8.30

IAS 8.31(d)

Commentary

An entity is only required to disclose those standards and interpretations issued but not yet effective that are actually applicable to the entity. If a new standard or interpretation is not applicable, it does not need to be disclosed. For details of others standards and interpretations that are issued but not yet effective, please refer below to the next commentary box.

NOTE: This list only includes standards and interpretations in issue at 30 September 2011. Entities will need to determine if any standards and/or interpretations were issued after this date.

IAS 1 *Presentation of Financial Statements* - Components of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore has no impact on the Group's financial position or performance.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits* - Recognition and Disclosure - Defined Benefit Plans

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets, to simple clarifications and re-wording.

The amendment becomes effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is currently assessing the full impact of these amendments. One of the known impacts is the removal of the corridor approach as the Group currently applies this approach.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12 (refer below), what remains in IAS 27 is limited to accounting for subsidiaries, joint arrangements, and associates in separate financial statements. The Group does not present separate financial statements.

The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12 (refer below), IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

The amendments becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the consolidated financial statements

2.5 Standards issued but not yet effective *continued*

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

The standard is currently effective for annual periods beginning on or after 1 January 2013. However there is a proposal to adjust the mandatory effective date to 1 January 2015.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*.

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*.

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also amended and retitled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is considering what impact the adoption of these new standards will have on its financial position and/or performance, disclosures and stated accounting policies.

IFRS 13 *Fair Value Measurement*

In May 2011, the IASB issued IFRS 13. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group is considering what impact the adoption of this new standard will have on its financial position and/or performance, disclosures and stated accounting policies.

Improvements to IFRSs (issued in June 2011)

In June 2011, the IASB issued for public comment an exposure draft of proposed amendments to five IFRS standards as part of its Annual Improvements project. The amendments are listed below:

- ▶ IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- ▶ IAS 1 *Presentation of Financial Statements*
- ▶ IAS 16 *Property, Plant and Equipment*
- ▶ IAS 32 *Financial Instruments: Presentation*
- ▶ IAS 34 *Interim Financial Reporting*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Commentary

IAS 8.30 requires an entity to disclose those standards that have been issued which are not yet effective and to provide known or reasonably estimable information to enable users to assess the possible impact of the application of such standards on an entity's financial statements. Therefore, the Group has listed those standards and interpretations that are not yet effective, which it reasonably expects to have an impact on either its accounting policy, financial position or performance (i.e., omitting to list those standards, amendments and/or interpretations that have no impact at all, such as IFRS 1 or IAS 34).

It is worth noting that IFRIC 20 was issued after 30 September 2011. However entities who are preparing their financial statements after the date when this IFRIC is issued, would need to disclose this new Interpretation as part of the listing of standards and interpretations "issued but not yet effective".

Other standards and interpretations issued but not yet effective and not applicable to Good Mining

- ▶ IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Amendment) - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- ▶ IFRS 7 *Financial Instruments: Disclosures* (Amendment) - New (enhanced) disclosure requirements for derecognition of financial assets - effective 1 July 2011
- ▶ IAS 12 *Income Taxes* (amendment) - Deferred Taxes - Recovery of Underlying Assets

Refer Good Group (International) Limited 2011 illustrative financial statements for more information.

Notes to the consolidated financial statements

3. Business combinations – acquisitions

Good Mining acquired 100% of the share capital of Oasis Mineral Resources Limited (Oasis), a company holding certain gold exploration and development licences, on 1 November 2011.

IFRS 3.59
IFRS 3.B64(a),
IFRS 3.B64(b),
IFRS 3.B64(d)

The provisional fair values of identifiable assets and liabilities of Oasis as at the date of acquisition were:

	Fair value at acquisition date	Carrying value	
	US\$ million	US\$ million	
Assets			
Exploration and evaluation assets	72	61	
Mine development costs	487	358	
Other property, plant and equipment	29	20	
Inventories	1	8	
Other current assets	39	37	
Cash and cash equivalents	96	96	
	<u>724</u>	<u>580</u>	
Liabilities			
Trade and other payables	(52)	(52)	
Provision for onerous operating lease contract	(10)	-	
Deferred tax liabilities	(42)	(17)	
Provisions	(65)	(65)	
Long-term debt	(57)	(57)	
	<u>(226)</u>	<u>(191)</u>	
Total identifiable net assets at fair value	498		
Goodwill arising on acquisition (Note 14)	<u>37</u>		
Total consideration	<u>535</u>		IFRS 3.B64(f)
Acquisition-date fair value of consideration transferred:			
Cash paid	<u>535</u>		
Consideration transferred	<u>535</u>		
Direct costs relating to the acquisition	15		
The cash outflow on acquisition is as follows:			
Net cash acquired with the subsidiary	96		IAS 7.40(c)
Cash paid	<u>(535)</u>		
Net consolidated cash outflow	<u>(439)</u>		

The fair values disclosed are provisional due to the complexity of the acquisition and due to the inherently uncertain nature of the mining industry and intangible exploration and evaluation assets, in particular. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest.

IFRS
3.B67(a)(i),(ii)

From the date of acquisition, Oasis has contributed US\$75 million to Group revenue and US\$25 million to Group profit. If the acquisition of Oasis had been completed on the first day of the financial year, the consolidated statement of comprehensive income would have included revenue and profit of US\$360 million and US\$120 million, respectively.

IFRS 3.B64(q)
(i), (ii)

A provision for onerous operating lease contract has been recognised on the acquisition of Oasis. This was recognised as the lease premiums on an operating lease held by Oasis were significantly higher than the market rate at acquisition. The provision was calculated based on the difference between the market rate and the rate paid.

IFRS 3.B28-29

Goodwill arises principally because of the following factors:

- 1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries;
- 2) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing mines in our regional business units; and
- 3) The requirement to recognise deferred income tax assets and liabilities for the difference between the assigned fair values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value.

IFRS 3.B64(e)
IFRS 3.B64(k)

Transaction costs of US\$15 million have been expensed and are included in other expenses.

Notes to the consolidated financial statements

3. Business combinations – acquisitions *continued*

Commentary

Refer to Business combinations and goodwill accounting policy in Note 2.4 (c) for commentary.

4. Interests in joint ventures

Interests in jointly controlled assets

IAS 31.56

Jointly controlled assets

Good Mining, jointly with other participants, owns certain exploration and production assets. Good Mining's share is 25%.

Farm-out arrangement

Good Mining entered into an agreement with Red Copper Limited to share costs and risks associated with exploration activities on the Cuprum exploration tenement. Red Copper Limited contributed US\$23 million and in return receives a 20% working interest in the mine. Red Copper Limited will contribute 20% of operating costs and capital expenditure going forward and Good Mining has been appointed as operator.

IAS 31.15

Summarised financial statement information for the Group's share of jointly controlled assets is disclosed below:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Non-current assets			
Exploration and evaluation assets	48	55	IAS 31.21
Mine properties	229	206	
Other property, plant and equipment	<u>1</u>	<u>2</u>	
	<u>278</u>	<u>263</u>	
Current assets			
Accounts receivable	19	20	
Inventories	1	-	
Financial assets	<u>14</u>	<u>21</u>	
	<u>34</u>	<u>41</u>	

The aggregate of the Group's commitments through jointly controlled assets is:

IAS 31.55

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Capital	20	30	
Exploration and other commitments	48	51	

Interests in jointly controlled entities

IAS 31.56

Good Mining has a 50% interest in Goldrock Limited, a jointly controlled entity, the principal activities of which are the production of gold and mineral exploration. The interest in this jointly controlled entity is accounted using the equity accounting method.

Summarised financial statement information (50% share) of the equity accounted jointly controlled entity is disclosed below:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Sales and other operating revenues	120	154	
Finance costs and other finance expense	1	-	
Profit before taxation	26	38	
Taxation	<u>10</u>	<u>13</u>	
Profit for the year	<u>16</u>	<u>25</u>	
Non-current assets	143	103	
Current assets	<u>71</u>	<u>64</u>	
Total assets	<u>214</u>	<u>167</u>	
Current liabilities	46	30	
Non-current liabilities	<u>54</u>	<u>39</u>	
Total liabilities	<u>100</u>	<u>69</u>	

Commentary

Refer note 2.4(d)(iii) for more details regarding the accounting for farm-in/farm-out arrangements.

Notes to the consolidated financial statements

5. Operating segments

All of Good Mining's assets and operations are located in Metalville. For management reporting purposes, the group is organised into business units based on its products and activities and has three reportable operating segments as follows:

IFRS 8.22(a)
IFRS 8.22(b)

- ▶ The gold segment develops and mines gold which is ultimately sold as gold bullion or gold in concentrate;
- ▶ The copper segment develops and mines copper which is sold as copper concentrate; and
- ▶ The exploration areas segment undertakes exploration and evaluation activities.

IFRS 8.28(b)

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

IFRS 8.27(a)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2.4 of the financial statements.

Notes to the consolidated financial statements

5. Operating segment information *continued*

Year ended 31 December 2011	Gold	Copper	Exploration areas	Adjustments and eliminations	Consolidated	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
Revenue						
External customers	2,871	957	-	-	3,828	<i>IFRS 8.23(a)</i>
Inter-segment	100	-	-	(100)	-	<i>IFRS 8.23(b)</i>
Total revenue	2,971	957	-	(100)	3,828	
Results						
Depreciation and amortisation	(455)	(186)	-	(1) ¹	(642)	<i>IFRS 8.23(e)</i>
Goodwill impairment	(15)	-	-	-	(15)	<i>IFRS 8.23(i)</i>
Impairment of mine properties	(33)	-	-	-	(33)	<i>IFRS 8.23(i)</i>
Impairment of exploration and evaluation assets	-	-	(5)	-	(5)	<i>IFRS 8.23(i)</i>
Reversal of previously impaired exploration and evaluation assets	-	-	16	-	16	<i>IFRS 8.23(i)</i>
Exploration and evaluation assets written off	-	-	(90)	-	(90)	<i>IFRS 8.23(f)</i>
Gain on sale of mine properties	39	-	-	-	39	<i>IFRS 8.23(f)</i>
Gain on sale of property, plant and equipment	11	-	-	-	11	<i>IFRS 8.23(f)</i>
Gain on sale of exploration and evaluation assets	-	-	1	-	1	
Share of joint venture's net profit	26	-	(10)	-	16	<i>IFRS 8.23(g)</i>
Profit before income tax	1,510	525	(81)	(70)²	1,884	<i>IFRS 8.28(b)</i>
Income tax expense					(797)	
Net profit for the year					1,087	
Operating assets	4,477	2,091	759	94³	7,421	<i>IFRS 8.23</i>
Operating liabilities	818	343	57	1,447⁴	2,665	<i>IFRS 8.23</i>
Other disclosures						
Investment in a joint venture	114	-	-	-	114	<i>IFRS 8.24(a)</i>
Capital expenditure ⁵	450	1,369	430	46	2,295	<i>IFRS 8.24(b)</i>

1. Represents amortisation of other intangible assets. *IFRS 8.28*

2. Profit for each operating segment does not include finance income (US\$24 million) and finance costs (US\$94 million).

3. Segment assets do not include deferred tax (US\$83 million) and other intangible assets (US\$11 million) as these assets are managed on a group basis.

4. Segment liabilities do not include deferred tax (US\$468 million), current tax payable (US\$365 million) and interest-bearing loans and borrowings (US\$614 million) as these liabilities are managed on a group basis.

5. Capital expenditure consists of additions to property, plant and equipment, intangible assets, mine properties and exploration and evaluation assets including assets from the acquisition of subsidiaries.

Notes to the consolidated financial statements

5. Operating segment information *continued*

Year ended 31 December 2010			Exploration	Adjustments	Consolidated	
	Gold	Copper	areas	and		
	US\$ million	US\$ million	US\$ million	eliminations	US\$ million	US\$ million
Revenue						
External customers	2,039	878	-	-	2,917	IFRS 8.23(a)
Inter-segment	125	-	-	(125)	-	IFRS 8.23(b)
Total revenue	2,164	878	-	(125)	2,917	
Results						
Depreciation and amortisation	(129)	(164)	-	-	(293)	IFRS 8.23(e)
Goodwill impairment	-	-	-	-	-	IFRS 8.23(i)
Impairment of mine properties	(9)	-	-	-	(9)	IFRS 8.23(i)
Impairment of exploration and evaluation assets	-	-	(6)	-	(6)	IFRS 8.23(i)
Reversal of previously impaired exploration and evaluation assets	-	-	-	-	-	IFRS 8.23(i)
Exploration and evaluation assets written off	-	-	(75)	-	(75)	IFRS 8.23(f)
Gain on sale of mine properties	58	-	-	-	58	IFRS 8.23(f)
Gain on sale of property, plant and equipment	(11)	-	-	-	(11)	IFRS 8.23(f)
Gain on sale of exploration and evaluation assets	-	-	-	-	-	
Share of joint venture's net profit	29	-	(4)	-	25	IFRS 8.23(g)
Profit before income tax	1,275	279	(90)	(15)¹	1,449	IFRS 8.28(b)
Income tax expense					(529)	
Net profit for the year					920	
Operating assets	3,754	1,543	501	64²	5,862	IFRS 8.23
Operating liabilities	775	101	49	918³	1,843	IFRS 8.23
Other disclosures						
Investment in a joint venture	98	-	-	-	98	IFRS 8.24(a)
Capital expenditure ⁴	712	889	293	4	1,898	IFRS 8.24(b) IFRS 8.28

- Profit for each operating segment does not include finance income (US\$25 million) and finance costs (US\$40 million).
- Segment assets do not include deferred tax (US\$57 million) and other intangible assets (US\$7 million) as these assets are managed on a group basis.
- Segment liabilities do not include deferred tax (US\$386 million), current tax payable (US\$166 million) and interest-bearing loans and borrowings (US\$366 million) as these liabilities are managed on a group basis.
- Capital expenditure consists of additions to property, plant and equipment, intangible assets, mine properties and exploration and evaluation assets including assets from the acquisition of subsidiaries.

Notes to the consolidated financial statements

5. Operating segment information *continued*

Geographic information

IFRS 8.33(a)

The operations of the Group are located in only one geographic location, Metalville.

IFRS 8.33(b)

Revenue from one customer amounted to US\$1.10 million (2010: US\$1.25 million), arising from sales made by the gold segment.

IFRS 8.34

Revenues from external customers are based on the location of the customer:

IFRS 8.33(a)

	2011	2010
	US\$ million	US\$ million
Metalville	3,000	2,500
Goldville	<u>828</u>	<u>417</u>
Total revenue per consolidated statement of comprehensive income	<u>3,828</u>	<u>2,917</u>

Commentary

Interest revenue and interest expense have not been disclosed by segment as these items are managed on a group basis and are not provided to the chief operating decision maker (CODM) at the operating segment level. Disclosure of operating segment assets and liabilities is only required where such measures are provided to the CODM. Good Mining provides information to the CODM about operating assets and liabilities. The remaining operations (e.g., taxation) which are, amongst others, reflected in "adjustments and eliminations", do not constitute an individual operating segment.

Good Mining's internal reporting is set up to report in accordance with IFRS. The segment disclosures could be significantly more extensive if internal reports had been prepared on a basis other than IFRS. In this case, a reconciliation between the internally reported items and the externally communicated items would need to be prepared.

Application of IFRS 8 to exploration entities

IFRS does not specifically prescribe the application of operating segments to exploration entities and whether exploration properties meet the definition of an operating segment under IFRS 8.

It is our view that exploration properties are capable of meeting the definition of an operating segment under IFRS 8. The level at which an operating segment can be aggregated will depend on whether the criteria outlined in IFRS 8.12 have been met. The CODM is the person(s) responsible for allocating resources and assessing the operating results of the entity which, for mining exploration companies, include key decisions relating to how to spend available cash (e.g. which targets, what type of exploration) and how to finance such expenditure (e.g. equity, joint venture, farm-ins, etc.). Generally the information provided to the CODM is cash spent and exploration results (i.e. drill intersections, reserves and resources etc).

The level at which this information is prepared or aggregated may vary widely depending on, amongst other factors, the size of the mining company. For example, the CODM may receive the above information for:

- ▶ Each individual target area (within an ore body or mining area)
- ▶ Each separately defined ore body or mining area (within a tenement or property)
- ▶ Each tenement or property
- ▶ Each geological structure (which may span several tenements or properties but within a geographical region)
- ▶ Each geographical region (such as country, state, province, etc.)

The level at which the information is received by the CODM is the major determinant of the level at which operating segments exist for mining exploration entities.

The disclosures in Good Mining illustrate "exploration areas" as a reportable segment. The assumptions made by this fictitious entity are as follows:

- ▶ Good Mining has three exploration tenements, Cuprum a copper exploration tenement, and Aurum and Oro both gold exploration tenements.
- ▶ The operating results of the exploration tenements are reviewed by the CODM of Good Mining and each exploration tenement is a separate operating segment.
- ▶ The exploration tenements meet the criteria for aggregation under IFRS 8 as they are in one geographical location, Metalville, and whilst exploration is for gold and copper, it was determined these have similar economic characteristics in terms of Good Mining's mining and processing costs.

Notes to the consolidated financial statements

6. Operating (loss)/profit

Operating profit is stated after (charging)/crediting:

		2011	2010	
		US\$ million	US\$ million	
Amortisation of mine properties		(634)	(285)	IAS 1.104
Depreciation of property, plant and equipment		(7)	(8)	IAS 1.104
Amortisation of other intangible assets		(1)	-	IAS 38.118(e)(vi)
Total depreciation and amortisation		(642)	(293)	
Employee benefits expense		(158)	(161)	IAS 1.104
Impairment of mine properties	6.1	(33)	(9)	IAS 36.126(a)
Gain on sale of mine properties		39	58	IAS 1.98
Gain/(loss) on sale of property, plant and equipment		11	(11)	IAS 1.98
Pre-licence expenditure	6.3	(13)	(9)	IFRS 6.23,
Impairment of exploration and evaluation assets		(5)	(6)	IFRS 6.23, IAS 36.126 (b)
Reversal of previously impaired exploration and evaluation assets	6.2	16	-	IFRS 6.23, IAS 36.126(b)
Exploration and evaluation expenditure expensed		(90)	(75)	IAS 38.54
Gain on sale of exploration and evaluation assets	6.4	1	-	IAS 1.98
Operating lease payments		(43)	(20)	IAS 17.35(c)
Cost of inventories recognised as expense		(1,171)	(829)	IAS 2.36(d)
Major maintenance expenditure expensed		(12)	(11)	
Net foreign exchange gain/(loss)		4	(2)	IAS 21.52(a)
Royalties paid		(182)	(181)	

6.1 Impairment of Sovereign Mine

As part of the annual impairment review of asset carrying values a charge of US\$33 million was recorded in relation to the Sovereign Mine. During the year, the Group carried out an impairment review of the related cash-generating unit. The review determined that the commercial viability of the mine has decreased significantly. As a result, an impairment was charged to profit or loss.

Please refer note 15 for a description of the assumptions used in the impairment calculation. The impairment charge is included in profit or loss as part of other expenses.

6.2 Reversal of previously impaired exploration and evaluation assets

The Group has reversed some of the previously recognised impairment charge related to the Aurum Mine. These reversals resulted from a positive change in the estimates used to determine the asset's recoverable amount since the impairment losses were initially recognised. The reversal of the previously booked impairment charge is included in other expenses.

IAS 36.130

6.3 Pre-licence expenditure

Pre-licence expenditure relates predominantly to the licence areas Leaf and Crown where Good Mining incurred preliminary costs but where no rights have yet been granted by the Metalville government. These costs were expensed as incurred.

IAS 36.130

6.4 Gain on sale of exploration and evaluation assets

The Group entered into a farm-out agreement with Red Copper Limited to share costs and risks associated with exploration activities on Cuprum tenements as described in note 4. As part of the farm-out, Red Copper contributed cash of US\$23 million and in accordance with the policy described in note 2.4(d)(iii), this amount was credited to the related exploration and evaluation asset, which totalled US\$22 million. The excess of US\$1 million was recognised as a gain on disposal of exploration and evaluation assets.

All other gains and losses in the current and preceding year were derived from continuing operations.

Notes to the consolidated financial statements

7. Revenue

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Sales revenue			
Gold	2,871	2,039	
Copper	957	878	
Total operating sales revenue	<u>3,828</u>	<u>2,917</u>	
Interest revenue	<u>24</u>	<u>25</u>	IAS 1.82(a) IFRS 7.20(b)

8. Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are: IAS 12.79

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Consolidated statement of comprehensive income			
<i>Income tax expense</i>			
Current income tax:			
Current income tax charge	703	639	IAS 12.80(a)
Adjustments in respect of current income tax of previous years	81	(78)	IAS 12.80(b)
Deferred income tax:			
Relating to origination and reversal of temporary differences	(30)	(78)	IAS 12.80(c)
Income tax expense	<u>754</u>	<u>483</u>	
<i>Resource rent tax expense</i>			
Current tax:			
Current tax charge	69	57	IAS 12.80(a)
Deferred tax:			
Relating to origination and reversal of temporary differences	(26)	(11)	IAS 12.80(c)
Resource rent tax expense	<u>43</u>	<u>46</u>	
Total tax expense reported in profit or loss	<u>797</u>	<u>529</u>	

Notes to the consolidated financial statements

8. Income tax continued

A reconciliation between tax expense and the product of accounting profit multiplied by Metalville's domestic tax rate for the years ended 31 December 2011 and 31 December 2010 is as follows: IAS 12.81(c)
(i)

	2011	2010
	US\$ million	US\$ million
Accounting profit before income tax	1,884	1,449
At Metalville's statutory income tax rate of 30% (2010: 30%)	565	435
Research and development allowance	(5)	-
Benefit from previously unrecognised tax losses	(5)	-
Non-deductible expenses	118	126
Under / (over) provided in prior years	81	(78)
At the effective income tax rate of 42% (2010: 37%)	754	483
Resource rent tax expense	43	46
Total tax expense reported in the consolidated profit or loss	<u>797</u>	<u>529</u>

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		
	2011	2010	2011	2010	
	US\$ million	US\$ million	US\$ million	US\$ million	
Income tax related					
<i>Deferred income tax liabilities</i>					
Accelerated depreciation for tax purposes	(111)	(146)	35	(18)	IAS 12.81(g)(i)
Exploration and evaluation assets	(77)	(21)	(56)	2	
Mine properties	(189)	(157)	(32)	(8)	
	<u>(377)</u>	<u>(324)</u>			
<i>Deferred income tax assets</i>					
Pension plan deficit	1	1	-	(6)	IAS 2.81(g)(ii)
Losses available for offset against future taxable income	79	56	23	(48)	
	<u>80</u>	<u>57</u>			
Deferred tax income/(expense)			<u>(30)</u>	<u>(78)</u>	
Deferred income tax liabilities (net) relating to income tax	<u>(297)</u>	<u>(267)</u>			
Resource rent tax related					
<i>Deferred tax liabilities</i>					
Exploration and evaluation assets	(37)	(22)	(15)	6	
Mine properties	(54)	(40)	(14)	(17)	
	<u>(91)</u>	<u>(62)</u>			
<i>Deferred tax assets</i>					
Other	3	-	3	-	
	<u>3</u>	<u>-</u>			
Deferred tax income/(expense)			<u>(26)</u>	<u>(11)</u>	
Deferred tax liabilities (net) relating to resource rent tax	<u>(88)</u>	<u>(62)</u>			
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	83	57			
Deferred tax liabilities	(468)	(386)			
Deferred tax liabilities net	<u>(385)</u>	<u>(329)</u>			

Notes to the consolidated financial statements

8. Income tax *continued*

Deferred income tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable taxable profits will be available against which the unused tax losses/credits can be utilised. IAS 12.81(e)

The Group has unrecognised tax losses of US\$533 million (2010: US\$550 million) that are available indefinitely to carry forward against future taxable income of the subsidiaries in which the losses arose. However, these losses relate to subsidiaries that have a history of losses, and may not be used to offset taxable income elsewhere in the Group. IAS 12.81 (e)

The temporary differences associated with investments in subsidiaries and joint ventures, for which a deferred income tax liability has not been recognised aggregate to US\$58 million (2010: US\$94 million). IAS 12.81(f)

No deferred income tax asset has been recognised on rehabilitation provisions (refer Note 2.4(k)(ii) for further details of this accounting policy).

Commentary

Resource rent tax disclosures

The income tax note disclosures in Good Mining illustrate a resource rent tax which was determined to meet the criteria to be treated as an income tax under IAS 12 *Income Taxes*. Where a resource rent tax is to be treated as an income tax for financial statement purposes, it is required to be recorded as a "below the line" tax expense (that is, like current company income tax) and tax-effect accounting (including recognition of deferred tax balances and associated disclosures) is required.

Determining whether a resource rent tax is a production or profit based tax is often not straightforward. There are many different types of resource rent taxes around the world, some of which are clearly not income taxes, while others have some of the characteristics of an income tax. In determining whether a particular production tax meets the definition of an income tax under IAS 12, an entity will need to assess whether or not the tax is based on (or closely enough linked to) net profit for the period. If it does not meet the definition of an income tax, an entity should develop an accounting policy under the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Practice is mixed, which means that while some entities may treat a particular resource rent tax as an income tax under IAS 12, others may consider the same tax to be outside the scope of IAS 12.

The disclosures in Good Mining assume that the resource rent tax has always applied and, therefore, does not illustrate the disclosures required upon initial recognition.

Notes to the consolidated financial statements

9. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings. *IAS 33.70(c)*

	<u>2011</u>	<u>2010</u>	
Net profit attributable to ordinary shareholders (US\$ million)	1,087	920	<i>IAS 33.70(a)</i>
Weighted average number of ordinary shares (number of shares - million)	1,564	958	<i>IAS 33.70(b)</i>
Basic and diluted earnings per ordinary share (US\$)	0.70	0.96	<i>IAS 33.66</i>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. *IAS 33.70(d)*

10. Dividends paid and proposed

	<u>2011</u>	<u>2010</u>	
	<u>US\$ million</u>	<u>US\$</u>	
Declared and paid during the year:		
Interim dividend current period	245	100	
Final dividend prior period	105	40	
Total dividends paid in the year	<u>350</u>	<u>140</u>	<i>IAS 1.107</i>
	<u>2011</u>	<u>2010</u>	
Weighted average number of ordinary shares (number of share - million)	1,564	958	<i>IAS 1.107</i>
Dividend per ordinary share (US\$ cent per share)	22.4	14.6	
Final dividend proposed for approval at the AGM (not recognised as a liability as at 31 December 2011) - US\$0.15 per share (2010 - US\$0.11 per share) (US\$ million)	235	105	<i>IAS 1.137(a)</i>

Notes to the consolidated financial statements

11. Exploration and evaluation assets

	US\$ million	<i>IFRS 6.23</i> <i>IFRS 6.24(b)</i> <i>IFRS 6.25</i>
Cost as at 1 January 2010	361	
Additions	293	
Unsuccessful exploration expenditure derecognised	(75)	
Transfer to Mines Under Construction	(55)	
Cost as at 31 December 2010	524	
Additions	358	
Acquisition of Oasis exploration potential	24	
Acquisition of Oasis Mineral Resources	48	
Farm-out of interest in Cuprum	(22)	
Unsuccessful exploration expenditure derecognised	(90)	
Transfer to Mines Under Construction	(71)	
Cost as at 31 December 2011	771	
Provision for impairment as at 1 January 2010	(17)	
Impairment charge for the year	(6)	
Reversal of previously booked impairments	-	
Provision for impairment as at 31 December 2010	(23)	
Impairment charge for the year	(5)	
Reversal of previously booked impairments	16	
Provision for impairment as at 31 December 2011	(12)	
Net book value as at 31 December 2010	501	
Net book value as at 31 December 2011	759	

Exploration and evaluation expenditure immediately expensed to "other expenses" in profit or loss as per note 2.4 (d) amount to US\$35 million (2010: US\$23 million).

Commentary

Specifying the level at which exploration and evaluation assets are assessed for impairment

The IASB decided that, rather than introduce a special cash-generating unit (CGU) for exploration and evaluation assets, it would allow CGUs to be aggregated in a way consistent with the approach to goodwill in IAS 36. Therefore, an entity should determine an accounting policy for allocating exploration and evaluation assets to CGUs or to groups of CGUs for the purpose of assessing such assets for impairment. IFRS 6 requires that each CGU or group of CGUs to which an exploration and evaluation asset is allocated should not be larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*.

Hence, the level identified by an entity for the purposes of testing exploration and evaluation assets for impairment may be comprised of one or more CGUs.

Reversal of impairment losses

Any impairment loss on an exploration and evaluation asset that has been recognised in accordance with IFRS 6 needs to be reversed when the requirements specified in paragraphs 109 to 123 of IAS 36 have been met. An impairment loss recognised in prior periods for an asset other than goodwill must be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset must be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

In some circumstances, when an entity recognises an impairment of an exploration and evaluation asset, it also needs to derecognise the asset if no future economic benefits are expected.

Notes to the consolidated financial statements

12. Mine properties

	Mines under construction	Producing mines	Deferred stripping	Total	IAS 1.78(a)
	US\$ million	US\$ million	US\$ million	US\$ million	IAS 16.73(e)
Cost as at 1 January 2010	559	2,796	373	3,728	IAS 16.73(d)
Additions	1,299	-	270	1,569	
Transferred from exploration and evaluation assets	55	-	-	55	
Change in rehabilitation provision	27	152	-	179	
Disposals	-	(115)	-	(115)	
Deferred stripping costs recognised in profit or loss	-	-	(140)	(140)	
Transfers	(1,102)	1,102	-	-	
Cost as at 31 December 2010	838	3,935	503	5,276	
Additions	1,096	-	206	1,302	
Acquisition of Oasis	-	487	-	487	
Transferred from exploration and evaluation assets	71	-	-	71	
Change in rehabilitation provision	35	195	-	230	
Disposals	-	(72)	-	(72)	
Deferred stripping costs recognised in profit or loss	-	-	(160)	(160)	
Transfers	(876)	876	-	-	
Cost as at 31 December 2011	1,164	5,421	549	7,134	
Depletion and impairment as at 1 January 2010	-	(1,339)	-	(1,339)	IAS 16.73(d)
Charge for the year	-	(285)	-	(285)	
Provision for impairment	(1)	(8)	-	(9)	
Disposals	-	63	-	63	
Depletion and impairment as at 31 December 2010	(1)	(1,569)	-	(1,570)	
Charge for the year	-	(634)	-	(634)	
Provision for impairment	(5)	(28)	-	(33)	
Disposals	-	46	-	46	
Depletion and impairment as at 31 December 2011	(6)	(2,185)	-	(2,191)	
Net book value as at 31 December 2010	837	2,366	503	3,706	IAS 16.73(d)
Net book value as at 31 December 2011	1,158	3,236	549	4,943	

Borrowing costs relating to mines currently under development, which have been capitalised within "Mines under Construction" during the period amounted to US\$10 million (2010: US\$1 million), at a weighted-average interest of 5.8% (2010: 5.7%).

"Mines under construction" are not depreciated until construction is completed. This is signified by the formal commissioning of the mine for production.

Refer to note 15 for the details on impairment testing of "Mine properties".

Notes to the consolidated financial statements

12. Mine properties *continued*

Commentary

Presentation of deferred stripping costs

IFRS does not currently prescribe where in the statement of financial position an entity should present deferred stripping costs. In practice, many large mining companies recognise pre-production stripping costs within property, plant and equipment. The classification of deferred stripping costs from production varies widely across the industry from classifications within inventory produced, other assets or mine properties. Mining companies normally report production deferred stripping costs in the costs of the inventory produced or within "Other assets" or "Prepaid amounts".

Companies who classify deferred stripping costs within property, plant and equipment should also present the related cash flows within investing activities. If the deferred costs are classified in another category (e.g., inventory) the cash flows should be classified within operating activities.

As noted previously, when IFRIC 20 is issued (expected to occur in October 2011), which will be effective for annual reporting periods commencing on or after 1 January 2013, entities will be required to present capitalised stripping costs (stripping activity assets) as part of the related mining assets (either tangible or intangible), which will be presented within non-current assets. Therefore, it will not be possible to present such balances in other areas of the statement of financial position e.g., other current, or other non-current, assets.

13. Property, plant and equipment

	Freehold land and buildings	Plant and equipment	Total	<i>IAS 1.78(a)</i>
	US\$ million	US\$ million	US\$ million	<i>IAS 16.73(e)</i>
Cost				
At 1 January 2010	87	220	307	<i>IAS 16.73(d)</i>
Additions	21	11	32	
Disposals	(10)	(50)	(60)	
At 31 December 2010	98	181	279	
Additions	-	1	1	
Acquisition of Oasis	10	19	29	
Disposals	(4)	(9)	(13)	
At 31 December 2011	104	192	296	
Depreciation				
At 1 January 2010	(19)	(62)	(81)	<i>IAS 16.73(d)</i>
Depreciation charge for the year	(5)	(3)	(8)	
Disposals	6	31	37	
At 31 December 2010	(18)	(34)	(52)	
Depreciation charge for the year	(2)	(5)	(7)	
Disposals	-	1	1	
At 31 December 2011	(20)	(38)	(58)	
Net book value:				
At 31 December 2010	80	147	227	<i>IAS 16.73(d)</i>
At 31 December 2011	84	154	238	

Included in plant and equipment at 31 December 2011 was an amount of US\$3 million (2010: US\$46 million) relating to expenditure for a facility in the course of construction. The expenditure includes borrowing costs capitalised during the period amounting to US\$0.1 million (2010: US\$2.1 million), at a weighted average interest rate of 5.8% (2010: 5.7%).

Notes to the consolidated financial statements

14. Intangible assets

	<u>Goodwill</u> US\$ million	<u>Other intangible assets</u> US\$ million	<u>Total</u> US\$ million	<i>IAS 38.118(c)</i> <i>IAS 38.118(e)</i>
Cost				
At 1 January 2010	20	4	24	
Additions	-	4	4	
At 31 December 2010	20	8	28	
Additions	-	5	5	
Acquisition of Oasis (Note 3)	37	-	37	
At 31 December 2011	57	13	70	
Amortisation and impairment				
At 1 January 2010	-	(1)	(1)	
Charge for the year	-	-	-	
At 31 December 2010	-	(1)	(1)	
Charge for the year	-	(1)	(1)	
Impairment	(15)	-	(15)	
At 31 December 2011	(15)	(2)	(17)	
Net book value:				
At 31 December 2010	20	7	27	
At 31 December 2011	42	11	53	

Goodwill arises principally because of the following factors:

- 1) The going concern value implicit in our ability to sustain and/or grow our business by increasing reserves and resources through new discoveries;
- 2) The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing mines in our regional business units; and
- 3) The requirement to recognise deferred income tax assets and liabilities for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value.

15. Impairment losses

Impairment testing of goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) for impairment testing purposes. The following CGUs contain allocated goodwill that is significant in comparison with the total carrying amount of goodwill for the Group.

CGU	<u>2011</u>	<u>2010</u>
	US\$ million	US\$ million
Sovereign Mine	-	15
Dore Mine	5	5
Oasis	37	-

The carrying amount of goodwill allocated to the Sovereign Mine has been reduced to its recoverable amount via the recognition of an impairment loss of US\$15 million. As part of the Group's annual impairment assessment, it was identified that due to changes in estimates of extraction costs, the carrying amount of goodwill exceeded its recoverable amount.

The goodwill arising as a result of the acquisition of Oasis of US\$37 million represents the provisional amount, and therefore has not yet been allocated to a CGU. Therefore, as at 31 December 2011, this goodwill has not yet been subject to any impairment testing.

IAS 36.133

Commentary

An impairment test of goodwill cannot be carried out until such goodwill has been allocated to a CGU. However, we believe that if goodwill was acquired in a business combination during the current annual period, but has not been tested for impairment because it was not yet allocated, such goodwill will be tested for impairment before the end of the annual period during which it is allocated (i.e., before the end of 2012 in the case of the acquisition of Oasis).

Notes to the consolidated financial statements

15. Impairment losses *continued*

Impairment testing of other non-current assets

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Impairment losses			
Exploration and evaluation assets	(5)	(6)	IAS 36.126(a)
Mine properties	(33)	(9)	
Impairment reversals			IAS 36.126(b)
Exploration and evaluation assets	16	-	

During the year ended 31 December 2011, a net reversal of impairment of exploration and evaluation assets was recognised. The main element was a US\$16 million (2010: nil) credit for reversals of previously recorded impairments relating to the Aurum Mine. These reversals resulted from a positive change in the estimates used to determine the asset's recoverable amount since the impairment losses were recognised. This was partially offset by impairment losses totalling US\$5 million (2010: \$6 million). The major element was a charge of US\$3 million against exploration and evaluation assets relating to the Oro exploration area which was triggered by a downward revision to resource estimates.

IAS 36.130

Total impairment charges of US\$33 million (2010: \$9 million) were recognised in respect of producing mine properties. The major element of this was a charge of US\$20 million relating to the Sovereign Mine. The triggers for the impairment tests were primarily the effect of changes to the mine plan resulting from further geotechnical analysis, which resulted in higher than expected estimates of costs of extraction. This will also result in additional costs of rehabilitation resulting from the removal of additional overburden. The recoverable amount was based on management's estimate of value in use.

IAS 36.130

In assessing whether an impairment is required for the carrying value of an asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value in use.

The calculation of value in use is most sensitive to the following assumptions:

IAS 36.134

- ▶ Production volumes
- ▶ Discount rates
- ▶ Metal prices
- ▶ Operating costs

Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10% for the whole of the next 15 years, this would not be sufficient to reduce the excess of the recoverable amount over the carrying amounts of the individual cash generating units to zero. Consequently, management believes no reasonably possible change in the production assumption would cause the carrying amount of goodwill and other non-current assets to exceed their recoverable amount.

The Group generally estimates value in use using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 10% (2010: 10%). This discount rate is derived from the Group's post-tax weighted average cost of capital. Management also believes that currently, there is no reasonably possible change in the discount rate, estimated future gold and copper prices, and future operating costs which would reduce the Group's excess of recoverable amount over the carrying amounts of the individual CGUs to zero.

Notes to the consolidated financial statements

16. Pension benefit obligation

The Group has an average salary defined benefit pension scheme covering all of its employees in Metalville. IAS 19.120A(b)
Contributions are made to a separately administered fund.

The amounts recognised in the "Other expenses" line in profit or loss are as follows:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	IAS 19.120A(g)
Current service cost	17	20	
Past service cost	1	1	
Interest cost on benefit obligation	3	3	
Expected return on plan assets	(9)	(9)	
Total net defined benefit pensions costs	<u>12</u>	<u>15</u>	

The actual return on plan assets amounted to US\$10 million (2010: US\$10 million). IAS 19.120A(m)
IAS 19.120A(f)

The amounts recognised in the statement of financial position at the reporting date are as follows:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Present value of the defined benefit obligation	49	44	
Fair value of plan assets	(26)	(23)	
Net defined benefit obligation	<u>23</u>	<u>21</u>	
Unrecognised past service cost	(1)	(1)	
Total net defined benefit obligation	<u>22</u>	<u>20</u>	

The expected recovery or settlement of the defined benefit obligation is as follows:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	IAS 19.109 IAS 19.110
Current*	2	2	
Non-current	20	18	
Net defined benefit obligation	<u>22</u>	<u>20</u>	

*Expected recovery or settlement within 12 months from the reporting date.

The movement in the defined benefit obligation is as follows: IAS 19.120A(c)

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
At 1 January	44	36	
Current service cost	17	20	
Past service cost	1	1	
Interest cost	3	3	
Contributions by plan participants	1	-	
Benefits paid	(17)	(16)	
At 31 December	<u>49</u>	<u>44</u>	

Notes to the consolidated financial statements

16. Pension benefit obligation *continued*

The movement in the plan assets is as follows:

IAS 19.120A(e)

	<u>2011</u>	<u>2010</u>
	US\$ million	US\$ million
At 1 January	23	18
Expected return on plan assets	9	9
Contributions by employer	9	11
Contributions by plan participants	1	-
Benefits paid	(17)	(16)
Actuarial gains and losses	1	1
At 31 December	26	23

IAS 19.120A(q)

The Group expects to contribute US\$9 million to the defined benefit plan in 2011-2012.

The distribution of the plan assets at reporting date is as follows:

IAS 19.120A (j)

	<u>2011</u>	<u>2010</u>
	US\$ million	US\$ million
Treasury bills	1	1
Equities	24	21
Corporate bonds	1	1
Total plan assets	26	23

The expected rate of returns are as follows:

IAS 19.120A (l)

	<u>2011</u>	<u>2010</u>
	%	%
Treasury bills	4.1	4.0
Equities	13.2	12.2
Corporate bonds	4.5	4.3
Properties	10.2	9.5
Total plan assets	8.0	7.5

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns.

The principal actuarial assumptions used in determining the pension benefit obligation for the Group's plan are as follows:

IAS 19.120A(n)

	<u>2011</u>	<u>2010</u>
	%	%
Rate of increase in salaries	4.5	4.0
Rate of increase in pensions	3.0	2.8
Inflation assumption	2.9	2.8
Discount rate	6.5	6.4
Expected return on plan assets	8.0	7.5

The discount rate is the assumption that has the largest impact on the value of the liability. A 1% increase in this rate would reduce the liability by US\$1 million.

The post-retirement mortality base table used for these schemes is PM/FA92. Post-retirement mortality improvements are allowed for through a reduction in the discount rate of 20 basis points which is considered a best estimate. However, the extent of future improvement in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. Increasing the allowance by five basis points to a 25 basis point reduction in the discount rate would increase the liability by US\$4 million.

Notes to the consolidated financial statements

16. Pension benefit obligation *continued*

	2011	2010	2008	2007	2006	
	US\$	US\$	US\$	US\$	US\$	IAS
	million	million	million	million	million	19.120A(p)
Defined benefit obligation	49	44	36	40	39	
Plan assets	26	23	18	20	20	
Deficit	(23)	(21)	(18)	(20)	(19)	
Experience adjustments on plan liabilities	-	-	-	-	-	
Experience adjustments on plan assets	1	1	1	1	1	

17. Inventories

	2011	2010	
	US\$	US\$	IAS 2.36(b)(c)
	million	million	
At cost			
Gold bullion	9	7	
Copper concentrate	29	33	
Metal in circuit	28	21	
Ore stockpiles	15	12	
Materials and supplies	12	15	
Total inventories	93	88	

18. Trade and other receivables

	2011	2010	
	US\$	US\$	IAS 1.78
	million	million	IFRS 7.6
Trade receivables	537	548	
Other receivables and prepayments	48	51	
Joint venture receivables	33	-	
	618	599	

Trade receivables are non-interest bearing and are generally on 30-90 day terms.

Joint venture receivables for the Group include an amount in respect of outstanding cash calls of US\$29.7 million (2010: nil) receivable from the Cuprum joint venture partner Red Copper Ltd. The overdue cash calls are not considered impaired based on the credit worthiness of the counterparty. Management is currently pursuing payment of this amount.

As at 31 December 2011, trade receivables with a nominal value of US\$6.2 million (2010: US\$6.1 million) were impaired and provided for. Movements in the allowance for impairment of receivables were as follows:

	2011	2010	
	US\$	US\$	IFRS 7.16
	million	million	
At 1 January	6	5	
Charge for the year	6	4	
Amounts written off	(3)	(1)	
Unused amounts reversed	(3)	(2)	
At 31 December	6	6	

Notes to the consolidated financial statements

18. Trade and other receivables *continued*

As at 31 December 2011, the analysis of trade receivables that were past due, but not impaired is as follows:

IFRS 7.37(a)

	Neither past due nor impaired		Past due but not impaired				
	Total		< 30 days	30-60 days	60-90 days	90-120 days	> 120 days
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
2011	537	236	188	70	27	11	5
2010	548	368	113	42	16	6	3

In determining the recoverability of a trade or other receivable, the Group performs a risk analysis considering the type and age of the outstanding receivable and the credit worthiness of the counterparty.

19. Cash and cash equivalents

	<u>2011</u> US\$ million	<u>2010</u> US\$ million
Cash at banks and on hand	76	111
Short-term deposits	382	378
	<u>458</u>	<u>489</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is US\$508 million (2010: US\$539 million).

IFRS 7.34(a)

IFRS 7.25

The Group only deposits cash surpluses with major banks of high quality credit standing.

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

IAS 7.45

	<u>2011</u> US\$ million	<u>2010</u> US\$ million
Cash at banks and on hand	76	111
Short-term deposits	382	378
	458	489
Bank overdrafts (Note 21)	(8)	(51)
	<u>450</u>	<u>438</u>

At 31 December 2011, the Group had available US\$10.5 million (2010: US\$10.5 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

IAS 7.50

The group has US\$50 million in restricted cash held at local banks as a result of a change in governmental regulation in 2009 requiring a mandatory reserve in accordance with statutory requirements for certain rehabilitation provisions to be incurred at the end of mine life. The reserve is not available to finance the Group's day-to-day operations and therefore has been excluded from cash and cash equivalents for the purposes of the statement of cash flows. It has been disclosed as a non-current asset.

Notes to the consolidated financial statements

19. Cash and cash equivalents *continued*

Commentary

The amount of significant cash and cash equivalent balances that are not available for use by the group should be disclosed, together with a commentary by management to explain the circumstances of the restriction [IAS 7.48]. Examples include cash and cash equivalents held by a subsidiary operating under exchange controls or other legal restrictions that prevent their general use by the parent or other subsidiaries [IAS 7.49].

The nature of the restriction must be assessed to determine if the balance is ineligible for inclusion in cash equivalents because the restriction results in the investment ceasing to be highly liquid or readily convertible. For example, where an entity covenants to maintain a minimum level of cash or deposits as security for certain short-term obligations and provided that no amounts are required to be designated for that specific purpose, such balances could still be regarded as cash equivalents, albeit subject to restrictions, as part of a policy of managing resources to meet short-term commitments.

However, an entity may be required to formally set aside cash, for example by way of a deposit into an escrow account, as part of a specific project or transaction, such as the acquisition or construction of a property. In such circumstances, it is necessary to consider the terms and conditions relating to the account and the conditions relating to both the entity's and the counterparty's access to the funds within it to determine whether it is appropriate for the deposit to be classified in cash equivalents.

20. Issued capital

Authorised

	2011	2010	
	US\$ million	US\$ million	
Ordinary share capital	1,564	1,564	
<i>Ordinary shares issued and fully paid</i>	thousand	US\$ million	
At 1 January 2010	836,458	836	
Issued on 1 November 2010 for cash	727,975	728	
At 1 January 2011	1,564,433	1,564	
At 31 December 2011	1,564,433	1,564	

IAS 1.78(e)
IAS 1.79(aXi)
IAS 1.79(aXiii)
IAS 1.106(dXiii)

IAS 1.79(aXii)
IAS 1.79(aXiv)

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

IAS 1.79(v)

Notes to the consolidated financial statements

21. Interest-bearing loans and borrowings

Current	Effective interest rate		2011	2010	IFRS 7.6 IFRS 7.8(f)
	%	Maturity	US\$ million	US\$ million	
Bank overdrafts	EURIBOR +1.0	On demand	8	51	
Other loans:					
US\$75 million bank loan facility (2010: US\$75 million)	EURIBOR +0.5	1-Nov-12	74	-	
			82	51	
Non-current					
10% debentures	10.2	2013-2020	108	77	
US\$75 million bank loan facility (2010: US\$75 million)	EURIBOR +0.5	1-Nov-12	-	71	
US\$450 million bank loan facility (2010: 450 million)	EURIBOR +1.0	31-Mar-13	424	167	
			532	315	

Bank overdrafts

The bank overdrafts are secured by a floating charge over all assets of the Group.

IFRS 7.7

US\$75 million bank loan

This loan is repayable in full on 1 November 2012.

10% debentures

The 10% debentures are repayable in equal annual instalments of US\$35 million commencing on 1 January 2013.

US\$450 million bank loan

This loan is repayable in full on 31 March 2013.

Total interest expense for the year on interest-bearing loans and liabilities was US\$67 million (2010: US\$20 million).

22. Provisions

	Rehabilitation US\$ million	Other US\$ million	Total US\$ million	
At 1 January 2011	388	1	389	
Acquisition of a subsidiary	8	20	28	IAS 37.84(a)
Arising during the year	230	-	230	IAS 37.84(b)
Write-back of unused provisions	(1)	-	(1)	IAS 37.84(d)
Disposals	(32)	-	(32)	IAS 37.84(c)
Unwinding of discount	27	-	27	IAS 37.84(e)
Utilisation	(2)	-	(2)	
At 31 December 2011	618	21	639	
Comprising:				
Current 2011	17	12	29	
Non-current 2011	601	9	610	
	618	21	639	
Current 2010	15	1	16	
Non-current 2010	373	-	373	
	388	1	389	

Notes to the consolidated financial statements

22. Provisions continued

IAS 37.85

Rehabilitation provision

The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities.

The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred up to 2026. These provisions have been created based on Good Mining's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gold and copper prices, which are inherently uncertain.

Other provisions

Other provisions mainly comprise provisions for litigation claims, employee benefits, and an onerous operating lease contract. Included within these provisions is a provision for a legal claim in respect of the estimated costs associated with an incident which occurred in the operations (total claimed compensation is US\$10 million).

There is also a provision for an onerous operating lease contract. On acquisition of Oasis (note 3), a provision was recognised for the fact that the lease premiums on an operating lease of Oasis were significantly higher than the market rate at acquisition. The provision was calculated based on the difference between the market rate and the rate paid.

IFRS 3.B28-29

Commentary

IFRS 3 states that an acquirer is required to recognise operating leases in which the acquiree is the lessee as either intangible assets or liabilities if the terms of the lease are favourable (asset) or unfavourable (liability) relative to market terms and prices.

23. Accounts payable and accrued liabilities

	<u>2011</u> US\$ million	<u>2010</u> US\$ million	IAS 1.69, IAS 1.77
Trade payables	509	442	
Other payables	26	20	
Payables and accruals to a joint venture partner	32	54	
	<u>567</u>	<u>516</u>	

Terms and conditions of the above financial liabilities:

IFRS 7.39

- ▶ Trade payables are non-interest bearing and are normally settled on 60-day terms
- ▶ Other payables are non-interest bearing and have an average term of six months

Payables and accruals to a joint venture partner mainly represent joint expenses that were paid by the joint venture partner.

Notes to the consolidated financial statements

24. Capital commitments and other contingencies

Operating lease commitments - Group as lessee

IAS 17.35(d)(i)

IAS 17.35(d)(ii)

The Group has entered into leases for buildings, motor vehicles and various items of plant and machinery. These leases have an average life of five years (2010: six years) with renewal terms at the option of the lessee whereby they can extend at lease terms based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Within one year	50	17	IAS 17.35(a)(i)
After one year but not more than five years	101	23	IAS 17.35(a)(ii)
More than five years	<u>20</u>	<u>11</u>	IAS 17.35(a)(iii)
	<u>171</u>	<u>51</u>	

Capital commitments

Capital commitments (excluding those related to joint ventures)

IAS 16.74(c)

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Contracted capital expenditure: mineral exploration	248	169	
Other commitments	75	62	

Capital commitments related to joint ventures

	<u>2011</u>	<u>2010</u>	
	US\$ million	US\$ million	
Capital commitments incurred by the Group	20	30	
Capital commitments incurred jointly with other venturers (Good Mining share)	39	16	IAS 31.55

Other contractual obligations

Based on applicable prices at 31 December 2011, the group has unconditional purchase obligations of US\$50 million, primarily comprising the procurement of copper concentrates (US\$35 million) and transportation (US\$15 million) that are essential to its operations worldwide. Some of the group's unconditional purchase obligations are settled based on the prevailing market rate for the service or commodity purchased. In some cases, the amount of the actual obligation may change over time because of market conditions. Obligations for copper concentrates provide for deliveries of specified volumes, at market-based prices, to third-party copper mines. Transportation obligations are for contracted ocean freight rates. The Group's future commitments associated with unconditional purchase obligations total US\$12 million in 2012, US\$8 million in 2013, US\$8 million in 2014, US\$8 million in 2015, US\$5 million in 2016 and US\$9 million thereafter. During 2010, 2009 and 2008, the group fulfilled its minimum contractual purchase obligations or negotiated settlements in those situations in which it terminated an agreement containing an unconditional obligation.

IAS 37.86

Contingencies

At 31 December 2011 contingent liabilities amounting to US\$79 million (2010: US\$85 million) existed in respect of performance guarantees for committed exploration programmes. The amount of the liability is uncertain due to uncertainty relating to the ability of the Group to meet performance guarantees and the long-term nature of the programme.

Notes to the consolidated financial statements

25. Related party disclosures

IAS 24.12

The consolidated financial statements include the financial statements of Good Mining and the subsidiaries listed in the following table:

	Country of incorporation	% equity interest		IAS 24.14
		2011	2010	
Oasis Mineral Resources Limited	Metalville	100	-	
Good Mining (International) Limited is the ultimate Metalville parent entity and the ultimate parent of the Group is M.C. Limited.				IAS 1.138(c) IAS 24.12

Commentary

IAS 24 does not explicitly require a separate list of subsidiaries, jointly controlled entities or associates. IAS 27.42(b) does however require this for the separate financial statements of an entity. In many cases, the separate financial statements of a parent entity are presented as part of the consolidated financial statements. The Group concluded that presenting these entities would be beneficial for the users of its consolidated financial statements.

Jointly controlled entities in which the parent is a venturer

IAS 24.18

Goldrock Limited

IAS 24.14

The Group has a 50% interest in Goldrock Limited (2010: 50%). During the year, the Group entered into the following transactions in the ordinary course of business with related parties:

US\$ million	Sales	Purchases	Other revenue	Accounts payable	Accounts receivable	IAS 24.18
Goldrock Limited						
2011	2	34	1	-	-	
2010	-	57	-	-	-	

Compensation of key management personnel of the Group

	2011	2010	
	US\$ million	US\$ million	
Short-term employee benefits	25	26	IAS 24.17(a)
Post-employment pension and medical benefits	6	6	IAS 24.17(b)
Total compensation paid to key management personnel	31	32	

There are no other related party transactions.

Notes to the consolidated financial statements

26. Financial risk management objectives and policies

The Group's principal financial instruments comprise financial liabilities and financial assets. The Group's principal financial liabilities, other than derivatives, comprise accounts payable, bank loans and overdrafts, and debentures. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Group's capital expenditure program. The Group has various financial assets such as accounts receivable and cash and short-term deposits, which arise directly from its operations.

IFRS 7.33

Risk exposures and responses

IFRS 7.33(a),(b)

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are market risks, comprising commodity price risk, cash flow interest rate risk and foreign currency risk and liquidity risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

The Group's senior management oversees the management of financial risks. The Group's senior management is supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group's risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken. At this stage, the Group does not currently apply any form of hedge accounting.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: commodity price risk, interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, accounts receivable, accounts payable, accrued liabilities and derivative financial instruments.

IFRS 7 App A

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to-floating interest rates on the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations and provisions.

The following assumptions have been made in calculating the sensitivity analysis:

- ▶ The statement of financial position sensitivity relates to derivatives and euro denominated accounts receivables;
- ▶ The sensitivity of the relevant profit before tax item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 31 December 2010; and
- ▶ The impact on equity is the same as the impact on profit before tax.

IFRS 7.40(b)

Commodity price risk

IFRS 7.33

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces. The Group's policy is to manage these risks through the use of contract based prices with customers and derivative commodity contracts and to keep between 20% and 40% of its production on fixed price.

The table below summarises the impact on profit before tax for changes in commodity prices on the fair value of derivative financial instruments. The impact on equity is the same as the impact on profit before income tax as these derivative financial instruments have not been designated as hedges and are classified as held-for-trading.

The analysis is based on the assumption that the gold and copper prices move 10% with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of the last two years' historical prices and economic forecaster's expectations.

Notes to the consolidated financial statements

26. Financial risk management objectives and policies *continued*

	Effect on profit before tax for the year ended 31 December 2011 Increase / (Decrease)	Effect on profit before tax for the year ended 31 December 2010 Increase/ (Decrease)	<i>IFRS 7.40(a)</i>
	US\$ million	US\$ million	
Increase / decrease in gold prices			
Increase US\$70/oz (2010: US\$60/oz)	(2)	(1)	
Decrease US\$70/oz (2010: US\$60/oz)	2	1	
Increase / decrease in copper /ore prices			
Increase US\$0.30/lb (2010: US\$0.30/lb)	(3)	(2)	
Decrease US\$0.30/lb (2010: US\$0.30/lb)	3	2	

Physical commodity contracts

The Group also enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are measured at cost (with the exception of those with quotational period clauses, which result in the recognition of an embedded derivative. Refer to Note 2.4(m)(ii) for more information).

Interest rate risk

IFRS 7.33

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's policy is to keep between 10% and 45% of its borrowings at fixed rates of interest.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates as determined based on a review of the last two years historical rates and economic forecaster's expectations., with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings and cash and cash equivalents. The impact on equity is the same as the impact on profit before tax.

	Effect on profit before tax for the year ended 31 December 2011 Increase / (Decrease)	Effect on profit before tax for the year ended 31 December 2010 Increase/ (Decrease)	<i>IFRS 7.40(a)</i>
	US\$ million	US\$ million	
Increase / decrease in interest rate			
+1.5%	-	(3)	
-1.0%	1	4	

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the respective functional currencies. The Group manages this risk by matching receipts and payments in the same currency and monitoring. Approximately 8% of the Group's sales are denominated in currencies other than the functional currency, whereas 5% of costs are denominated in currencies other than the functional currencies of the entities within the Group.

The following table demonstrates the sensitivity to a reasonably possible change in the euro rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities. The impact on equity is the same as the impact on profit before tax.

Notes to the consolidated financial statements

26. Financial risk management objectives and policies *continued*

Increase / decrease in foreign exchange rate	Effect on profit before tax for the year ended 31 December 2011	Effect on profit before tax for the year ended 31 December 2010	IFRS 7.40(a)
	Increase / (Decrease)	Increase/ (Decrease)	
	US\$ million	US\$ million	
+5%	2	1	
- 5%	(2)	(1)	

Liquidity risk

The Group monitors its risk of a shortage of funds by monitoring its debt rating and the maturity dates of existing debt and other payables. IFRS 7.33
IFRS 7.39(b)
IFRS 7.33

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 31 December 2011, the Group had available US\$10.5 million (2010: US\$10.5 million) of undrawn committed borrowing facilities. The Group's policy is that not more than 35% of borrowings should mature in the next 12 month period. 13% of the Group's debt will mature in less than one year at 31 December 2011 (2010: 14%) based on the balances reflected in the financial statements. f 7.39(b)

Metalville Investors Service made no change to the Group's long-term credit rating of B+.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2011	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total	IFRS 7.39(a) IFRS 7.B14
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
Interest-bearing loans and borrowings	8	76	459	73	96	712	
Accounts payable and accrued liabilities	26	541	-	-	-	567	
	34	617	459	73	96	1,279	
Year ended 31 December 2010	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
Interest-bearing loans and borrowings	51	-	169	35	181	436	
Accounts payable and accrued liabilities	20	496	-	-	-	516	
	71	496	169	35	181	952	

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which include an assessment of credit rating, short-term liquidity and financial position. The Group obtains sufficient collateral (where appropriate) from customers as a means of mitigating the risk of financial loss from defaults. In addition, receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant. IFRS 7.33
IFRS 7.36

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, short-term investments, quotational period derivatives and derivative financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings of at least A or equivalent.

Refer to Note 18 for analysis of trade receivables ageing.

Notes to the consolidated financial statements

26. Financial risk management objectives and policies *continued*

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. IAS 1.134

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. IAS 1.135(a)

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to maintain the gearing ratio between 5% and 20%. The Group includes within its net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short term deposits. IAS 1.135(d)

The Group is not exposed to any externally imposed capital requirements.

	2011	2010	
	US\$ million	US\$ million	<i>IAS 1.135(b)</i>
Interest-bearing loans and borrowings	614	366	
Accounts payable and accrued liabilities	567	516	
Less cash and short term deposits	(508)	(539)	
Net debt	673	343	
Equity	4,771	4,019	
Capital and net debt	5,444	4,362	
Gearing ratio	12%	8%	

Commentary

IAS 1.134 and IAS1.135 require entities to make qualitative and quantitative disclosures regarding their objectives, policies and processes for managing capital. Good Mining has disclosed a gearing ratio as this is the measure the Group uses to monitor capital. However, other measures may be more suitable for other entities.

Notes to the consolidated financial statements

27. Derivatives and financial instruments

Fair values

Set out below is a comparison by category of the Group's financial instruments that are recognised in the financial statements where their carrying amount and fair value differ:

IFRS 7.25
IFRS 7.26

	Financial instrument classification	Carrying amount		Fair value	
		2011	2010	2011	2010
		US\$ million	US\$ million	US\$ million	US\$ million
Financial liabilities					
Interest-bearing loans and borrowings:					
Fixed rate borrowings	Amortised cost	108	77	111	81
Other financial assets					
				2011	2010
				US\$ million	US\$ million
Derivative commodity contracts				12	15
Quotational period derivatives				10	5
				22	20

IFRS 7.8

Derivative financial instruments

The Group has entered into the following derivative commodity contracts that have not been designated as hedges:

IFRS 7.22

Gold forward contracts	Financial instrument classification	Term	Ounces	Price US\$ per ounce	Fair value at 31 December 2011 US\$ million
Gold forwards - US\$ denominated contracts	Held for trading	Expiry June 2012	30,000	800	5
Gold forwards - AU\$ denominated contracts	Held for trading	Expiry December 2012	30,000	800	7
					12

Notes to the consolidated financial statements

27. Derivatives and financial instruments *continued*

Gold forward contracts	Financial instrument classification	Term	Ounces	Price US\$ per ounce	Fair value at 31 December 2010 US\$ million
Gold forwards - US\$ denominated contracts	Held for trading	Expiry June 2012	30,000	800	8
Gold forwards - A\$ denominated contracts	Held for trading	Expiry December 2012	30,000	800	7
					15

The resulting US\$12 million (2010: US\$15 million) fair market value of these contracts has been recognised on the statement of financial position as derivative assets. These amounts are neither past due nor impaired. The maximum credit exposure of these derivative assets is the carrying value and the Group mitigates this risk by entering into transactions with long-standing, reputable counterparties and partners. IFRS 7.6
IFRS 7.36

The change in the fair value of these derivatives of US\$3 million loss (2010: US\$5 million gain) has been recognised in profit or loss during the year as loss or gain on derivative financial instruments. IFRS 7.20(a)(i)

Quotational period derivatives

The fair market value of quotational period derivatives as at 31 December 2011 is US\$10 million (2010: US\$5 million). The change in the fair value of these quotational period derivatives of US\$5 million gain (2010: US\$4 million gain) has been recognised in profit or loss during the year as part of gain on derivative financial instruments. IAS 39.BC24

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique: IFRS 7.27 A

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments measured at fair value use Level 2 valuation techniques in both years. IFRS 7. 27B (b)

There has been no transfers between fair value levels during the reporting period. (c)

Commentary

In relation to determining the fair value of quotational period embedded derivatives (QP EDs), the level within the valuation hierarchy which such instruments fall will depend upon the type of QP EDs and the inputs into the valuation of these. Should there be inputs that are not based on observable data which have a significant effect on the recorded fair values, then such instruments would be disclosed as a Level 3 valuation.

The disclosures made by Good Mining meet the requirements of IFRS 7 and are based on a set of assumptions made about this fictitious entity. However, in light of the recent economic conditions, disclosures, both qualitative and quantitative, of an entity's potential exposure to credit and other financial risks becomes increasingly important to users of financial reports. Entities should focus on the needs of external financial report users and include meaningful disclosures that provide a full and robust understanding of the business and the risks faced (this includes information that is used by management in assessing its financial risks) instead of simply including boiler plate / "tick the box" disclosures. Entities could consider disclosures, when applicable, of the following:

- ▶ Debtors grouped by counterparty credit rating
- ▶ Details of debt covenants and how management monitors compliance
- ▶ Detailed disclosure of securities pledged against borrowings
- ▶ Detailed disclosure of hedging arrangements
- ▶ Disclosures regarding any forward sales contracts that have been accounted for as normal purchases / sales contracts

Please refer to EY publications Good Group (International) Limited 2011 and Good Bank (International) Limited 2011 illustrative financial statements for additional IFRS 7 disclosures.

Notes to the consolidated financial statements

28. Events after the reporting date

On 20 January 2012, the Group performed their annual evaluation of reserves. The valuation indicated that total reserves of the Aurum mine were 15 million ounces (according to the previous valuation performed in December 2010 reserves were 11 million ounces). The Group believes that the change in mineral reserves is a change in estimate under IAS 8 and the related impact on asset depreciation / amortisation and impairment is accounted for prospectively from the date the new information becomes available. IAS 10.21
IAS 10.10

The directors, in their meeting held on 27 January 2012, approved a proposal to be put before the annual general meeting of shareholders to be held on 20 February 2012, for the payment of a final dividend of US\$235 million for the year ended 31 December 2011 (15 cents dividend per share) to all ordinary shareholders registered at 27 January 2012. The amount is not recognised as a liability at 31 December 2011. IAS 10.12

Appendix 1 - First-time adoption of IFRS

Commentary

This note to the financial statements illustrates how an entity could disclose the impact of its transition to IFRS. The illustrative disclosures below should not be read in conjunction with the statement of financial position, statement of comprehensive income, statement of changes in equity nor statement of cash flows presented above. The format illustrated is based on Example 11 in IFRS 1 (version current as of 30 September 2011). While suggesting a format for disclosure, this example does not illustrate every GAAP difference that a company may need to disclose (i.e., it is not a comprehensive list of GAAP differences). Readers should also refer to Good First-Time Adopter (International) Limited 2011 for further illustrative examples of the types of disclosures to include in a first IFRS set of financial statements.

In all cases, entities should ensure that the disclosure of the transition to IFRS, and the explanation of differences are consistent with other communications issued by the entity, such as its Transition Statement or Interim Report.

Items in italics indicate IFRS standards and guidance that have not been incorporated into this illustrative IFRS 1 First-Time Adoption of International Financial Reporting Standards conversion note.

Explanation of the transition

IFRS 1.28 If an entity did not present financial statements for previous periods, its first IFRS financial statements must disclose that fact.

IFRS 1.23 An entity must explain how the transition from previous GAAP to IFRSs affected its reported financial position, financial performance and cash flows.

IFRS 1.27 IAS 8 does not deal with changes in accounting policies that occur when an entity first adopts IFRS. Therefore, IAS 8's requirements for disclosures about changes in accounting policies do not apply in an entity's first IFRS financial statements.

IFRSs in historical summaries

IFRS1.22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information under IFRS. This IFRS does not require such summaries to comply with the recognition and measurement requirements of IFRS. Furthermore, some entities present comparative information under previous GAAP as well as the comparative information required by IAS 1. In any financial statements containing historical summaries or comparative information under previous GAAP, an entity must:

- ▶ *Label the previous GAAP information prominently as not being prepared under IFRS; and*
- ▶ *Disclose the nature of the main adjustments that would make it comply with IFRS. An entity need not quantify those adjustments.*

Transition to IFRS

For all periods up to and including the year ended 31 December 2010, the Group prepared its financial statements in accordance with Metalville generally accepted accounting practice (GAAP). These financial statements, for the year ended 31 December 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards as issued by the IASB (IFRS).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2011 as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP statement of financial position as at 1 January 2010 and its previously published GAAP financial statements for the year ended 31 December 2010. The Group identified some adjustments as part of this process that do not arise from a GAAP difference and have therefore been classified as previous GAAP adjustments, rather than IFRS reclassifications or re-measurements. Therefore, this note also explains the principal adjustments made by the Group in restating its previous GAAP statement of financial position as at 1 January 2010 and its previously published GAAP financial statements for the year ended 31 December 2010.

Appendix 1 - First-time adoption of IFRS *continued*

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain IFRSs.

The Group has applied the following exemptions:

- ▶ IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 January 2010.
- ▶ The Group has recognised all cumulative actuarial gains and losses on pensions and other post-retirement benefits as at 1 January 2010, directly in equity. The Group has elected to disclose amounts required by paragraph 120A(p) of IAS 19 *Employee Benefits* prospectively from the date of transition.
- ▶ The Group has applied the transitional provision in IFRIC 4 *Determining whether an Arrangement Contains a Lease* and has assessed all arrangements as at the date of transition.
- ▶ The Group has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such, the Group has re-measured the provisions as at 1 January 2010 under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. The Group did this using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortisation under IFRS up to the transition date.

Business combinations

IFRS 1 C1 A first-time adopter may elect not to apply IFRS 3 *Business Combinations* (as revised in 2008) retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3 (as revised in 2008), it shall restate all later business combinations and shall also apply IAS 27 (as amended in 2008) from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to IFRSs, and it shall also apply IAS 27 (amended 2008) from 30 June 20X6.

Cumulative Translation Adjustments

IFRS 1 D12 IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity:

- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
- (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss on disposal.

IFRS 1 D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRSs. If a first-time adopter uses this exemption:

- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs; and
- (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences.

Designation of previously recognised financial assets and liabilities

IFRS 1 D19 IAS 39 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at fair value through profit or loss. Despite this requirement exceptions apply in the following circumstances:

- (a) an entity is permitted to make an available-for-sale designation at the date of transition to IFRSs.
- (b) an entity is permitted to designate, at the date of transition to IFRSs, any financial asset or financial liability as at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 9(b)(i), 9(b)(ii) or 11A of IAS 39 at that date

Fair value of assets deemed as cost on transition

IFRS 1.30 If an entity uses fair value in its opening IFRS statement of financial position as deemed cost for an item of property, plant and equipment, an investment property or an intangible asset (see paragraphs D5 and D7), the entity's first IFRS financial statements shall disclose, for each line item in the opening IFRS statement of financial position:

- ▶ the aggregate of those fair values; and
- ▶ the aggregate adjustment to the carrying amounts reported under previous GAAP.

Appendix 1 - First-time adoption of IFRS *continued*

Assets and liabilities of subsidiaries, associates and joint ventures

IFRS 1 D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
- (b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):
 - (i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs.
 - (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

IFRS 1 D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Leases

IFRS 1 D9 A first-time adopter may apply the transitional provisions in IFRIC 4 *Determining whether an Arrangement Contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date.

IFRS 1 D9A If a first-time adopter made the same determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, the first-time adopter need not reassess that determination when it adopts IFRSs. For an entity to have made the same determination of whether the arrangement contained a lease in accordance with previous GAAP, that determination would have to have given the same outcome as that resulting from applying IAS 17 *Leases* and IFRIC 4.

Share-based payments

IFRS 1 D2 A first-time adopter is encouraged, but not required, to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before 7 November 2002. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after 7 November 2002 that vested before the later of (a) the date of transition to IFRSs and (b) 1 January 2005. However, if a first-time adopter elects to apply IFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in IFRS 2. For all grants of equity instruments to which IFRS 2 has not been applied (e.g., equity instruments granted on or before 7 November 2002), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of IFRS 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which IFRS 2 has not been applied, the entity is not required to apply paragraphs 26-29 of IFRS 2 if the modification occurred before the date of transition to IFRSs.

IFRS 1 D3 A first-time adopter is encouraged, but not required, to apply IFRS 2 to liabilities arising from share-based payment transactions that were settled before the date of transition to IFRSs. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to liabilities that were settled before 1 January 2005. For liabilities to which IFRS 2 is applied, a first-time adopter is not required to restate comparative information to the extent that the information relates to a period or date that is earlier than 7 November 2002.

Author's note:

Neither IFRS 1 nor IFRS 2 clearly indicate the appropriate treatment of costs recorded under pre-transition GAAP by a first-time adopter in relation to transactions subject to the IFRS 1 transitional relief. There are mixed views on this issue in different jurisdictions, some of which are being driven by previous regulatory expectations. One view is that a first-time adopter must either:

- (a) apply IFRS 2 in full to all transactions, or
- (b) take advantage of the transitional arrangements with the result that transactions subject to those arrangements effectively cease to exist for recognition and measurement purposes.

However, the other view is that the costs recognised under pre-transition GAAP in relation to such transactions should not be reversed on the basis that such treatment would not result in more relevant and reliable information for users.

Appendix 1 - First-time adoption of IFRS *continued*

Decommissioning liabilities included in the cost of property, plant and equipment

IFRS 1 D21 IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRSs. If a first-time adopter uses this exemption, it shall:

- (a) measure the liability as at the date of transition to IFRSs in accordance with IAS 37;
- (b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) calculate the accumulated depreciation on that amount, as at the date of transition to IFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with IFRSs.

Appendix 1 - First-time adoption of IFRS *continued*

Transition to IFRS *continued*

Group reconciliation of equity as at 1 January 2010	Previous GAAP	IFRS 6 adjustments	IAS 16 adjustments	Rehabilitation adjustments	Other IFRS adjustments	Total IFRS adjustments	IFRS
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Non-current assets							
Exploration and evaluation assets	-	344	-	-	-	344	344
Intangible assets	24	-	-	-	-	-	24
Mine properties	3,182	(705)	(98)	10	-	(793)	2,389
Property, plant and equipment	226	-	-	-	-	-	226
Equity-accounted investments in joint ventures	73	-	-	-	-	-	73
Restricted cash	50	-	-	-	-	-	50
Deferred tax assets	10	-	-	-	-	-	10
	<u>3,565</u>	<u>(361)</u>	<u>(98)</u>	<u>10</u>	<u>-</u>	<u>(449)</u>	<u>3,116</u>
Current assets							
Cash and cash equivalents	481	-	-	-	-	-	481
Trade and other receivables	424	-	-	-	-	-	424
Inventories	85	-	-	-	-	-	85
Other financial assets	28	-	-	-	-	-	28
	<u>1,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,018</u>
Total assets	<u>4,583</u>	<u>(361)</u>	<u>(98)</u>	<u>10</u>	<u>-</u>	<u>(449)</u>	<u>4,134</u>
Shareholders' equity							
Issued capital	836	-	-	-	-	-	836
Retained earnings	2,092	(361)	(98)	(37)	79	(417)	1,675
	<u>2,928</u>	<u>(361)</u>	<u>(98)</u>	<u>(37)</u>	<u>79</u>	<u>(417)</u>	<u>2,511</u>
Non-current liabilities							
Pension benefit obligation	13	-	-	-	3	3	16
Interest-bearing loans and borrowings	302	-	-	-	-	-	302
Deferred tax liabilities	372	-	-	-	(81)	(81)	291
Provisions	249	-	-	47	-	47	296
	<u>936</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>(78)</u>	<u>(31)</u>	<u>905</u>
Current liabilities							
Pension benefit obligation	1	-	-	-	-	-	1
Accounts payable and accrued liabilities	390	-	-	-	1	1	391
Taxes payable	201	-	-	-	-	-	201
Interest-bearing loans and borrowings	32	-	-	-	-	-	32
Current portion of deferred tax liabilities	7	-	-	-	(7)	(7)	-
Provisions	88	-	-	-	5	5	93
	<u>719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>718</u>
Total liabilities	<u>1,655</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>(79)</u>	<u>(32)</u>	<u>1,623</u>
Total liabilities and shareholders' equity	<u>4,583</u>	<u>(361)</u>	<u>(98)</u>	<u>10</u>	<u>-</u>	<u>(449)</u>	<u>4,134</u>

Appendix 1 - First-time adoption of IFRS *continued*

Transition to IFRS *continued*

Group reconciliation of equity as at 31 December 2010	Previous GAAP	Previous GAAP adjustments	IFRS 6 adjustments	IAS 16 adjustments	Rehabilitation adjustments	Other IFRS adjustments	Total IFRS adjustments	IFRS
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Non-current assets								
Exploration and evaluation assets	-	-	501	-	-	-	501	501
Intangible assets	27	-	-	-	-	-	-	27
Mine properties	4,689	-	(952)	(41)	10	-	(983)	3,706
Property, plant and equipment	227	-	-	-	-	-	-	227
Equity-accounted investments in joint venture	98	-	-	-	-	-	-	98
Restricted cash	50	-	-	-	-	-	-	50
Deferred tax assets	57	-	-	-	-	-	-	57
	<u>5,148</u>	<u>-</u>	<u>(451)</u>	<u>(41)</u>	<u>10</u>	<u>-</u>	<u>(482)</u>	<u>4,666</u>
Current assets								
Cash and cash equivalents	489	-	-	-	-	-	-	489
Trade and other receivables	599	-	-	-	-	-	-	599
Inventories	88	-	-	-	-	-	-	88
Other financial assets	20	-	-	-	-	-	-	20
	<u>1,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,196</u>
Total assets	<u>6,344</u>	<u>-</u>	<u>(451)</u>	<u>(41)</u>	<u>10</u>	<u>-</u>	<u>(482)</u>	<u>5,862</u>
Shareholders' equity								
Issued capital	1,564	-	-	-	-	-	-	1,564
Retained earnings	2,906	(6)	(451)	(41)	(34)	81	(445)	2,455
	<u>4,470</u>	<u>(6)</u>	<u>(451)</u>	<u>(41)</u>	<u>(34)</u>	<u>81</u>	<u>(445)</u>	<u>4,019</u>
Non-current liabilities								
Pension benefit obligation	13	-	-	-	-	5	5	18
Interest-bearing loans and borrowings	315	-	-	-	-	-	-	315
Deferred tax liabilities	471	-	-	-	-	(85)	(85)	386
Provisions	323	6	-	-	44	-	44	373
	<u>1,122</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>44</u>	<u>(80)</u>	<u>(36)</u>	<u>1,092</u>
Current liabilities								
Pension benefit obligation	2	-	-	-	-	-	-	2
Accounts payable and accrued liabilities	516	-	-	-	-	-	-	516
Taxes payable	166	-	-	-	-	-	-	166
Interest-bearing loans and borrowings	51	-	-	-	-	-	-	51
Current portion of deferred tax liabilities	8	-	-	-	-	(8)	(8)	-
Provisions	9	-	-	-	-	7	7	16
	<u>752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>751</u>
Total liabilities	1,874	6	-	-	44	(81)	(37)	1,843
Total liabilities and shareholders' equity	<u>6,344</u>	<u>-</u>	<u>(451)</u>	<u>(41)</u>	<u>10</u>	<u>-</u>	<u>(482)</u>	<u>5,862</u>

Appendix 1 - First-time adoption of IFRS *continued*

Transition to IFRS *continued*

Group reconciliation of profit or loss for the period ended 31 December 2010	Previous GAAP	Previous GAAP adjustments	IFRS 6 adjustments	IAS 16 adjustments	Rehabilitation adjustments	Other IFRS adjustments	Total IFRS adjustments	IFRS
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Revenue	2,917	-	-	-	-	-	-	2,917
Cost of sales	(1,211)	(6)	(90)	57	31	-	(2)	(1,219)
Gross profit	1,706	(6)	(90)	57	31	-	(2)	1,698
Other income	76	-	-	-	-	-	-	76
Gain (loss) on sale of property, plant and equipment	(11)	-	-	-	-	-	-	(11)
Gain on derivative financial instruments	9	-	-	-	-	-	-	9
Share of joint venture's net profit	25	-	-	-	-	-	-	25
Other expenses	(130)	-	-	-	-	2	2	(128)
General and administrative costs	(203)	-	-	-	-	(2)	(2)	(205)
Operating profit	1,472	(6)	(90)	57	31	-	(2)	1,464
Finance income	25	-	-	-	-	-	-	25
Finance costs	(12)	-	-	-	-	(28)	(28)	(40)
Profit before income tax	1,485	(6)	(90)	57	31	(28)	(30)	1,449
Income tax expense	(531)	-	-	-	-	2	2	(529)
Profit for the year	954	(6)	(90)	57	31	(26)	(28)	920
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	954	(6)	(90)	57	31	(26)	(28)	920

Appendix 1 - First-time adoption of IFRS *continued*

Notes to the restatement of equity and reported income from previous GAAP to IFRS

The narrative attached to these statements has been included to give an indication of the level of disclosure that would be expected in the first IFRS financial statements to comply with the requirements of IFRS 1.

In practice, these disclosures would be based on the IFRS transition statement already published by the entity. It would not be acceptable to merely refer to the earlier IFRS announcement because IFRS 1 requires the disclosures to appear in the financial statements. Also, depending on the level of detail provided in the original IFRS announcement, it may be possible to summarise or it may be required to elaborate on that information.

Reconciliations

- IFRS 1.23 An entity shall explain how the transition from previous GAAP to IFRS affected its reported financial position, financial performance and cash flows.
- IFRS 1.24 To comply with IFRS 1.23, an entity's first IFRS financial statements shall include:
- ▶ Reconciliations of its equity reported under previous GAAP to its equity under IFRS for both of the following dates:
 - (i) the date of transition to IFRS
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP
 - ▶ a reconciliation to its total comprehensive income in accordance with IFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP
 - ▶ If the entity recognised or reversed any impairment losses for the first time in preparing its opening IFRS statement of financial position, the disclosures that IAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to IFRS
- IFRS 1.25 The reconciliations required by IFRS 1.24 shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- IFRS 1.26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by IFRS 1.24 shall distinguish the correction of those errors from changes in accounting policies.

Appendix 1 - First-time adoption of IFRS *continued*

Restatement of equity from Previous GAAP to IFRS

1. IFRS 6 *Exploration for and Evaluation of Mineral Resources* adjustments

a) *Pre-licence costs*

Costs incurred prior to obtaining the legal right to explore an area were capitalised under previous GAAP as part of mine properties. Under IFRS, these costs may no longer be capitalised. As such, US\$26 million pre-licence costs incurred prior to 1 January 2010 have been written off through opening retained earnings. For the year ended 31 December 2010, US\$9 million costs relating to pre-licence costs have been expensed through profit or loss.

Commentary

In these illustrative financial statements, the Group has determined to recalculate the carrying value of property, plant and equipment under IAS 16. Alternatively, a company could utilise the IFRS 1.30 exemption to use fair value in its opening IFRS statement of financial position as deemed cost on certain items.

b) *Licence and acquisition costs*

Under previous GAAP, licence and acquisition costs not associated with economically recoverable reserves were assessed for indicators of impairment. Where such indicators existed, the related costs were transferred to the depletable pool, which was subject to a separate impairment test. The Group has adopted accounting policies under IFRS that requires each property to be reviewed on an annual basis to confirm that there are no facts or circumstances that suggest it may be impaired. If no future activity is planned or the property is otherwise impaired, the remaining balance of the licence and property acquisition costs is written off to profit or loss. As a result, the Group has reclassified US\$131 million of intangible exploration costs that were included in mine properties under previous GAAP as exploration and evaluation assets. These costs have been assessed for impairment on conversion to IFRS resulting in US\$3.2 million written off to retained earnings at the opening balance date and US\$6 million in the year ended 31 December 2010.

c) *Exploration expenditure*

Expenditure associated with geological and geophysical expenditures and unsuccessful exploration and evaluation were capitalised within the mining assets' full cost pool in accordance with previous GAAP as part of mine properties. Under the Group's accounting policies, certain early stage prospecting costs are expensed as incurred, while exploration costs are initially capitalised as an asset and, if subsequently determined not to show economic viability, are charged to profit or loss under other expenses. As under previous GAAP mine assets included intangible exploration costs, as well as successful and unsuccessful exploration costs, the Group has reclassified US\$548 million relating to exploration costs from mine properties to exploration and evaluation assets and has written off US\$303 million relating to mining costs and unsuccessful exploration and evaluation costs in the opening IFRS statement of financial position and US\$75 million in the year ended 31 December 2010.

Commentary

In these illustrative financial statements, the Group has decided to follow a successful efforts type of accounting approach with the write-off of all prospecting expenses and unsuccessful exploration costs. Please note that other alternative treatments are allowed under IFRS 6 and refer to the commentary discussion within the Good Mining accounting policy notes for alternative accounting policy treatments available under IFRS 6.

2. IAS 16 *Property, Plant and Equipment* adjustments

a) *Revisions to carrying values*

Under previous GAAP, the Group did not recognise gains or losses on farm in arrangements, asset exchanges and the disposal of mine properties unless such dispositions would change the amortisation rate by 20 % or more. This has resulted in a US\$103 million decrease to the carrying value of mine properties as at 1 January 2010 and US\$58 million gain on disposal recorded for the year ended 31 December 2010.

Commentary

In these illustrative financial statements, the Group has determined to recalculate the carrying value of property, plant and equipment under IAS 16. Alternatively, a company could utilise the IFRS 1.30 exemption to use fair value in its opening IFRS statement of financial position as deemed cost on certain items.

b) *Property impairment adjustments*

Under previous GAAP, the Group applied a two-part impairment test to the net carrying amount of mine assets, whereby the first step compared the net carrying value of the asset to the aggregate of estimated undiscounted future net cash flows from production of proved reserves and the cost of unproved properties less impairment. If the net carrying value of the mine assets exceeded the amount ultimately recoverable, the amount of impairment was determined through the performance of the second part of the test as the deficit, if any, of the discounted estimated future cash flows from proved and probable reserves plus the cost of unproved properties, net of impairment allowances, less the book value of the related assets.

Appendix 1 - First-time adoption of IFRS *continued*

2. IAS 16 Property, Plant and Equipment adjustments continued

b) Property impairment adjustments continued

Under IFRS, the recoverable amounts have been determined based on the higher of value-in-use calculations and fair value less costs to sell calculation at the level of cash-generating units and individual assets as described in the Group's accounting policies as set out in note 2.4. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount in the statement of financial position to its recoverable amount. This resulted in a US\$27 million impairment charge as at 1 January 2010 and US\$9 million for the year ended 31 December 2010.

c) Depreciation, depletion and amortisation adjustments

Under previous GAAP, depreciation, depletion and amortisation were calculated on a unit-of-production basis for mine properties that is now applied on a mine-by-mine basis, with certain fields within development areas being combined where appropriate as per accounting policy note 2.4 and components whose useful life is shorter than the life of the mine depreciated using a straight-line method as appropriate. The Group has also adjusted depreciation and amortisation charges for the comparative period to reflect the revised carrying values of mine properties as a result of the IAS 16 and IFRS 6 adjustments noted above. This resulted in a US\$32 million decrease to accumulated depreciation and amortisation as at 1 January 2010, as well as a US\$8 million decrease in depreciation expense for the year ended 31 December 2010.

3. Rehabilitation adjustments

a) Previous GAAP adjustments

In confirming the computation of the rehabilitation provisions under previous GAAP for the purposes of the IFRS conversion, an error in the previous unwinding of the discount calculation was identified. This resulted in an US\$5 million understatement of decommissioning provisions and accretion expense as at, and for the year ended, 31 December 2010. There was no impact on the 1 January 2010 statement of financial position.

b) Rehabilitation adjustments

Consistent with IFRS, rehabilitation provisions have been previously measured based on the estimated cost of rehabilitation, discounted to its net present value upon initial recognition. However, adjustments to the discount rate are not reflected in the provisions or the related assets under previous GAAP unless they caused an upward revision in the future costs estimates. The Group has elected to apply the exemption from full retrospective application as allowed under IFRS 1. As such, the Group has re-measured the rehabilitation liability as at 1 January 2010 under IAS 37, estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation and amortisation under IFRS.

In addition, under previous GAAP, the unwinding of the discount was included with depreciation and amortisation expense, and has now been reclassified to finance costs as required under IFRS.

Commentary

The Group has elected to take the exemption from retrospective restatement of the rehabilitation provisions available under IFRS 1 Appendix D21. However, an entity that has: (1) a shorter history; or (2) has the required detailed information available could instead choose retrospective restatement. Where differences between previous GAAP and IFRS are minimal, an entity would likely choose this option.

4. Other adjustments

a) Pension scheme assets

Under previous GAAP, the Group employed a calculated value method of valuing listed investments which resulted in amortising the gains and losses on investments over a five-year period. Under IAS 19, plan assets are valued at fair value based on market price information. The Group has adjusted the value of the defined benefit pension scheme assets from the calculated value to fair value, the impact being US\$3 million (1 January 2010) and US\$5 million (31 December 2010) to the net defined benefit pension obligation.

Appendix 1 - First-time adoption of IFRS continued

b) Short-term employee benefits

Under previous GAAP, the Group accrued for holiday pay where this was expected to be paid as a cash sum or where the employee was entitled to carry forward holidays earned indefinitely. However, the Group did not accrue for holiday pay that was earned and the holiday entitlement was expected to be taken in the financial year. Under IAS 19, the Group is required to accrue for all short-term accumulated absences as holiday entitlement earned but not taken at the reporting date.

The impact of IAS 19 on the Group's transition to IFRS is to increase the holiday pay accrued by US\$5 million. There is also a charge of US\$2 million in the year ended 31 December 2010 statement of comprehensive income reflecting the increase in the holiday pay accrual for the year.

c) Overhead charges

When the Group acts as operator, it charges an overhead fee based on a fixed percentage of total costs as prescribed by certain joint venture agreements. These recharges made by the Group as operator were recorded as a reduction in general and administrative costs under previous GAAP. Under IFRS, as the Group is not acting as an agent with respect to these general recharges, it recognises the general overhead expenses and the overhead fee in profit or loss as expense and income, respectively.

d) Deferred tax

Under previous GAAP, deferred taxation assets were classified between current and non-current based on the classification of the underlying assets and liabilities that gave rise to the differences. IAS 12 requires that deferred taxation amounts be classified as non-current assets.

In addition, , deferred taxes have been adjusted for the changes to net book values arising as a result of the adjustments for first-time adoption of IFRS as discussed above.

5. Restatement of statement of cash flows from previous GAAP to IFRS

The transition from previous GAAP to IFRS has had no effect upon the reported cash flows generated by the Group. The reconciling items between the previous GAAP presentation and the IFRS presentation have no net impact on the cash flows generated.

Notes to the restatement of statement of cash flows from previous GAAP

IFRS 1.23 If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

Glossary

A glossary of mining specific terminology and abbreviations used in the publication:

<i>Bullion</i>	Metal in bars, ingots or other uncoined form.
<i>By-product</i>	A secondary metal or mineral product recovered from the milling process, which was not intended to be the primary exploration or development target.
<i>Carried interest</i>	An agreement by which an entity that contracts to operate a mineral property and, therefore, agrees to incur exploration or development costs (the carrying party) is entitled to recover the costs incurred (and usually an amount in addition to actual costs incurred) before the entity that originally owned the mineral interest (the carried party) is entitled to share in revenues from production.
<i>Carried party</i>	The party for whom funds are advanced in a carried interest arrangement.
<i>Carrying party</i>	The party advancing funds in a carried interest agreement.
<i>Concentrate</i>	The result of the milling process in which crushed ore is subjected to floatation or chemical reagents to form a concentrate of the metal. This residual metal in concentrate becomes the raw material for smelting.
<i>Contained ounces</i>	Represents ounces in the ground prior to reduction of ounces not able to be recovered in the applicable extraction process.
<i>Development</i>	Work performed in order to open a mineral deposit. For example, in an underground mine, this may include shaft sinking, crosscutting and drifting. In an open pit mine, this includes the removal of overburden.
<i>Exploration</i>	Prospecting, sampling, mapping and other work involved in searching for minerals.
<i>Farm out and farm in</i>	An agreement by which the owner of operating rights in a mineral property (the farmor) transfers a part of that interest to a second party (the farmee) in return for the latter's paying all of the costs, or only specified costs, to explore the property and perhaps to carry out part or all of the development of the property if reserves are found.
<i>Grade</i>	The amount of metal in each tonne of ore, expressed as troy ounces per tonne or grams per tonne for precious metals and expressed as a percentage for most other metals.
<i>JORC Code</i>	Joint Ore Reserves Committee Code. The purpose of the JORC Code is to provide a minimum standard for reporting of exploration results, Mineral Resources and Ore Reserves in Australasia.
<i>Metal in circuit</i>	Metal, which at balance date, is within the production process, and can be separately identified.
<i>Mill</i>	Processing facility where ore is finely ground and undergoes physical or chemical treatment to extract the metals.
<i>Open pit</i>	A mine where minerals are extracted entirely from the surface.
<i>Ore</i>	Mineral bearing rock which contain economically recoverable reserves.
<i>Ore Reserve</i>	An ore reserve is the economically mineable part of a measured and / or indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environment, social and governmental factors. These assessments demonstrate at the time of reporting that the extraction could reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves.
<i>Overburden</i>	Overburden represents the waste rock which must be removed from a mine in order to extract mineral bearing rock (ore).
<i>Quotational period</i>	Period after the physical shipment of goods during which the price and grade of minerals sold is subject to change due to fluctuations in commodity prices and also upon testing by the counterparty of the mineral content.
<i>(Mineral) resource</i>	A mineral deposit from which valuable metals may be recovered. On completion of a successful feasibility study, the resource will generate a reserve.
<i>Royalty</i>	A portion of the proceeds from production, usually before deducting operating expenses, payable to a party having an interest in a lease.

Glossary *continued*

<i>Stripping</i>	Removal of overburden or waste rock overlying an ore body in preparation for mining by open pit methods. Expressed as the total number of tonnes mined or to be mined for each ounce of gold.
<i>Tailings</i>	Material that remains after all economically and technically recoverable precious metals have been removed from the ore during processing.
<i>Take-or-pay contracts</i>	An agreement between a buyer and seller in which the buyer will still pay some amount even if the product or service is not provided. If the purchaser does not take the minimum quantity, payment is required for that minimum quantity at the contract price. Normally, deficiency amounts can be made up in future years if purchases are in excess of minimum amounts.

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EYG no. AU1027

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