Beadell Resources Limited

ABN 50 125 222 291

Annual Financial Report

31 December 2012

Contents

Competency Statement

The information in this report relating to Open Pit Ore Reserves is based on information compiled by Mr Jim Jewell who is a member of the Australasian Institute of Mining and Metallurgy and who has sufficient experience which is relevant to the styles of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jewell is a consultant to the Beadell Group and consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report relating to Mineral Resources is based on information compiled by Mr Marcelo Batelochi who is a member of the Australasian Institute of Mining and Metallurgy and has sufficient exploration experience which is relevant to the various styles of mineralisation under consideration to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Batelochi is a consultant to the Beadell Group and consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report relating to Exploration Results is based on information compiled by Mr Robert Watkins who is a member of the Australasian Institute of Mining and Metallurgy and has sufficient exploration experience which is relevant to the various styles of mineralisation under consideration to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Watkins is a full time employee of the Beadell Group. Mr Watkins consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Corporate directory

Directors

Craig Readhead	Independent Non - Executive Chairman
Peter Bowler	Managing Director
Rob Watkins	Executive Director - Geology
Ross Kestel	Independent Non - Executive Director
Mike Donaldson	Independent Non - Executive Director

Company Secretary

Greg Barrett

Corporate Details

Beadell Resources Limited (ABN 50 125 222 291)

Issued Capital: 742,204,752 ordinary shares

Registered and Corporate Office

2nd Floor, 16 Ord Street
West Perth, WA 6005

Telephone: +61 8 9429 0800

Facsimile: +61 8 9481 3176

Internet: www.beadellresources.com.au

Brazil Offices

Rio de Janeiro

Rua Voluntários da Pátria, 89, 6° andar, Botafogo – RJ

Telephone: + 55 21 2122 0500

Facsimile: + 55 21 2122 0502

Tucano Minesite

Estrada do Taperebá, SN, Pedra Branca do Amapari – AP

Telephone: +55 21 2122 2400

Facsimile: +55 21 2122 2438

Share Registry

Computershare Investor Services Pty Ltd
Level 8, Exchange Plaza, 2 The Esplanade

Perth WA 6000

Telephone: 1300 137 515

Telephone: +61 3 9415 4667 (from outside Australia)

Stock Exchange Listing

ASX Ltd
ASX Code: BDR

Auditor

KPMG.

235 St Georges Terrace

Perth WA 6000

Directors' report

For the year ended 31 December 2012

The directors present their report together with the financial report of the Beadell Resources Limited ("Company") and its subsidiaries ("Group"), for the year ended 31 December 2012 ("the period" or "the year") and the auditor's report thereon.

1. Directors

The directors of the Company during or since the end of the period are:

Name and qualifications	Experience, special responsibilities and other Directorships
Mr Craig Readhead B.Juris, LL.B, FAICD Independent Non-Executive Director Chairman *Appointed 14 April 2010*	Mr Readhead is a lawyer with over 30 years legal and corporate advisory experience with specialisation in the resources sector, including the implementation of large scale mining projects both in Australia and overseas. Mr Readhead is a former president of the Australian Mining and Petroleum Law Association and is a partner of specialist mining and corporate law firm, Allion Legal. Mr Readhead is currently a director of Heron Resources Ltd, General Mining Corporation Ltd and Galaxy Resources Ltd. Mr Reahead is also a member of the WA Council of the Australian Institute of Company Directors. Mr Readhead is a member of the Remuneration, Nomination and Diversity Committee and the Audit and Risk Management Committee.
Ross Kestel B.Bus, CA, AICD Independent Non-Executive Director *Appointed 29 February 2012*	Mr Kestel is a Chartered Accountant and was a director of a mid-tier accounting practice for over 25 years and has a strong corporate and finance background. He has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries. Mr Kestel is currently a non-executive director of the ASX listed companies Regis Resources Limited and Xstate Resources Limited. During the past three years he has also served as a non-executive director of the ASX listed companies VDM Group Limited, Jabiru Metals Limited, Dioro Exploration NL, Jatenergy Limited, Resource Star Limited and Equator Resources Limited. Mr Kestel is a member of the Australian Institute of Company Directors. Mr Kestel is the Chairman of the Remuneration, Nomination and Diversity Committee and the Audit and Risk Management Committee.
Dr Michael Donaldson BA (Hons), PhD, MAIG, MAICD Independent Non-Executive Director *Appointed 31 July 2007*	Dr Donaldson has over 30 years' experience in the minerals industry, including 15 years with Western Mining Corporation in nickel, gold and base metals exploration. Dr Donaldson was the Exploration Manager of Coolgardie Gold NL, and General Manager Exploration with Sons of Gwalia Ltd and Ashton Mining Ltd, General Manager Mapping with the Geological Survey of Western Australia, and Group Chief Geologist with AIM-listed Lithic Metals and Energy. Dr Donaldson was previously a director of Territory Resources Limited. Dr Donaldson is a member of the Remuneration, Nomination and Diversity Committee and the Audit and Risk Management Committee.
Mr Peter Bowler Dip Farm Management (Hons) Managing Director *Appointed 3 May 2007*	Prior to his current position with Beadell Resources, Mr Bowler was the Managing Director of Agincourt Resources and was instrumental in driving its rapid growth. He was also a founding Director of Nova Energy Ltd. As Managing Director of Agincourt Resources Ltd, he facilitated the acquisition of the Martabe gold project in Indonesia and the subsequent takeover by Oxiana Ltd in April 2007.
Mr Robert Watkins BSc (Hons), MAusIMM Executive Director - Geology *Appointed 3 May 2007*	Mr Watkins is the former Exploration Manager for Agincourt Resources Ltd and has over 20 years exploration experience in Australia, Brazil, Indonesia and Africa where he has a track record of exploration success.

Mr Jim Jewell B.Eng (Hons), ACSM, MAusIMM Non-Executive Director *Appointed 14 April 2010* *Resigned 12 June 2012*	Mr Jewell is a Mining Engineer with over 30 years' experience in the extraction of Gold, Nickel, Tin and Uranium. He has a strong technical and operations background, having been a Mine General Manager in Western Australia for 7 years and has also been responsible for the execution of numerous large mining projects overseas.

2. Company Secretary

Mr Barrett is a member of the Institute of Chartered Accountants and a Fellow of the Financial Services Institute of Australasia. He has over 20 years management, corporate advisory, finance and accounting experience working for several listed and unlisted companies for which he has held the role as CFO and Company Secretary for over 15 years. He is the former Finance Executive and Company Secretary for Agincourt Resources Ltd and Nova Energy Ltd and had previously worked for KPMG before specialising in the mining industry.

3. Directors' meetings

The number of directors' meetings and number of meetings attended by each director in the capacity of director of the Company from beginning to end of the period are:

Director	**Audit & Risk Management Committee Meetings**		**Remuneration, Nomination & Diversity Committee Meetings**		**Board Meetings**	
	A	**B**	**A**	**B**	**A**	**B**
Mr Craig Readhead	2	2	3	3	10	11
Mr Ross Kestel *(appointed 29 February 2012)*	2	2	3	3	9	9
Dr Michael Donaldson	2	2	3	3	11	11
Mr Peter Bowler	-	-	-	-	10	11
Mr Robert Watkins	-	-	-	-	10	11
Mr Jim Jewell (*resigned 12 June 2012)*	-	-	-	-	4	5

A – Number of meetings attended **B** – Number of meetings held while in office

4. Principal activities

The principal activities of the Group during the period were:

- construction, mining and processing activities at the Group's Tucano gold mine ("Tucano") located in Northern Brazil; and
- exploration for and evaluation of mineral resources in Australia and Brazil.

At the end of the period, the Group commenced processing gold ore through the newly constructed Tucano gold plant. There were no other significant changes in the nature of the activities of the Group during the period ended 31 December 2012.

5. Operating and financial review

Overview of the Group

The Company is a gold producer, with its head office based in Perth, Western Australia. Its primary asset is the recently commissioned Tucano gold mine, located in Brazil. Tucano has gold resources of approximately 5.1 million ounces with 1.9 million ounces in reserves plus over 2,500km² of highly prospective gold exploration tenements.

The Group also has an extensive portfolio of key gold exploration tenements throughout Australia and Brazil, including the highly prospective Tartaruga and Tropicana East Projects.

Operating results

The loss after income tax for the twelve months ended 31 December 2012 was $42,993,000 (2011: $34,840,000). During the period, the Group focused its efforts on construction and commissioning of the Carbon in Leach ("CIL") plant at Tucano. The Group achieved its first gold pour at Tucano in December 2012.

Directors' report

Review of operations

Tucano Gold Project

Tucano is 100% owned by the Group and is located in Amapá State, northern Brazil. The project was acquired in April 2010 and a definitive feasibility study into recommencing operations was completed in May 2011. Detailed engineering for the Tucano 3.5 million tonne per annum CIL process plant commenced in January 2011 and was completed in July 2012. Ore commissioning commenced in the CIL plant in November 2012 and first gold pour occurred on 16 December 2012.

Other significant achievements during the period include; Tucano ore resource and reserve increases, Duckhead high grade drill results and the signing of iron ore agreements with Anglo Ferrous Amapá ("Anglo Ferrous").

Reserves and resources

In September 2012 the Group released a reserve and resource update.

Gold Reserve

The Tucano JORC compliant gold Reserve increased by 45% to 1.9 Moz contained gold. The reserve comprises an open pit Ore Reserve of 32.6 Mt @ 1.56 g/t gold for 1.63 Moz contained gold and a stockpile Ore Reserve of 8.1 Mt @ 0.87 g/t gold for 0.23 Moz contained gold. Proved and Probable tonnes, grade and ounces are as set out in the table below.

Reserve category	Tonnes (millions)	Gold grade (g/t)	Gold ounces (millions)
Proved	13.9	1.27	0.570
Probable	26.8	1.50	1.292
Total	**40.7**	**1.42**	**1.862**

Gold Resource

The Tucano JORC compliant gold Resource increased by 12% to 5.1 Moz contained gold. Measured, Indicated and Inferred tonnes, grade and ounces are as set out in the table below.

Resource category	Tonnes (millions)	Gold grade (g/t)	Gold ounces (millions)
Measured	14.9	1.33	0.639
Indicated	43.8	1.63	2.297
Inferred	54.8	1.24	2.191
Total	**113.5**	**1.41**	**5.127**

Regulatory Approvals

During the period Tucano received final regulatory approvals. On 3 August 2012, the operational license for three years was approved by the state secretary (SEMA) and by the federal regulatory body (INCRA).

Construction and commissioning

The construction and commissioning of the CIL plant at Tucano was completed during the period. The following demonstrates construction and commissioning key milestones achieved during the period:

- Commencement of power supply to the CIL plant in November 2012;
- Commissioning of the 7MW SAG Mill commenced on 20 November 2012;
- First gold poured on 16 December 2012;
- Completion of tailings storage facility on 20 December 2012; and
- First high grade ore being fed via the crusher into the SAG mill on 20 December 2012.

Mining

Mining activities during the period were focussed on developing the open pits of Tap AB, Tap C and Tap D. Mining of the 2.8 million ounce Urucum deposit commenced in the fourth quarter of 2012

The mobile equipment fleet was significantly expanded during the period with the commissioning of four CAT 777G trucks, two CAT 6018 excavators, a Leibherr 964 excavator and a CAT 834 dozer. A further three CAT 777G trucks are due to be commissioned in the first quarter of 2013. Mining productivity was greatly increased by the injection of this new equipment and a corresponding reduction in maintenance costs has also been realised.

The signing of a Joint Operating Agreement ("JOA") with Anglo Ferrous saw the establishment of iron ore stockpiles for delivery of iron ore to Anglo Ferrous' neighbouring beneficiation plant. The Group delivered iron ore moved as waste from open pits to these iron ore stockpiles during the period. The JOA and other iron ore agreements are further discussed below.

Directors' report

Project Finance

In March 2012, the Company completed a capital raising of $42.34 million through the placement of 58 million fully paid ordinary shares to institutional and other sophisticated and professional investors at an issue price of $0.73 per share.

In May 2012, a second project finance facility agreement was signed with Macquarie Bank Limited. The second facility agreement extended the pre-existing US$90 million project finance facility by US$20 million. As required by the terms of the facility, an additional 60,000 ounces of gold has been flat forward sold (hedged) at US$1,600 per ounce over the term of the facility agreement.

The Group raised US$10 million in September 2012 by selling call options over 48,485 ounces of gold at a strike price of US$1,700 per ounce, with expiry dates of 31 December 2014. In December 2012, the Group raised a further US$5 million through the sale of additional call options over 20,250 ounces of gold at a strike price of US$1,400 per ounce, with expiry dates of 31 December 2013.

The Company has also issued an unsecured $10 million interest free convertible note expiring on 22 April 2013. The convertible note converts to ordinary shares at the Group's option should any amount of the convertible note remain unpaid at 22 April 2013.

Tucano iron ore

The Tucano gold project has significant deposits of itabirite iron ore coincident with the gold mineralisation. The Group identified two potential opportunities to extract value from iron ore existing in optimised gold pits; through iron ore moved as waste from gold pits and as a concentrate extracted from gold ore tailings. These iron ore by-products will reduce gold cash operating costs over the life of the Tucano gold mine. During the period the Group executed several key agreements with Anglo Ferrous that were critical to the Group realising the full benefit from iron ore by-products.

Anglo Ferrous Agreements

The Group signed several agreements with Anglo Ferrous in August 2012. The key agreements are summarised below:

Iron Ore Concentrate Off Take Agreement

This agreement secures off take of high grade iron concentrate to be produced from the Group's iron ore concentration plant, which is currently under construction. The agreement is for an initial three year period, with the option to renew for two additional periods of three years each. The price per tonne of iron ore concentrate is determined by reference to the Platts 65% Fe China North Index. Under the terms of the agreement the Group will fully participate in movements in the Platts price.

Joint Operating Agreement

The JOA is a cost recovery agreement whereby the Group receives payment for all iron ore above an iron ore grade cut off (currently 25% Fe) mined as waste from gold pits. Realisation of the value of iron ore within gold pits will have a positive impact on reserves due to a reduction in strip ratio. Rates per tonne are adjusted for inflation. The terms of the JOA gave Anglo Ferrous an option to purchase the Group's existing 850,000 tonne iron ore stockpile for US$425,000, Anglo exercised this option during the period.

Iron ore concentrate plant

In 2011, the Group completed an iron ore scoping study which showed potential for the extraction of 250,000 – 500,000 tonnes of iron ore concentrate per annum from gold ore tailings using a standard magnetic separation process. As project economics were favourable, the Group committed to the construction of an iron ore concentrate plant by way of modifications to the CIL plant at Tucano.

Construction of the iron ore concentrate plant commenced in 2012. The Group expects first iron ore concentrate in the first half of 2013.

Tartaruga

The Tartaruga project is 100% owned by the Group and is located in Amapá State, Brazil, 120 km northeast of Tucano. The project was acquired in 2007 and includes a JORC Inferred resource of 5.5 Mt @ 1.6 g/t gold for 279,000 oz.

A new gold auger anomaly with up to 4.7 g/t gold was discovered at the Tartaruga Gold Project in the fourth quarter of 2012. An extensive 10,000 m RC drilling program is planned to commence in the first quarter of 2013.

Tropicana East

Tropicana East is 100% owned by the Group and is located in Western Australia. The Tropicana East Project is located adjacent to the AngloGold Ashanti - Independence Group's 7.9 Moz Tropicana gold development project, 350 km north-east of Kalgoorlie in Western Australia.

The Company has identified a 15 km long zone of highly anomalous gold named the Hercules Shear Zone, located 60 km along strike from Tropicana. The gold mineralisation is masked by approximately 30 m of transported overburden. The Atlantis and Hercules prospects represent significant early stage gold discoveries, located along the 15 km long, sparsely drilled Hercules Shear Zone.

Directors' report

An airborne Spectrem survey was flown over the Hercules Shear Zone as part of a jointly funded collaborative research and development initiative with CSIRO. The Spectrem survey has identified several discrete, highly conductive, late channel anomalies over 100 siemens in strength adjacent to both the Atlantis and Hercules prospects, which anomalies are likely to be caused by sulphide bodies.

A large drilling campaign is being planned for the second quarter of 2013 targeting the Spectrem anomalies and extensions and repetitions of the gold mineralisation intersected to date.

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the period under review other than those listed in the review of operations above.

6. Dividends

In January 2012, the Company adopted a dividend policy. In summary, the Company intends to pay shareholder dividends on a regular basis to the extent permissible under the Corporations Act and the Company's constitution. Any payment of dividends will be subject to the Company's capital expenditure requirements, acquisition activities, liquidity needs and requirements of its bankers. A full version of the Company's Dividend Policy is available on the Company's website.

No dividends were declared or paid during, or since the end of the year.

7. Events subsequent to reporting date

On 26 March 2013 the Group entered into amending agreements for the Group's Facility Agreements. The amending agreements have rescheduled the Group's schedule of repayments under the Facility Agreements and also require the Group to complete a $20 million equity raising by 30 April 2013. The Group's Facility Agreements are discussed further at note 18 of this Annual Financial Report.

There has not arisen in the interval between the end of the period and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future periods.

8. Likely developments

The Group is focused on optimisation of, and improvement to the Tucano CIL plant, targeting an annualised throughput rate of up to 4.5 Mtpa, 28% above nameplate.

Completion of construction and commissioning of the magnetic separation plant at Tucano remains a priority of the Group. First iron ore concentrate is anticipated in May 2013.

Optimisation of Duckhead, Duckhead Hangingwall Lode and additional drilling at Tucano and Tartaruga is expected to significantly expand the Group's gold reserves and resources.

Exploration activities on Australian and Brazilian exploration assets will continue in 2013, with a particular emphasis on opportunities at Tucano, Tartaruga and Tropicana East.

9. Environmental regulation

The Group's operations are subject to environmental laws and regulations under Brazilian (State and Federal) legislation depending on the activities undertaken. Compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve. There were no known significant breaches of these regulations during the year.

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

10. Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are:

Director	Ordinary shares	Options over ordinary shares issued in respect of shareholdings	Options over ordinary shares issued as remuneration
Craig Readhead	145,000	-	1,000,000
Ross Kestel	50,000	-	-
Michael Donaldson	1,333,333	-	1,000,000
Peter Bowler	21,043,333	-	-
Robert Watkins	6,150,001	-	3,500,000

11. Share options

Options granted to directors and executives of the Company

During or since the end of the period, the Company did not grant any options to directors. Options for no consideration over unissued ordinary shares in the Company were granted to the following executive officers of the Company as part of their remuneration:

Executives	Number of options granted
Mr Barrett	1,500,000
Mr Andrade	300,000

No options have been granted since the end of the period.

Unissued shares under unlisted options related to remuneration

At the date of this report, unissued ordinary shares of the Company under option that are related to remuneration are:

Expiry date	Exercise price	Number of shares
30 June 2013	$0.1200	1,800,000
10 June 2014 (vesting 14 December 2013)	$1.1500	1,000,000
30 June 2014	$0.1875	10,330,000
30 June 2014	$0.6500	2,000,000
1 January 2015	$0.8000	500,000
1 January 2015	$0.8500	550,000
14 June 2015 (vesting 14 December 2014)	$1.1500	1,000,000
30 June 2017 (vesting 1 July 2013)	$0.6500	900,000
30 June 2017 (vesting 1 July 2014)	$0.6500	900,000

All options expire on the earlier of their expiry date or, if not vested, on termination of the employee's employment.

Unissued shares under unlisted options not related to remuneration

At the date of this report, the Company has no unissued shares under unlisted options not related to remuneration.

Shares issued on exercise of options

During the period, the Company issued the following ordinary shares as a result of the exercise of options (there are no amounts unpaid on shares issued).

Number of shares	Amount paid per share
200,000	$0.3000
500,000	$0.1200
1,500,000	$0.3500
1,500,000	$0.5000
22,500,000	$0.1875

Since the end of the period, the Company has not issued ordinary shares as the result of the exercise of options.

12. Indemnification and insurance of directors and officers

The Group provides insurance to cover legal liability and expenses for the directors and executive officers of the Company. The directors' and officers' liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers. Disclosure of the nature of the liability cover and amount of the premium is subject to a confidentiality clause under the insurance policy.

The Group has not provided any insurance or indemnity for the auditor of the Company.

13. Non-audit services

During the period KPMG, the Company's auditor, provided no services in addition to their statutory duties in Australia and Brazil (2011: Australia $23,350, Brazil $5,982).

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 66 and forms part of the directors' report for the period ended 31 December 2012.

Directors' report

15. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

16. Remuneration report - audited

16.1 Principles of remuneration - audited

Key management personnel at the end of the period have been identified as Mr Readhead (Non-Executive Director, Chairman), Mr Bowler (Managing Director), Mr Watkins (Executive Director - Geology), Mr Kestel (Non-Executive Director), Dr Donaldson (Non-Executive Director), Mr Barrett (Chief Financial Officer) and Mr Andrade (GM Operations - Brazil). Mr Jewell was a key management person until the date of his resignation as a Director on 12 June 2012. The key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Company and other executives. The Remuneration, Nomination and Diversity Committee is charged with setting remuneration for the three Australian based key management personnel and the Managing Director determines the remuneration for the Brazilian based GM – Operations.

Remuneration levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced directors and executives, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The Board determines remuneration packages using trends in comparative companies and the objectives of the Group's remuneration strategy.

The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segment's performance; and
- the Group's performance regarding operational success as reflected by growth in share price and delivering constant returns on shareholder wealth.

Remuneration structures may include fixed and performance linked remuneration.

Fixed remuneration

Fixed remuneration consists of base remuneration and employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Remuneration, Nomination and Diversity Committee through a process that considers individual, segment and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the market place.

While there have been no material changes in the fixed remuneration of key management personnel in respect of the period up to 31 December 2012, it is anticipated that there will be material increases in such remuneration during the next financial year to reflect the fact that the status of the Company has changed from a developer to a producer.

Performance linked remuneration

Performance linked remuneration includes both short term incentive ("STI") and long term incentive ("LTI") plans, and is designed to reward key management personnel for meeting or exceeding the financial and key metrics.

The Board and the Remuneration, Nomination and Diversity Committee have established a STI and LTI plan for its executives. Following the "first strike" against the Company's 2011 Remuneration Report, the Remuneration, Nomination and Diversity Committee engaged independent advisors Ernst & Young ("EY") to provide market data to assist the Board in establishing the framework of the STI and LTI plans, ensuring the framework aligned closely with the Group's business strategy, fulfilled the requirements of key stakeholders and met the expectations of shareholder groups. The Remuneration, Nomination and Diversity Committee held several meetings with EY during the period.

The nature of the services provided by Ernst & Young consisted of the provision of market insights and alternatives regarding the STI and LTI plans. This work assisted the Board in making remuneration decisions. During the 2012 financial year no remuneration recommendations, as defined by the Corporations Act, were provided by Ernst & Young.

2012 STI Plan

Amounts paid or payable under the Group's STI Plans are as described in Section 16.3 of this Directors' Report.

Australian Executive STI Plan 2012

The initial STI Plan was established for a six month period from 1 July 2012 to 31 December 2012. The Remuneration, Nomination and Diversity Committee considered this period to be critical as there existed opportunities to hasten completion of construction at Tucano and to significantly improve project economics.

With the assistance of EY, the Remuneration, Nomination and Diversity Committee:

- undertook a review of similar plans in place with comparator group companies;

- established performance measures to determine the level of STI opportunity available; and
- established the general guidelines under which the STI Plan would operate.

The Board determined that the STI opportunity would be payable up to 50% of the executives individual total fixed remuneration for the six month period to 31 December 2012 based on the achievement of the following STI performance measures:

1) execution of key agreements with Anglo American comprising a Joint Operating Agreement and an Iron Concentrate Purchase Agreement – 30% of STI opportunity;
2) achievement of agreed safety performance measures – 20% of STI opportunity;
3) first ore to mill by 31 October 2012 – 25% of STI opportunity; and
4) gold sales in November and December 2012 – 25% of STI opportunity.

Following the end of the six month period to 31 December 2012, the Remuneration, Nomination and Diversity Committee reviewed actual outcomes against the abovementioned performance measures. It was determined that the first measure had been satisfactorily achieved and the second measure reasonably achieved with the third and fourth measures not been satisfactorily achieved. Thus, 40% of the STI opportunity is payable.

Brazilian Executive STI Plan 2012

The Group's Managing Director established the terms of the Brazilian Executive STI Plan for the 2012 year.

The STI opportunity in the Group's Brazilian Executive STI Plan for the period 1 January 2012 to 31 December 2012 consisted of a productivity and retention bonus which was fully achieved in the period. The bonus was primarily focussed on retention in order to keep the Group's Brazilian Executives in place during the construction period in order to be prepared for the commencement of mining operations.

2013 STI Plan

Australian Executive STI Plan 2013

The Board and the Remuneration, Nomination and Diversity Committee has established the terms of the Australian Executive STI Plan for the year to 31 December 2013.

The STI opportunity to be payable will be up to 50% of their respective total fixed remuneration for the period 1 January 2013 to 31 December 2013.

The STI performance measures relate to achieving the following:

- Pre-determined annual production ounces;
- Pre-determined cash costs per ounce;
- Pre-determined EPS;
- Pre-determined resource growth; and
- Pre-determined safety performance.

There is equal weighting of the STI opportunity across the above performance measures.

In the event of a change of control of the Company, participants are entitled to a pro rata incentive payment for the current performance period, based on the achievement of performance targets to date. The Board, as it exists immediately prior to a change of control, may, in its absolute discretion, determine that any additional amounts should be paid to the participants.

Brazilian Executive STI Plan 2013

The Group's Managing Director established the terms of the Brazilian Executive STI Plan for the year to 31 December 2013 year.

The STI comprises performance measures with different weighting according to the strategic importance of each one. The opportunity to be payable is proportional to the accomplishment of the targets. The STI performance measures relate to achieving the following:

- Pre-determined annual production ounces;
- Pre-determined cash costs per ounce;
- Pre-determined environmental compliance;
- Pre-determined safety performance; and
- Pre-determined department targets.

There is equal weighting of the STI opportunity across the above performance measures.

LTI Plan

The LTI Plan consists of share based payments in the form of employee share options or performance rights. The Remuneration, Nomination and Diversity Committee determine if any share based payments will be provided to executives under the LTI Plan.

Employee Share Options ("Options")

Options are provided under the rules of the Employee Share Option Plan ("ESOP") and may contain performance hurdles and minimum service periods required to be achieved.

Terms of ESOP

Key terms of the ESOP include:

- options may be issued at no cost to directors (subject to shareholder approval) and employees;
- the board may limit the total number of options which may be exercised under the ESOP in any year;
- options shall lapse upon the earlier of:
  (a) the expiry of the exercise date;
  (b) the option holder ceasing to be an employee by reason of dismissal, resignation or termination of employment, office or services for any reason, unless waived by the Board;
  (c) the expiry of 30 days after the option holder ceases to be an employee by reason of retirement; or
  (d) a determination by directors that the option holder has acted fraudulently, dishonestly or in breach of his or her obligations to the Group.
- shares issued pursuant to the exercise of carry the same rights and entitlements as other shares on issue; and
- options are not quoted on the ASX.

Two of the Group's executives received a grant of Options under the Company's ESOP during the period. The Options contained minimum service periods required for the options to vest. Further details regarding these options can be found at section 16.4.1 of this Directors' report.

Performance Rights ("Rights")

No Performance Rights plan was in place during the 2012 financial year. The Company is seeking shareholder approval for the establishment of a Performance Rights plan at its next AGM. It is anticipated Rights issued under the plan will vest subject to meeting a pre-determined vesting condition and shares will subsequently be issued through an automatic exercise of the Rights, for nil consideration.

The LTI opportunity is 50% of the executive's total fixed remuneration for the 2013 financial year. Vesting of 50% of the grant will occur two years after the end of the financial year and the remaining 50% will vest three years after the end of the financial year.

The sole performance hurdle for the Rights is the measurement of the Company's Total Shareholder Return ("TSR") relative to the constituents of a selected comparator group. This is balanced out by the multiple STIP performance measures.

The selection of relative TSR was determined in consideration of:

- the principles to align long term reward with shareholder value;
- aligned to prevalent market practice; and
- avoids an overlap with STIP performance measures.

For the initial grant of Rights, the comparator group will comprise of the following companies:

- Endeavor Mining Corporation
- Kingsgate Consolidated Limited
- Medusa Mining Limited
- Northern Star Resources Limited
- OceanaGold Corporation
- Perseus Mining Limited
- Papillon Resources Limited
- Resolute Mining Limited
- Silver Lake Resources Limited
- ST Barbara Limited
- Teranga Gold Corporation

Directors' report

- Troy Resources Limited

The selection of the comparator group of companies was based on the following criteria:

- Direct competitors in who are predominately gold-based
- Size of companies relevant to Beadell with a market capitalisation between 50% to 200%;
- The consideration of comparator company size and sector is aligned to prevalent market practice when considering comparator group constituents.

The comparator group was compiled by the Remuneration, Nomination and Diversity Committee in consultation with EY.

Relative TSR Performance Over Measurement Period	% of Right to Vest
<50th percentile	0%
>50th &<75th percentiles	Pro-rata between 50% and 75%
75th percentile and above	100%

The LTI plan for rights has only been established for the 2013 financial year at this stage. The Remuneration, Nomination and Diversity Committee will continue to monitor developments within the Company's comparator group, its industry sector and the market in general and will ensure the LTI plan for future years will support the Company's growth profile, business strategy and takes into account the conditions of the markets and the views of its shareholders.

It is recognised by the Remuneration, Nomination and Diversity Committee that the Company has transitioned from a gold company in the development phase to one now in the production phase. The 2013 financial year will be the first full year as a gold production company.

The issue of any Rights under the LTI will require shareholder approval for two of the executives as they are directors of the Company. The executives can either receive options or performance rights but not both.

Consequences of performance on shareholder wealth

Production at the Tucano mine commenced in December 2012. Accordingly, the only meaningful measure of Group performance is change in share price, as set out in the table below:

	2012	2011	2010	2009	2008
Share price	$0.98	$0.60	$0.67	$0.23	$0.07

Other benefits

With the exception of Mr Silvano Andrade (General Manager Operations – Brazil), key management personnel are not entitled to receive additional benefits as part of the terms and conditions of their appointment. Mr Andrade receives various non-cash insurance benefits as part of the terms and conditions of his employment.

Service contracts

It is the Group's policy that service contracts for key management personnel are unlimited in term and capable of termination by either party. All service contracts with key management personnel, with the exception of Mr Andrade, require 3 month's written notice. Mr Andrade's contract requires 30 days written notice.

In the case of wilful or fraudulent misconduct, the Group retains the right to terminate all service contracts without notice.

Key management personnel are entitled to receive on termination of employment their statutory entitlements, including any accrued annual and long service leave, together with any superannuation benefits.

Each service contract outlines the components of remuneration paid to the key management personnel but does not prescribe how remuneration levels are modified year to year.

Non-executive directors

Aggregate remuneration payable to all non-executive directors, as approved by shareholders, is not to exceed $500,000 per annum. Directors' fees cover all regular board activities and membership of one committee. While some non-executive directors received options during periods prior to the company commencing production, non-executive directors are no longer entitled to receive performance-related remuneration.

As at the end of the year, each non-executive director may receive base fees up to $73,500 plus superannuation of 9% per annum and the Chairman may receive a base fee up to $135,200 plus superannuation of 9% per annum.

The Chairman of the Audit and Risk Management Committee receives up to $5,000 plus superannuation of 9% in addition to the base fee, and the Chairman of the Remuneration, Nomination and Diversity Committee receives $2,500 plus superannuation of 9% in addition to the base fee.

Directors' report

16.2 Directors' and executive officers' remuneration - audited

Details of the nature and amount of each major element of remuneration of each director of the Company and other key management personnel are as set out following.

12 months ending 31 December 2012	Salary & fees (short term) $	Cash bonus (short term) (1) $	Non cash Benefits (short term) $	Super (post-employment) $	Share based payments (options) (2) $	Total $	Performance related %	Value of options of total %
Directors								
Non-executive directors								
Mr Readhead, Chairman	135,200	-	-	-	-	135,200	-%	-%
Mr Kestel (appointed 29 February 2012)	64,340	-	-	5,791	-	70,131	-%	-%
Dr Donaldson	69,703	-	-	6,273	-	75,976	-%	-%
Mr Jewell (resigned 12 June 2012)	31,498	-	-	-	-	31,498	-%	-%
Executive directors								
Mr Bowler, Managing Director	591,377	59,950	-	58,619	-	709,946	8%	-%
Mr Watkins, Exploration Director	349,450	35,425	-	34,639	-	419,514	8%	-%
Executives								
Mr Barrett, Company Secretary, CFO	336,250	35,425	-	33,451	204,074	609,200	39%	33%
Mr Andrade, GM Operations – Brazil	271,240	147,266	16,991	23,187	77,786	536,470	42%	14%
Total compensation	**1,849,058**	**278,066**	**16,991**	**161,960**	**281,860**	**2,587,935**		

Notes:

1) The STI bonus is for performance from 1 July 2012 to 31 December 2012, using the criteria set out in Section 16.1 of this Directors' Report. The amount was determined on 29 January 2013 (2011: $260,055) after performance reviews were completed and approved by the Remuneration, Nomination and Diversity Committee.
2) The fair value of the options is calculated at the date of grant using the Black Scholes option-pricing model and allocated to each period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

Directors' report

12 months ending 31 December 2011	Salary & fees (short term) $	Cash bonus (short term) $	Non cash Benefits (short term) $	Super (post employment) $	Share based payments (options) (1)(2) $	Total $	Performance related %	Value of options of total %
Directors								
Non-executive directors								
Mr Readhead, Chairman	103,000	-		-	408,452	511,452	80%	80%
Mr Jewell	58,998	-		-	204,227	263,225	78%	78%
Dr Donaldson	55,895	-		5,031	204,227	265,153	77%	77%
Executive directors								
Mr Bowler, Managing Director	460,192	98,000		41,417	4,084,525	4,684,134	89%	87%
Mr Watkins, Exploration Director	299,750	52,000		26,978	2,042,263	2,420,991	87%	84%
Executives								
Mr Barrett, Company Secretary, CFO	299,750	52,000		26,978	282,657	661,385	51%	43%
Mr Andrade, GM Operations – Brazil (appointed 12 July 2011)	155,136	58,055	19,579	-	161,459	394,229	-%	41%
Mr Torresini, GM Operations – Brazil (resigned 6 May 2011)	140,867	-	7,354	-	(16,491)	131,730	-%	-%
Total compensation	**1,573,588**	**260,055**	**26,933**	**100,404**	**7,371,319**	**9,332.299**		

Notes:

1) The Board of Directors resolved to issue options to Directors and employees on 20 July 2010. At the time of the resolution, the options were issued at a 4% discount to the Company's 30 day VWAP. Director options were approved by Shareholders on 29 November 2010. In the period from Directors resolution to Shareholder approval the Company's share price increased 285%. When this significantly increased share price and associated volatility are used as inputs in the Black and Scholes Option Pricing Model to value the options for accounting purposes, the resultant accounting value is significantly higher than other options resolved to be issued by Directors on 20 July 2010 that did not require Shareholder approval some 4 months later.
2) Mr Torresini's 750,000 options were forfeited during the period due to failure to meet vesting conditions. Share based payments expenses in relation to these options were reversed in the period.

Directors' report

16.3 Equity Instruments - audited

16.3.1 Options over equity instruments granted as remuneration - audited

All options refer to options over ordinary shares of the Company, which are exercisable on a one for one basis according to the rules of the ESOP.

	Options granted – prior years			Options granted – current year											
12 months ended 31 December 2012	**Number of options granted**	**vested in current year %**	**forfeited in current year %**	**Number of options granted**	**Vested in year %**	**Forfeited in year %**	**Grant date**	**Weighted average fair value per option at grant date $**	**Exercise price per option $**	**Vesting date**	**Expiry date**	**Number of options vested in year**	**Total number of options vested**	**Exercised options in current year**	**Total number of options held as at 31 December 2012**
Directors															
Mr Readhead	1,000,000	-%	-%	-	-%	-%	-	-	-	-	-	-	1,000,000	-	1,000,000
Dr Donaldson	1,000,000	-%	-%	-	-%	-%	-	-	-	-	-	-	1,000,000	-	1,000,000
Mr Bowler	10,500,000	-%	-%	-	-%	-%	-	-	-	-	-	-	10,500,000	10,500,000	-
Mr Watkins	5,500,000	-%	-%	-	-%	-%	-	-	-	-	-	-	5,500,000	2,000,000	3,500,000
Mr Jewell (resigned 12 June 2012)	500,000	-%	-%	-	-%	-%	-	-	-	-	-	-	500,000	500,000	-
Executives															
Mr Barrett	5,500,000	-%	-%	750,000	-%	-%	12-Jun-12	$0.34	$0.65	01-Jul-13	30-Jun-17	-	5,500,000	-	7,000,000
				750,000	-%	-%	12-Jun-12	$0.34	$0.65	01-Jul-14	30-Jun-17				
Mr Andrade	600,000	33%	-%	150,000	-%	-%	14-Dec-12	$0.28	$1.15	14-Dec-13	10-Jun-14	200,000	400,000	-	900,000
				150,000	-%	-%	14-Dec-12	$0.38	$1.15	14-Dec-14	14-Jun-15				

Notes:

1) Options that vested to Mr Andrade contained service conditions, which were satisfied.
2) Options granted in the period contain minimum service period requirements.
3) All Options have been provided at no cost to recipients.
4) All Options expire on the earlier of their expiry date or termination of the individuals appointment

16.3.2 Modification of terms of equity-settled share-based payment transactions - audited

No terms of equity-settled share-based payments transactions (including options granted as remuneration to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

16.3.3 Exercise of options granted as remuneration - audited

During the reporting period, the following shares were issued on the exercise of options previously granted as remuneration:

	Number of shares	Value of options exercised $	Amount paid $/share
12 months ended 31 December 2012			
Directors			
Mr Bowler	10,000,000	7,625,000	0.1875
Mr Bowler	500,000	415,000	0.1200
Mr Watkins	2,000,000	1,595,000	0.1875
Mr Jewell (resigned 12 June 2012)	500,000	201,250	0.1875

Notes:

1) There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2012 financial year.
2) Value of options exercised is calculated as the closing market price of shares of the Company on the date of exercise after deducting the exercise price paid.

16.3.4 Forfeiture of options - audited

No options granted to key management personnel lapsed during the period.

16.3.5 Vesting of options - audited

During the reporting period 200,000 options granted to Mr Andrade vested.

16.3.6 Grant of options since the end of the period - audited

No options have been granted to key management personnel since the end of the period.

16.4 Analysis of bonuses included in remuneration - audited

Details of cash bonuses included as remuneration for each relevant key management person are detailed below.

	Included in remuneration $	Vested in year %	Forfeited in year %
12 months ended 31 December 2012			
Directors			
Mr Bowler	59,950	40%	60%
Mr Watkins	35,425	40%	60%
Executives			
Mr Barrett	35,425	40%	60%
Mr Andrade	147,266	100%	-%

Amounts included in remuneration for the period represent the amount that vested based on achievement and satisfaction of specified performance criteria. The Remuneration, Nomination and Diversity Committee approved these amounts on 29 January 2013.

The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

16.5 Payments to persons before taking office – audited

There were no payments made to persons before taking office during the period.

This report is made with a resolution of the directors:

PETER BOWLER

Managing Director

Dated at Perth, this 27th day of March 2013

Corporate governance statement

The Board and management of Beadell Resources Limited have adopted systems of control and accountability as the basis for the administration of corporate governance. The Board and management are committed to good corporate governance practices.

This statement outlines the main corporate governance practices in place throughout the period, which comply with the "Corporate Governance Principles and Recommendations" established by the ASX Corporate Governance Council, unless otherwise stated.

Principle 1: Lay solid foundations for management and oversight

Role and Responsibilities of the Board of Directors

The Board's primary role is the protection and enhancement of long-term shareholder value and to this end the Company has established functions reserved to the board and those delegated to senior executives, as set out in the Board's Charter located on the Company's website (www.beadellresources.com.au). In summary;

- The Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals, ensuring the integrity of internal control and management information systems and approving and monitoring financial and other reporting.
- The Board has delegated responsibility for the operation and administration of the Company to the Managing Director and the executive management team. The Board Charter supports this delegation of responsibility by formally defining the specific functions reserved for the Board and those matters delegated to management.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Principle 2: Structure the Board to add value

Board Independence

The names of the directors of the Company in office at the date of this report are set out in the Directors' report in Section 1 of this report. The composition of the board is determined using the following principles:

- a minimum of three directors, but no more than 10 directors;
- a maximum period of three years' service, eligible for re-election; and
- one third of all directors must retire at each annual general meeting, and are eligible for re-election.

The Board aims to achieve differing skills, expertise and diversity in its composition.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting.

The Chairman is a non-executive independent director.

The roles of the Chairman and Managing Director are not exercised by the same individual.

Board processes

To assist in the execution of its responsibilities the Board has established an Audit and Risk Management Committee and a Remuneration, Nomination and Diversity Committee. These committees have written mandates and operating procedures, which are reviewed as necessary.

The Board regularly and closely monitors the Group's financial performance and ensures that accurate and timely reporting systems are established.

The Board has implemented internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations.

The full Board holds at least eight scheduled meetings annually, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise. No director participates in any deliberation regarding his own remuneration or related issues.

The agenda for meetings is prepared in conjunction with the Chairman, Executive Directors and Company Secretary. Standing items include the financial, operational, environmental and safety reports; strategic matters; governance; and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors are in continual contact with the wider group of employees.

Corporate governance statement

Performance Evaluation of the Board, Committees and Senior Executives

The Board and senior executives have their performance evaluation carried out annually, co-incident with salary reviews and may be formal or informal in nature.

The Board is evaluated on an annual basis through: the comparison of the performance of the Board against the Board Charter; assessment of the performance of the Board in the period since its last review; assessment of the level and effectiveness of the Board's interaction with management; and review of the Board's Charter to ensure it remains relevant to the Company's activities.

The method and scope of the performance evaluation will be set by the Board and may include the use of an independent advisor.

The Chairman will have primary responsibility for conducting performance appraisals of directors, having particular regard to the contribution to the Board; availability for and attendance at Board meetings and other events; contribution to Company strategy; achievement of key operational goals and strategic objectives; development of management and staff; and achievement of key performance indicators.

In the case of the Managing Director, in addition to the criteria stated above, compliance with legal and Company policy requirements will also be assessed.

The Managing Director will have primary responsibility for conducting performance appraisals of executives, having particular regard to their contribution to Company strategy; achievement of key operational goals and strategic objectives; development of staff; and achievement of key performance indicators.

A performance evaluation for senior executives has taken place in the period and was conducted in accordance with the process described above.

Principle 3: Promote ethical and responsible decision-making

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. To this end, the board has established a code of conduct.

The Board reviews the Code of Conduct regularly and processes are in place to promote and communicate its requirements. Every employee has a supervisor to whom they may refer any issues arising from their employment.

Code of conduct

The Group has advised each director, manager and employee that they must comply with the Group's Corporate Code of Conduct. The code may be viewed on the Company's website, and covers the following:

(a) commitment of the Board and management to the corporate code of conduct;

(b) responsibilities to shareholders and the financial community generally to increase shareholder value within an appropriate framework which safeguards the rights and interests of the Company's shareholders and the financial community;

(c) compliance with systems of control and accountability which the Company has in place as part of its corporate governance with openness and integrity;

(d) responsibilities to clients, customers and consumers to comply with all legislative and common law requirements which affect the Company's business, in particular those in respect of occupational health and safety, the environment, native title and cultural heritage;

(e) employment practices so that the best available staff and consultants with appropriate skills are recruited to fill vacant positions and to ensure a safe work place and maintain proper occupational health and safety practices commensurate with the nature of the Company's business and activities;

(f) responsibilities to the community to recognise, consider and respect environmental issues which arise in relation to the Company's activities and comply with all applicable legal requirements;

(g) responsibilities to the individual to recognise and respect the rights of individuals and to the best of the Company's ability will comply with the applicable legal rules regarding privacy, privileges, private and confidential information;

(h) obligations relative to fair trading to deal with others in a way that is fair and will not engage in deceptive practices;

(i) compliance with the code so that any breach of compliance is reported as appropriate;

(j) periodic review of the code, and;

(k) code of conduct for executives, covering:

  (i) active promotion of the highest standards of ethics and integrity;

  (ii) disclosure of any actual or perceived conflicts of interest of a direct or indirect nature;

  (iii) respecting the confidentiality of information;

(iv) dealing with the Company's customers, suppliers, competitors and each other;

(v) protection of the assets of the Company; and

(vi) reporting any breach of the code of conduct to the Chairman.

Conflict of interest

The Board, management and employees must not involve themselves in situations where there is a real or apparent conflict of interest between them as individuals and the interest of the Group. Where a real or apparent conflict of interest arises the matter should be brought to the attention of the Chairman in the case of a board member, the Managing Director in the case of a member of management and a supervisor in the case of an employee, so that it may be considered and dealt with in an appropriate manner for all concerned. Details of director related entity transactions with the Company and the Group are set out in note 29 of the financial statements.

Trading in Company securities by directors and employees

The Group's Securities Trading Policy is located on the Company's website. The key elements of the policy are that directors and employees:

- must not deal in any security of the Company whilst in possession of inside information; and
- are discouraged from engaging in short term trading of any securities of the Company.

Key management personnel may not deal in any security of the Company within:

- one week prior to the release of the Company's quarterly reports;
- one week prior to the release of the Company's half year financial results; and
- one week prior to the release of the Company's full year financial results.

Before trading, or giving instructions for trading in the Company's securities, a director must:

- notify the Chairman in writing of his intention to trade;
- confirm that he does not hold any unpublished price sensitive information;
- have been advised by the Chairman that there is no reason to preclude him from trading in the Company's securities as notified; and
- comply with any conditions on trading imposed by the Chairman.

Where the Chairman intends to trade in the Company's securities, he must notify and obtain clearance in the abovementioned manner from the Managing Director before trading, or giving instructions for trading.

In the case of any other key management personnel, they must notify and obtain clearance from the Managing Director before trading, or giving instructions for trading.

Notifications prior to trading must be evidenced by prior written communication, whether by letter, facsimile, e-mail, or other visible form of communication.

In the case of directors only, section 205G of the Corporations Act requires that a director must notify the Australian Securities Exchange Limited of the acquisition or disposal of any security of the Company. A copy of any such notification should be forwarded by the relevant director to the Company Secretary within 5 business days of a deal occurring.

Diversity

The Board adopted a Diversity Policy in December 2012. This policy outlines the Company's commitment to improve diversity in all its operations both in Australia and overseas in accordance with ASX Corporate Governance Principles and Recommendations, as set out in the Diversity Policy available at the Company's website.

The Company has not set measurable objectives due to the recent adoption of the policy. However, Beadell is committed to promote equal opportunities to all prospective employees, regardless of gender, age or ethnicity. All prospective employees are employed and current employees are advanced based on individual achievements, skills and expertise.

The Board of Directors is committed to set the measurable objectives for 2013, following the commencement of commercial gold production at Tucano

Gender representation

	31 December 2012		31 December 2011	
	Female	Male	Female	Male
Board	-%	100%	-%	100%
Key management personnel	-%	100%	-%	100%
Group	8%	92%	8%	92%

Corporate governance statement

Key management personnel exclude directors which are reported as part of the Board representation.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Audit and Risk Management Committee has a documented charter, approved by the Board. The Committee must have at least three members, all members must be non-executive directors with a majority being independent. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

The members of the Audit and Risk Management Committee during the year were:

- Mr Ross Kestel – Independent Non-Executive Chairman
- Mr Craig Readhead - Independent Non-Executive
- Dr Donaldson, BA (Hons) PhD – Independent Non Executive
- Jim Jewell - Non-Executive (resigned on 12 June 2012)

The external auditors are invited to all Audit and Risk Management Committee meetings. Directors and executives of the Company may also be invited to committee meetings, at the discretion of the Committee. The Committee met twice during the period and committee member's attendance is disclosed in section 3 of the Directors' report. The Audit and Risk Management Committee Charter is available on the Company's website.

External audit

The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company.

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis in accordance with any legal and/or professional standards.

The Company's policy for the selection, appointment and rotation of the Company's external auditor can be found on the Company's website.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them at the Company's website, and issuing media releases. More details of the policy are available on the Company's website.

In summary, the Continuous Disclosure Policy operates as follows:

- the Company Secretary is responsible for all communications with the ASX;
- any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities must be immediately advised to the ASX;
- the Company acknowledges that it is not required to disclose information to ASX if any of the following applies:
  - (a) a reasonable person would not expect the information to be disclosed;
  - (b) the information is confidential; or
  - (c) one of the following applies:
    - (i) it would be a breach of a law to disclose the information;
    - (ii) the information concerns an incomplete proposal or negotiation;
    - (iii) the information comprises matters of supposition or is insufficiently definite to warrant disclosure;
    - (iv) the information is generated for the internal management purposes of the Company; or
    - (v) the information is a trade secret.

ASX Listing Rule disclosures

The Company has policies to ensure compliance with ASX Listing Rule disclosure. The Managing Director has been appointed as the officer responsible for compliance with these policies.

Corporate governance statement

Principle 6: Respect the rights of shareholders

Communication with shareholders

The Company has designed a communication's policy for promoting effective communication with shareholders and encouraging shareholder participation at annual general meetings. The policy is available on the Company's website and is set out below.

General Communication

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:

- the annual report is distributed to all shareholders who request a copy. The Board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to the other disclosures required by the Corporations Act;
- the half yearly report contains summarised financial information and a review of the operations of the Group during the period. The half year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Stock Exchange. The half yearly report is available on the Company's website and sent to any shareholder who requests it;
- the quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is available on the Company's website and is sent to any shareholder who requests it;
- proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company's website is well promoted to shareholders and shareholders may register to receive updates.

Participation at the annual general meeting

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

Company website

All of the above information is made available on the Company's website within one day of public release, and is e-mailed to all shareholders who lodge their e-mail contact details with the Company. Information on lodging e-mail addresses with the Company is available on the Company's website.

Principle 7: Recognise and manage risk

Risk management

The Company's risk management system incorporates all policies, processes and practices established by management and/or the Board to provide reasonable assurance that:

- established corporate strategies and objectives are met;
- risks are identified, assessed and adequately monitored and managed;
- significant financial, managerial and operating information is accurate, relevant, timely and reliable;
- material changes to the Company's risk management profile are promptly identified; and
- policies, standards, procedures and applicable laws, regulations and licences are complied with.

The Company's risk management policy is available on the Company's website. The Group's risk management system is summarised below.

Oversight of the risk management system

All members of the Board are responsible for the oversight of risk management and internal controls to manage the Company's material business risks. The design, implementation and day to day responsibilities of the risk management strategy and internal control system rest with management. The Audit and Risk Management Committee is responsible for reviewing the Group's risk management systems and internal financial control systems.

Reporting of risk management

The Managing Director reports on risk management, using an exception reporting basis as required.

The Managing Director reports annually to the Board regarding the effectiveness of the Company's management of its material business risks (refer below "Statement on management of risks").

Corporate governance statement

Risk Management Strategy

The Group's business is subject to general risks and certain specific risks. In accordance with the Group's Risk Management Policy, the Group has:

- identified strategic risks that may impact upon the Group's business;
- assessed and prioritised those risks, and;
- developed and implemented a Risk Management Strategy to manage the effects of identified material risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Risk Management Strategy as required by the Risk Management Policy.

Risk management and internal control

The Group has designed and implemented an internal control system to mitigate material risks; however, the Board recognises that no cost-effective internal control system will preclude all errors and irregularities. The following is a summary of the key internal control systems the Group has in place:

Financial

There is a budgeting system with a budget approved annually by the Board of Directors. Monthly actual results (including comparison to budget) are reported to the Board monthly. Revised forecasts for the year are prepared when facts and circumstances assumed in the budget have materially changed. The Group reports its financial results to shareholders on a half yearly basis.

Practices have been established to ensure business transactions and commitments are properly authorised and executed and financial exposures are controlled.

The Group is exposed to credit, liquidity and market risks. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the Group's exposure to these risks.

The Group uses derivatives to limit its exposures to market risks. Hedging programs must be undertaken in compliance with the Group's Approved Hedging Policy. In summary, the Approved Hedging Policy governs and approves;

- hedging counterparties;
- hedging instruments that may be used;
- mandatory hedging limits;
- discretionary hedging limits;
- time periods of hedging programs; and
- minimum hedging prices.

Valuations of hedging programs are performed and reported to the Board monthly.

Further details of the Company's policies relating to financial risk management can be found at note 4 of the financial statements.

Health, safety and environmental

The Company's projects are subject to regulations regarding health, safety and environmental matters. The governments and other authorities that administer and enforce these laws determine requirements.

The Group intends to conduct its activities in a responsible manner and in accordance with applicable laws to this end the Group has established health, safety and environmental policies and divisions to implement and monitor compliance activities.

Health, safety and environmental monitoring and compliance is reported to the Board monthly. The Board is not aware of any significant breaches during the period covered by this report.

Quality and integrity of personnel

Formal appraisals of all employees are conducted at least annually. Training and development and appropriate remuneration and incentives are designed to attract high quality employees while retaining and advancing existing employees.

The Group has also established a Code of Conduct which all directors and employees must comply with. The code is widely available and can be viewed on the Group's website.

Insurances

The Group maintains a suite of insurances which are reviewed annually or as appropriate. External experts are engaged annually to review the Group's current and anticipated insurance requirements.

Corporate governance statement

Statement on financial reports

The Managing Director and the Chief Financial Officer have declared in writing to the Board that the Group's financial reports are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks. The Group's corporate governance policies require this statement is be made annually.

Statement on management of risks

The Managing Director has declared in writing to the Board that a risk management framework and internal control system has been designed and implemented to manage the Group's material business risks, any material failures of the risk management framework or internal control system have been noted and if the risk management framework and internal control system has operated effectively, in all material respects, in mitigating the Group's material business risks. The Group's corporate governance policies require this statement is be made annually.

Assessment of effectiveness of risk management

Due to the size and scope of the Company's activities, the Board has not established an internal audit department. The Audit and Risk Management Committee is responsible for assessing the effectiveness of the Group's compliance and control systems.

Principle 8: Remunerate fairly and responsibly

Remuneration, Nomination and Diversity Committee

The Remuneration, Nomination and Diversity Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and directors of the Company and other executives of the Group. It is also responsible for matters regarding appointment and induction processes for directors and committee members and succession planning.

The members of the Remuneration, Nomination and Diversity Committee during the period were:

- Mr Ross Kestel (Chairman) – Independent Non Executive
- Mr Craig Readhead – Independent Non Executive
- Dr Mike Donaldson – Independent Non Executive
- Jim Jewell - Non-Executive (resigned 12 June 2012)

The Board policy is that the Remuneration, Nomination and Diversity Committee will be comprised of three Non-Executive Directors. The Committee consists of a majority of independent directors. The Company's directors and executive officers may be invited to Remuneration, Nomination and Diversity Committee meetings, as required, to discuss director and senior executives' performance and remuneration packages.

No director or executive officer may participate during discussions regarding the determination of their own remuneration package at Committee meetings.

The Remuneration, Nomination and Diversity Committee meets at least once per year and additionally as required. The Committee met three times during the period and committee members' attendance record is as disclosed in section 3 of the Directors' report. The Remuneration, Nomination and Diversity Committee Charter is available on the Company's website.

The Board's policy for determining the selection and appointment of new directors includes consideration of:

- the quality of the individual;
- background of experience and achievement;
- compatibility with other Board members;
- credibility within the group's scope of activities;
- intellectual ability to contribute to Board's duties; and
- physical ability to undertake Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting.

Details of the structure of the remuneration of non-executive directors and that of executive directors and senior executives are clearly set out in the Remuneration report at Section 16 of the Directors' Report.

The Remuneration report also includes details of the process for evaluating the performance of senior executives and the results of this evaluation in the current reporting as set out in Section 16 of the Directors' Report.

Consolidated financial statements

Consolidated statement of financial position

As at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents	*17*	5,384	40,133
Prepayments		4,851	846
Trade and other receivables	*16*	384	542
Inventories	*10*	33,488	5,781
Derivative financial instruments	*19*	-	442
Total current assets		**44,107**	**47,744**
Trade and other receivables	*16*	168	166
Exploration and evaluation assets	*14*	1,530	2,230
Mineral properties under development	*13*	167,534	77,658
Property, plant and equipment	*12*	33,115	8,860
Derivative financial instruments	*19*	-	973
Other non-current assets	*15*	437	443
Total non-current assets		**202,784**	**90,330**
Total assets		**246,891**	**138,074**
Liabilities			
Trade and other payables	*23*	21,898	8,661
Derivative financial instruments	*19*	10,035	-
Employee benefits	*21*	1,956	1,361
Borrowings	*18*	64,748	13,814
Provisions	*26*	561	24
Total current liabilities		**99,198**	**23,860**
Trade and other payables	*23*	-	58
Derivative financial instruments	*19*	37,327	10,254
Borrowings	*18*	68,096	41,442
Provisions	*26*	9,674	9,765
Total non-current liabilities		**115,097**	**61,519**
Total liabilities		**214,295**	**85,379**
Net assets		**32,596**	**52,695**
Equity			
Share capital		170,110	124,500
Reserves		(27,926)	(5,210)
Accumulated losses		(109,588)	(66,595)
Total equity	*25*	**32,596**	**52,695**

The notes on pages 30 to 62 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue		-	-
Cost of sales		-	-
Gross profit/(loss)		-	-
Other income	*6*	1,873	386
Administrative expenses		(9,162)	(16,456)
Project exploration and evaluation expenses		(5,824)	(18,387)
Impairment losses	*11*	(14,371)	(1,331)
Results from operating activities		**(27,484)**	**(35,788)**
Finance income		944	2,154
Finance expense		(16,722)	(1,363)
Net finance income/(expense)	*8*	**(15,778)**	**791**
Loss for the period before income tax		**(43,262)**	**(34,997)**
Income tax benefit	*9*	269	157
Loss for the period after income tax		**(42,993)**	**(34,840)**
Other comprehensive loss			
Effective portion of changes in fair value of cash flow hedges		(19,658)	(8,839)
Foreign currency translation differences for foreign operations	*8*	(3,466)	(4,742)
Other comprehensive loss for the period net of tax		**(23,124)**	**(13,581)**
Total comprehensive loss for the year		**(66,117)**	**(48,421)**
Loss attributable to:			
Equity holders of the Company		(42,993)	(34,840)
Loss for the period		**(42,993)**	**(34,840)**
Other comprehensive loss attributable to:			
Equity holders of the Company		(23,124)	(13,581)
Total comprehensive loss for the period		**(23,124)**	**(13,581)**
Loss per share:			
Basic Loss per share ($)	*20*	(0.06)	(0.05)
Diluted Loss per share ($)	*20*	(0.06)	(0.05)

The notes on pages 30 to 62 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Note	Share capital $'000	Translation reserve $'000	Share based payments reserve $'000	Option premium reserve $'000	Hedging reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2012		124,500	(6,958)	10,584	3	(8,839)	(66,595)	52,695
Total comprehensive loss for the period								
Loss for the period		-	-	-	-	-	(42,993)	(42,993)
Other comprehensive loss								
Foreign currency translation differences	*8*	-	(3,466)	-	-	-	-	(3,466)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(19,658)	-	(19,658)
Total other comprehensive loss		**-**	**(3,466)**	**-**	**-**	**(19,658)**	**-**	**(23,124)**
Total comprehensive loss for the period		**-**	**(3,466)**	**-**	**-**	**(19,658)**	**(42,993)**	**(66,117)**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares		48,025	-		-	-	-	48,025
Equity transaction costs		(2,415)	-		-	-	-	(2,415)
Share based payments	*22*	-	-	408	-	-	-	408
Total contributions by and distributions to owners		**45,610**	**-**	**408**	**-**	**-**	**-**	**46,018**
Balance as at 31 December 2012		**170,110**	**(10,424)**	**10,992**	**3**	**(28,497)**	**(109,588)**	**32,596**

The notes on pages 30 to 62 are an integral part of these consolidated financial statements

Consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Note	Share capital $'000	Translation reserve $'000	Share based payments reserve $'000	Option premium reserve $'000	Hedging reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2011		95,566	(2,216)	2,022	3	-	(31,755)	63,620
Total comprehensive loss for the period								
Loss for the period		-	-	-	-	-	(34,840)	(34,840)
Other comprehensive loss								
Foreign currency translation differences	*8*	-	(4,742)	-	-	-	-	(4,742)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(8,839)	-	(8,839)
Total other comprehensive loss		**-**	**(4,742)**	**-**	**-**	**(8,839)**	**-**	**(13,581)**
Total comprehensive loss for the period		**-**	**(4,742)**	**-**	**-**	**(8,839)**	**(34,840)**	**(48,421)**
Transactions with owners recorded directly in equity								
Contributions by and distributions to owners								
Issue of ordinary shares		30,189	-	-	-	-	-	30,189
Equity transaction costs		(1,255)	-	-	-	-	-	(1,255)
Share based payments	*22*	-	-	8,562	-	-	-	8,562
Total contributions by and distributions to owners		**28,934**	**-**	**8,562**	**-**	**-**	**-**	**37,496**
Balance as at 31 December 2011		**124,500**	**(6,958)**	**10,584**	**3**	**(8,839)**	**(66,595)**	**52,695**

The notes on pages 30 to 62 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012 $'000	2011 $'000
Cash flow from operating activities		
Loss for the year	(42,993)	(34,840)
Adjustments for:		
Depreciation	134	902
Impairment losses	14,371	1,652
Net finance costs	15,778	(791)
Net gain on sale of property, plant and equipment	(278)	(16)
Net loss on sale of mineral rights	200	-
Equity-settled share-based payment transactions	408	8,562
Tax expense	269	157
	(12,111)	**(24,374)**
Changes in:		
Inventories	(27,708)	(53)
Trade and other receivables	162	565
Prepayments	(4,004)	(170)
Trade and other payables	(1,933)	1,050
Provisions and employee benefits	174	(902)
Net cash used in operating activities	**(45,420)**	**(23,884)**
Cashflow from investing activities		
Interest received	944	2,201
Proceeds from exploration and evaluation asset disposals	300	(193)
Payments for mineral properties under development	(89,066)	(57,074)
Proceeds on sale of property plant and equipment	2,500	-
Payments for property, plant and equipment	(26,611)	(3,534)
Net cash used in investing activities	**(111,933)**	**(58,600)**
Cashflow from financing activities		
Proceeds from issue of share capital, net of transaction costs	45,610	28,934
Proceeds from gold call options	14,414	-
Proceeds from loans and borrowings	68,953	53,963
Interest paid on loans	(2,904)	-
Net cash from financing activities	**126,073**	**82,897**
Net decrease in cash and cash equivalents	(31,280)	413
Cash and cash equivalents 1 January	40,133	41,904
Effect of exchange rate fluctuations on cash held	(3,469)	(2,184)
Cash and cash equivalents 31 December	**5,384**	**40,133**

The notes on pages 30 to 62 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Beadell Resources Limited (the "Company") is a company limited by shares and incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange. The address of the Company's registered office is Level 2, 16 Ord Street, West Perth, Western Australia.

The consolidated financial statements of the Company as at and for the period from 1 January 2012 to 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 27 March 2013.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

Set out below is information below about:

- critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements; and
- assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Critical judgements

Going concern

The consolidated financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group held cash on hand and on deposit as at 31 December 2012 of $5,384,000. As at 31 December 2012 the Group has a net working capital deficit, inclusive of provisions and derivative financial instruments, of $55,091,000. For the year ended 31 December 2012 the Group incurred a loss of $42,993,000. As at 31 December 2012 the Group held total assets of $246,891,000. Cash flows from operations and investment activities were negative $157,353,000.

As at 31 December 2012 the Group was in breach of certain loan covenants and those breaches were continuing. Macquarie Bank Limited has confirmed these breaches had been waived at the reporting date and all subsequent breaches up to the date of the financial report have been irrevocably waived.

Subsequent to year end, the Group entered into amending agreements for the Group's Facility Agreements. The amending agreements have rescheduled the Group's schedule of repayments under the Facility Agreements whereby amounts due in March to July 2013 have been deferred to September to December 2013. Additionally, the amending agreements require the Group to complete a $20 million equity raising by 30 April 2013.

The directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and sourcing additional funds in accordance with the amending agreements. The cash flow forecast depends upon successful mining operations and processing activities in accordance with management's schedule and gold price and foreign exchange assumptions to enable cash flow forecasts to be achieved. Should operations not successfully achieve forecasts or forecast gold and foreign exchange rates not be achieved, the Group will require additional funding in the form of debt or equity or a combination of the two in addition to the equity raising required under the amending Facility Agreement.

Notes to the consolidated financial statements

Estimates and assumptions

Restoration obligations

Significant estimation is required in determining the provision for site restoration as there are many factors that may affect the timing and ultimate cost to rehabilitate sites where construction, mining and/or exploration activities have taken place. These factors include future development and exploration activities, changes in the cost of goods and services required for restoration activities and changes to the legal and regulatory framework governing restoration obligations. These factors may result in future actual expenditure differing from amounts currently provided.

Ore Reserves

Economically recoverable ore reserves represent the estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions. The Group determines and reports ore reserves under the standards incorporated in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves, 2004 edition ("JORC Code"). The determination of ore reserves includes estimates and assumptions about a range of geological, technical and economic factors, including: quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, and exchange rates. Changes in ore reserves impact the assessment of recoverability of exploration and evaluation assets, provisions for site restoration, the carrying amount of assets depreciated on units of production basis and the recognition of deferred taxes, including tax losses.

Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policies requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale of the respective area of interest will be achieved. Critical to this assessment is estimates and assumptions as to Ore Reserves (refer above), the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure, a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement in accordance with the Group's accounting policies.

In addition, an allocation of the cost associated with acquired mineral rights to individual projects is performed on acquisition. This allocation process requires estimates and judgement by management as to the value of those projects acquired.

Recognition of tax losses

A deferred tax asset is recognised for unused tax losses only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective area of interest will be achieved. This includes estimates and judgements about commodity prices, ore reserves, exchange rates, future capital requirements, future operational performance and the timing of estimated cash flows. Changes in these estimates and assumptions could impact on the amount and probability of estimated taxable profits and accordingly the recoverability of deferred tax assets.

Impairment of assets

The recoverable amount of each non-financial asset or cash generating unit ("CGU") is determined as the higher of the value in use and fair value less costs to sell. Determination of the recoverable amount of an asset or CGU based on a discounted cash flow model, requires the use of estimates and assumptions, including: the appropriate rate at which to discount cash flows, timing of cash flows, the expected life of the area of interest, commodity prices, exchange rates, ore reserves, future capital requirements and operational performance. Changes in these estimates and assumptions impact the recoverable amount of the asset or CGU and accordingly could result in an adjustment to the carrying amount of that asset or CGU.

Hedge accounting

Judgement is necessary when determining whether a derivative financial instrument qualifies for hedge accounting, such as whether forecast transactions are highly probable as required by AASB 139 Financial Instruments: Recognition and Measurement. The assessment of whether forecast transactions are highly probable is judgmental and is subject to changes to the timing and magnitude of underlying transactions.

Fair value estimates for derivative financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Judgement is used to select a method and make assumptions that are mainly based on market conditions existing during and at the end of each reporting period.

Notes to the consolidated financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The Group has not elected to early adopt any accounting standards or amendments.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions and balances eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Business combinations

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill or discount in a business combination

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Where the net amount of identifiable assets exceeds fair value of consideration transferred, a discount on acquisition has arisen and the resultant gain is recognised in the Group's profit or loss. Provisional accounting for fair values is used where the Group has not completed final valuations. Where provisional accounting has been used, the Group completes final valuations within a year of acquisition.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and entity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the operation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated to the presentation currency at the balance date at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are measured using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for qualifying cash flow hedges which are recognised in the other comprehensive income to the extent the hedge is effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at reporting date. The income and expenses of foreign operations are translated to Australian dollars at average exchange rates prevailing during the period. Foreign currency differences are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

(c) Financial instruments

(i) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to manage its foreign currency and gold price risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedge relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80 to125%.

For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost, less any impairment charges.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash on hand and short term deposits at call. Short term deposits have original maturities of 3 months or less that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in fair value.

Trade and other receivables

Receivables are initially recorded at fair value and subsequently measured at amortised cost using, less any allowance for impairment. Trade and other receivables are usually settled in 30 to 60 days and due to their short term nature are generally not discounted.

Trade and other payables

Trade and other payables are carried at amortised cost. The amounts are unsecured and typically settled in 30 to 60 days of recognition. Due to their short term nature, balances are generally not discounted.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial measurement, borrowings are recorded at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual drawdown of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(iii) Share capital

Ordinary shares

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(iv) Compound financial instruments

Compound financial instruments issued by the Group comprise a convertible note that may be wholly or partially converted to a variable number of ordinary shares at the option of the Group.

The liability component of a financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option.

Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

(d) Revenue

(i) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

(ii) Ore sales

Revenue is recognised when the risks and rewards of ownership have been transferred to the buyer and recovery of the consideration is probable, associated costs can be measured reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(e) Exploration and evaluation expenditure

Exploration and evaluation costs, excluding acquisition costs, are expensed as incurred. Acquisition costs are accumulated in respect of each separate area of interest.

Exploration and evaluation assets are only recognised if the rights to the area are current and either:

(i) the acquisition costs are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a state which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability; and

(ii) facts and circumstances suggest the carrying amount exceeds the recoverable amount.

For the purposes of impairment testing, exploration and evaluation assets are allocated to CGU's to which the exploration activity relates. The CGU shall not be larger than the area of interest.

Once technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine property assets within property, plant and equipment.

In the event that an area of interest is abandoned or if the directors consider the exploration and evaluation assets attributable to the area of interest to be of reduced value, the exploration and evaluation assets are impaired in the period in which the assessment is made. Each area of interest is reviewed at each reporting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

(f) Mineral properties under development

Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical feasibility and commercial viability of the extraction of mineral resources in a particular area of interest is demonstrated and the identified mineral reserve is being prepared for production.

Capitalised development expenditure includes:

- reclassified exploration and evaluation assets,
- direct costs of construction,
- production costs during commissioning period,
- pre-production stripping costs, and
- an appropriate allocation of overheads and borrowing costs during the development phase.

Capitalisation of development expenditure ceases once the mineral property is capable of commercial production, at which point it will be transferred to 'Mine Properties'.

Amortisation and depreciation of capitalised mine development costs is provided on the unit-of-production method, resulting in an amortisation charge proportional to the depletion of the economically recoverable mineral resources. Capitalised costs are amortised from the commencement of commercial production.

(g) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When re-valued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- plant and equipment 2 - 20 years
- fixtures and fittings 5 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(h) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(i) Leases

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. This will be the case if the following criteria are met:

- the fulfilment of the arrangement is dependent on the use of a specific asset(s); and
- the arrangement contains the right to use the assets(s).

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(j) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss and any subsequent reversals of impairment losses are also recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Group's non-financial assets (excluding deferred tax assets and inventories) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, known as CGU's.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated to reduce the carrying amount of assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related, where material, on-costs, such as workers compensation insurance and payroll tax. Non-accumulating benefits, such as sick leave, are expensed as the benefits are taken by the employees.

Long-term benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and, where applicable, prior periods plus related on costs; that benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on national government bonds that have maturity dates approximating the terms of the Group's obligations.

Share-based payment transactions

The Group provides benefits to employees of the Group and service providers in the form of share-based payment transactions, whereby services are rendered in exchange for share options.

The fair value of options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The cost of share based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for share based payment transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Finance income and expense

Finance income comprises interest income. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expense comprises impairment losses recognised on financial assets, unwinding of the discount on restoration provisions and borrowing costs recognised using the effective interest method that are not directly attributable to the acquisition, construction or production of a qualifying asset.

Foreign currency gains and losses are reported on a net basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset, all other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Site restoration

Mine closure and restoration costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the site. Provisions are recognised at the time that the environmental disturbance occurs.

The provision is the best estimate of the present value of the future cash flows required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the financial year.

The amount of the provision for future restoration costs is capitalised as an asset and recognised in property, plant and equipment and is depreciated over the useful life of the mineral resource. The unwinding of the effect of discounting on the provision is recognised as a finance cost. Restoration expenditure is capitalised to the extent that it is probable that the future economic benefits associated with restoration expenditure will flow to the Group.

(o) Goods and services tax and equivalent indirect taxes

Revenue, expenses and assets are recognised net of the amount of goods and services tax and equivalent indirect taxes, except where the amount of tax incurred is not recoverable from the taxation authority. In these circumstances, the tax is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of tax included. The net amount of tax recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The tax components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Operating segments

The Group determines and presents operating segments based on the information that is provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board to make decisions about the allocation of resources to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise predominantly of administrative expenses. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(r) Government grants

Government grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

Notes to the consolidated financial statements

(s) Inventories

Inventories are physically measured or estimated and valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling the final product.

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.

(t) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Intangibles are amortised over life of mine.

Amortisation is calculated over the cost of the asset less residual value. Amortisation is recognised on a straight line basis in profit or loss over estimated useful lives. Amortisation methods, useful lives and residual values are reviewed at each reporting period and adjusted if appropriate.

(u) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. The Group does not plan to adopt these standards early.

- AASB 9 Financial Instruments (December 2010) & AASB2010-7 Amendments to Australian Accounting Standards arising from AASB9 (2010; includes requirements for the classification and measurement of financial assets that are generally consistent with the equivalent requirements in AASB 139 Financial Instruments: Recognition and Measurement except in respect of the fair value option and certain derivatives linked to unquoted equity instruments.

  AASB 9 will become mandatory for the Group's 31 December 2013 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 31 December 2012 or earlier. The Group has not yet determined the potential effect of the standard.

- AASB 10 Consolidated Financial Statements introduces a new approach to determining which investees should be consolidated. The amendments to AASB 10 will be mandatory for the Group's 31 December 2013 year end, with retrospective application. The Group has not yet determined the potential impact of these amendments.

- AASB11 Joint Arrangements will apply if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and the entity must use the equity method to account for their interest.

  AASB11 will become mandatory for the Group's 31 December 2013 financial statements. Retrospective application with specific restatement requirements for certain transition.

  The Group has not yet determined the potential effect of the standard.

- AASB 13 Fair value Measurement explains how to measure fair value when required by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards.

  AASB 13 will become mandatory for the Group's 31 December 2013 financial statements.

- AASB 12 Disclosures of Interests in Other Entities contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. AASB 12 will be mandatory for the Group's 31 December 2013 year end. The Group has not yet determined the potential impact of these amendments.

- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) amended AASB 119 focussing on but not limited to the accounting for defined benefit plans. In addition it changes the definition of short-term and other long-term employee benefits and some disclosure requirements. The amendments to AASB 119 will be mandatory for the Group's 31 December 2013 year end. The Group has not yet determined the potential impact of these amendments.

- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income introduces the separate classification of those items that would be reclassified to profit and loss in the future and those that would never be reclassified to profit or loss and the impact on those items. The amendments to AASB 2011-9 will be mandatory for the Group's December 2013 year end. The Group has not yet determined the potential impact of this amendment.

Notes to the consolidated financial statements

4. Financial risk management

Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, objectives, policies and processes for measuring and managing risk and the management of capital.

The Group has established a Risk Management Policy and Risk Management Strategy. The Group's Risk Management Policy and Strategy address the Group's exposure to and management of credit, market and liquidity risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Risk Management Strategy. The design, implementation and day to day responsibilities of the risk management strategy and internal control system rest with management. The Audit and Risk Management Committee is responsible for reviewing the Group's risk management systems and internal financial control systems.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables, cash and cash equivalents.

Cash, cash equivalents and security given

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits. The Group limits its credit risk by holding cash balances and demand deposits with reputable counterparties with acceptable credit ratings.

Security given

Security given comprises cash balances used as security for bank guarantees issued by the Group's bankers (refer note 15). Cash balances given as security are held in demand deposits with reputable counterparties with acceptable credit ratings.

Trade and other receivables

The Group's other receivables at balance date comprise rental receivables from the Group's sub-lessee's, interest receivable and goods and services and equivalent indirect taxes. The Group has established an allowance for impairment that represents incurred losses in respect of receivables. All other receivables are expected to be received within six months.

Exposure to credit risk

The carrying amounts of the Group's financial assets represent maximum exposure to credit risk, by region and in total as set out below;

	Note	2012 $'000	2011 $'000
Australia			
Cash and cash equivalents		3,478	3,747
Security given for bank guarantees		300	300
Other receivables, goods and services tax and equivalent taxes		387	471
Exposure to credit risk		4,165	4,518
Brazil			
Cash and cash equivalents		1,906	36,386
Security given for bank guarantees		137	143
Other receivables, goods and services tax and equivalent taxes		166	237
Derivative assets		-	1,415
Exposure to credit risk		2,209	38,181
Total			
Cash and cash equivalents	*17*	5,384	40,133
Security given for bank guarantees	*15*	437	443
Other receivables, goods and services tax and equivalent taxes	*16*	552	708
Derivative assets	*19*	-	1,415
Exposure to credit risk		6,373	42,699

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Notes to the consolidated financial statements

During the period the Group was primarily engaged in the development of its Tucano Project. The Group will continue to have a negative cash flow until the Tucano Project itself becomes cash flow positive. If the Group exhausts its cash reserves and available undrawn borrowings prior to the Tucano Project becoming cash flow positive, the Group may require additional financing to fund working capital, construction, debt service and other commitments.

The Group prepares detailed models as part of its system of budget planning which are used to predict liquidity needs and support funding activities. The production activities are monitored regularly to determine cash out flows to date and monitor cash requirements.

Liquidity risk is managed by monitoring actual and budgeted cash out flows for the Group.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
31 December 2012						
Trade and other payables	(21,898)	(21,898)	(21,898)	-	-	-
Borrowings	(132,844)	(140,592)	(53,941)	(34,742)	(42,575)	(9,335)
Derivative financial liabilities	(47,362)	(50,001)	(4,049)	(12,326)	(23,875)	(9,751)
Balance as at 31 December	(202,104)	(212,491)	(79,888)	(47,068)	(66,450)	(19,086)
31 December 2011						
Trade and other payables	(8,719)	(8,719)	(8,661)	(58)	-	-
Borrowings	(55,256)	(62,775)	(1,327)	(15,914)	(45,534)	-
Derivative financial liabilities	(10,254)	(10,270)	-	3	(2,573)	(7,700)
Balance as at 31 December	(74,229)	(81,764)	(9,988)	(15,969)	(48,107)	(7,700)

Subsequent to year end, the Group's Facility Agreements were amended to defer repayment. As a result $29.8 million in loan repayments disclosed in the table above maturing in 6 months or less is now maturing in 6-12 months.

The following table indicates periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and impact profit or loss:

	Carrying amount	Expected cash flows	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
31 December 2012						
Gold forward hedge contracts	(16,384)	(16,384)	(3,402)	(3,109)	(6,031)	(3,842)
Foreign exchange forward	(16,024)	(16,024)	(566)	(2,959)	(7,739)	(4,761)
Balance as at 31 December	(32,408)	(32,408)	(3,967)	(6,068)	(13,770)	(8,603)
31 December 2011						
Gold forward contracts	1,391	1,391	-	417	792	182
Foreign exchange forward	(10,230)	(10,230)	-	24	(1,335)	(8,819)
Balance as at 31 December	(8,839)	(8,839)	-	441	(543)	(8,737)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to fluctuations in foreign currency rates, interest rates and metals prices. In each case, future operational cash flows and ability to service current and future borrowings are affected by these fluctuations. The Group's strategy is to mitigate foreign exchange and metal price risks by use of derivatives to partially hedge these exposures. Derivatives are not used mitigate interest rate risks. Derivatives contracts entered into are further discussed at note 19.

Currency risk

Currency risk arises from investments and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

Notes to the consolidated financial statements

Exposure

The Group is exposed to foreign currency risk in the form of financial instruments denominated in currencies other than the respective functional currencies of the Group. The Group's functional currencies are the Brazilian Real and the Australian Dollar. The table following demonstrates the Group's exposure to foreign currency risk at the end of the year;

	2012 US$'000
Cash and cash equivalents	25
Trade and other payables	(2,922)
Borrowings	(128,900)
Statement of financial position exposure	(131,797)
Foreign exchange forward contracts	158,839
Net exposure	27,042

Sensitivity analysis

Assuming all other variables remain constant, a 10% strengthening of the Brazilian Real at 31 December 2012 against the United States Dollar would have resulted in a decreased loss of $13,341,000 (2011: $4,614,000 decreased loss). A 10% weakening of the Brazilian Real would have had the equal but opposite effect, assuming all other variables remain constant. This analysis is based on exchange rate variances the Group considered to be reasonably possible at the end of the period.

The following significant exchange rates applied to the Group's financial instruments during the year:

	Average rate		**Reporting date spot rate**	
	2012	**2011**	**2012**	**2011**
BRL 1 : USD	0.4814	0.5987	0.4894	0.5357

Interest rate risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group is exposed to interest rate risk on cash and cash equivalents and its borrowings. The Group does not use derivatives to mitigate these exposures.

Cash and cash equivalents are held at variable and fixed interest rates. Cash in term deposits are held for fixed terms at fixed interest rates maturing in periods less than three months. The Group's other cash balances are held in deposit accounts at variable rates with no fixed term.

Interest rates on the Group's borrowings are fixed for terms of 3 to 6 months from drawing or rolling of principal amounts.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2012 $'000	**2011 $'000**
Fixed rate instruments		
Financial assets	300	300
Financial liabilities	(132,339)	(55,256)
Net fixed rate instruments	(132,039)	(54,956)
Variable rate instruments		
Financial assets	5,247	40,276
Financial liabilities	-	-
Net variable rate instruments	5,247	40,276

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis – interest rates

A change in interest rates of 100 basis points at the reporting date would have decreased (increased) the Group's loss by the amounts shown below. This analysis assumes that all other variables remain constant.

Sensitivity	**100bp increase 2012 $'000**	**100bp decrease 2012 $'000**	**100bp increase 2011 $'000**	**100bp decrease 2011 $'000**
Interest bearing instruments	(117)	117	358	(358)
Cash flow sensitivity (net)	(117)	117	358	(358)

Notes to the consolidated financial statements

Fair values versus carrying amounts

Carrying amounts of financial assets and liabilities equate to their corresponding fair values.

Other market price risk

The Group's financial assets and liabilities are not exposed any other market price risk.

Commodity price risk

The Group is exposed to fluctuations in the gold price as a result of gold forward contracts entered into and gold call options sold.

Gold forward contracts to have been entered into to mitigate commodity price risk exposures on a portion of future gold sales anticipated in the period March 2013 to June 2015. The Group has hedged approximately 44% of forecast gold production during the hedging period, from March 2013 to June 2015.

Fair value hierarchy

The Group's derivative financial instruments are carried at fair value and have been valued using a combination of valuation methods. The different valuation levels are assessed as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group has used a combination level 1 and level 2 inputs in determining the fair value of its derivative financial instruments.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a capital base (comprising equity plus borrowings) sufficient to allow future exploration and development of the Group's current projects and evaluation of potential acquisitions.

The Group has raised capital through the issue of equity and borrowings to fund its development, exploration and evaluation and administration activities. In determining the funding mix of debt and equity, consideration is given to the ability of the Group to service loan interest and repayment schedules, lending facility compliance ratios and amount of free cash flow desired.

The Group manages its capital requirements by monitoring budget to actual performance and lending compliance ratios. The Group is subject to externally imposed capital requirements whereby the Group's financiers require;

- a minimum current ratio, exclusive of derivative assets and liabilities be maintained,
- a minimum quarterly free cash flow after debt service be maintained,
- quarterly forecast discounted cash flow after debt service plus cash available in debt reserve be maintained over the loan life and project life,
- a minimum surplus of current assets plus property plant and equipment over liabilities to be maintained.

The Group may raise additional capital through the issue of new shares or borrowings for exploration, development and/or asset acquisition, should the Group require additional capital to carry out those activities (refer Note 2 (d)).

5. Operating segments

The Group has two reportable segments; 'Australian exploration and evaluation' and 'Brazilian exploration, evaluation and development', which are the Group's strategic business units.

The strategic business units are managed separately because they are governed by different regulatory regimes. For each of the strategic business units, the Board reviews internal management reports on a monthly basis.

Notes to the consolidated financial statements

Information about reportable segment loss	Brazil $'000	Australia $'000	Total $'000
12 months ended 31 December 2012			
External revenues	-	-	-
Project finance interest expenses	(1,594)	-	(1,594)
Impairment of segment assets	-	(134)	(134)
Depreciation	(100)	(34)	(134)
Reportable segment loss before income tax	(3,224)	(4,329)	(7,553)
12 months ended 31 December 2011			
Project finance interest expenses	(348)	-	(348)
Impairment of segment assets	(1,535)	-	(1,535)
Depreciation	(839)	(63)	(902)
Reportable segment loss before income tax	(15,276)	(3,342)	(18,618)

Reconciliation of reportable segment loss	2012 $'000	2011 $'000
Total loss for reportable segments	(7,553)	(18,618)
Unallocated amounts		
- Corporate income	2,817	2,539
- Corporate expenses	(38,526)	(18,918)
Consolidated loss before tax	(43,262)	(34,997)

Information about reportable segment assets, liabilities and capital expenditure	Brazil $'000	Australia $'000	Total $'000
2012			
Reportable segment assets	239,504	1,567	241,071
Reportable segment liabilities	155,926	18	155,944
Reportable segment capital expenditure	129,525	-	129,525
2011			
Reportable segment assets	97,421	1,744	99,165
Reportable segment liabilities	73,068	118	73,186
Reportable segment capital expenditure	65,370	-	65,370

Reconciliation of reportable segment assets and liabilities	2012 $'000	2011 $'000
Total assets for reportable segments	241,071	99,165
Unallocated amounts		
- Corporate assets	5,820	38,909
Consolidated assets	246,891	138,074
Total assets for reportable liabilities	155,944	73,186
Unallocated amounts		
- Corporate liabilities	58,352	12,193
Consolidated liabilities	214,295	85,379

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of production. Segment assets are based on the geographical location of assets.

	Revenues 2012 $'000	Non-current assets 2012 $'000	Revenues 2011 $'000	Non-current assets 2011 $'000
Australia	-	1,078	-	1,744
Brazil	-	201,270	-	87,004
Unallocated amounts	-	437	-	1,582
Balance at the end of the period	-	202,785	-	90,330

Notes to the consolidated financial statements

6. Other income

	2012 $'000	2011 $'000
Iron ore sales	875	-
Rental income	484	372
Other income	514	14
Other income	1,873	386

7. Personnel expenses

	Note	2012 $'000	2011 $'000
Wages, salaries and benefits		13,662	4,817
Contributions to defined contribution plans		3,661	1,384
Increase in liability for annual leave		1,969	851
Other personnel expenses		1,714	1,513
Share-based payment transactions	*22*	408	8,562
Personnel expenses		21,414	17,127

8. Finance income and expense

	2012 $'000	2011 $'000
Recognised in profit and loss		
Interest income	944	2,154
Interest expense	(1,853)	(348)
Net foreign exchange (loss)/gain	(6,917)	(663)
Ineffective portion of changes in fair value of cashflow hedges	(6,122)	-
Unwind of discount of site restoration provision	(665)	(352)
Fair value of call option	(665)	-
Other finance costs	(500)	-
Net finance income/(expense)	(15,778)	791
Recognised directly in equity		
Foreign currency translation differences for foreign operations	(3,466)	(4,742)
Finance income recognised directly in equity, net of tax	(3,466)	(4,742)
Attributable to:		
Equity holders of the Company	(3,466)	(4,742)
Finance income recognised directly in equity, net of tax	(3,466)	(4,742)

9. Income tax

No tax is payable by the Group. Deferred tax assets are brought to account only to the extent required to offset deferred tax liabilities and where it is probable of recovery. All other tax losses are not brought to account as it is not probable that future taxable income will be available against which the Group can utilise these benefits.

Income Statement

	2012 $'000	2011 $'000
Current income tax charge		
R&D refund received	269	157
Tax income reported in the statement of comprehensive income	269	157
Numerical reconciliation between tax loss and pre-tax accounting loss		
Pre-tax accounting loss for the period	(42,993)	(34,840)
Income tax benefit at the Group's tax rates (Australia: 30%, Brazil: 34%)	(14,315)	(11,149)
Income not assessable for tax purposes	(7,137)	(5,585)
Expenditure not allowable for tax purposes	16,092	10,942
Temporary differences not recognised	(3,190)	(5,663)
Current year losses for which no deferred tax asset was recognised	8,550	11,455
Current income tax charge	-	-

Notes to the consolidated financial statements

Deferred income tax

	2012 $'000	2011 $'000
Tax assets/(liabilities)		
Exploration and evaluation assets	(481)	(694)
Property, plant and equipment and mineral properties under development	16,482	33,543
Trade and other receivables	3,766	1,232
Trade, other payables and employee benefits	4,627	1,805
Inventories	1,731	2,101
Derivative liability	-	3,005
Provisions	3,619	3,193
Deductible equity raising costs	889	1,110
Deferred tax assets not brought to account	(30,633)	(45,295)
Net deferred tax assets	-	-

Unrecognised deferred tax balances

Deferred tax balances have not been recognised in respect of the following items;

	2012 $'000	2011 $'000
Deferred tax assets		
Deductible temorary differences	31,114	45,989
Tax effect carry forward losses - Australia	10,016	6,111
Tax effect carry forward losses - Brazil	28,642	20,578
Balance at the end of the period	69,772	72,678
Deferred tax liabilities		
Assessable temorary differences	(481)	(694)
Balance at the end of the period	(481)	(694)

10. Inventories

	2012 $'000	2011 $'000
Spare parts, raw materials and consumables - at cost	11,205	5,781
Ore stockpiles - at cost	22,284	-
Balance at the end of the period	33,489	5,781

11. Impairment losses

VAT taxes

The Group has incurred impairment losses of $14,237,000 in respect of Brazilian federal VAT ("Pis-Cofins") and state VAT ("ICMS") levied on the Group's purchases that, at balance date, are not considered recoverable.

Recoverability of Pis-Cofins assets is dependent upon the Group generating a federal company tax liability, which may be offset against the Group's Pis-Cofins assets if the Group elects to do so. At balance date taxable profits are not considered reasonably probable.

Recoverability of ICMS is dependent on the Group generating domestic sales which would accrue an ICMS liability which the Group can offset against its ICMS assets. At balance date domestic sales are not considered reasonably probable.

Exploration and evaluation assets

The Group recognised an impairment charge of $134,000 on its exploration and evaluation assets as disclosed in note 14.

Notes to the consolidated financial statements

12. Property, plant and equipment

31 December 2012	Plant & equipment $'000	Fixtures & fittings $'000	Total $'000
Cost			
Opening balance	12,084	44	12,128
Additions	30,684	209	30,893
Disposals	(8,465)	(5)	(8,470)
Effect of movements in exchange rates	(7,462)	(159)	(7,621)
Balance at 31 December 2012	26,841	89	26,930
Depreciation			
Opening balance	3,262	6	3,268
Depreciation expensed	72	62	134
Depreciation capitalised to mineral properties under development	522	-	522
Depreciation capitalised to inventories	1,713	-	1,713
Disposals	(6,553)	(5)	(6,558)
Effect of movements in exchange rates	(5,133)	(131)	(5,264)
Balance at 31 December 2012	(6,117)	(68)	(6,185)
Carrying amount			
Opening balance	8,822	38	8,860
Balance at 31 December 2012	32,958	157	33,115

31 December 2011	Plant & equipment $'000	Fixtures & fittings $'000	Total $'000
Cost			
Opening balance	10,357	30	10,387
Transfers to mineral properties under development	(833)	-	(833)
Additions	3,520	14	3,534
Effect of movements in exchange rates	(960)	-	(960)
Balance at 31 December 2011	12,084	44	12,128
Depreciation			
Opening balance	1,565	5	1,570
Depreciation expensed	901	1	902
Depreciation capitalised to mineral properties under development	1,015	-	1,015
Effect of movements in exchange rates	(219)	-	(219)
Balance at 31 December 2011	3,262	6	3,268
Carrying amount			
Opening balance	8,792	25	8,817
Balance at 31 December 2011	8,822	38	8,860

13. Mineral properties under development

	2012 $'000	2011 $'000
Cost		
Opening balance	77,658	-
Transfers from property, plant and equipment	-	833
Transfers from exploration and evaluation assets	-	16,491
Construction works in progress	83,812	46,324
Pre production expenditure	14,821	15,512
Rehabilitation provision recognised	811	306
Effect of movements in exchange rates	(9,568)	(1,808)
Balance at the end of the period	167,534	77,658

Notes to the consolidated financial statements

14. Exploration and evaluation assets

	2012 $'000	2011 $'000
Cost		
Opening balance	2,230	18,792
Transfers to mineral properties under development	-	(16,491)
Disposals	(500)	-
Impairment loss	(134)	-
Effect of movements in exchange rates	(66)	(71)
Balance at the end of the period	1,530	2,230

Exploration and evaluation assets reflect capitalised acquisition costs only. The recoverability of the carrying amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective area of interest.

15. Other non-current assets

	2012 $'000	2011 $'000
Opening balance	443	250
Security for bank guarantees given	-	193
Effect of movements in exchange rates	(6)	-
Balance at the end of the period	437	443

The Group has established various facilities with the Group's bankers. The facility is secured by cash, held in cash balances with the Group's bankers in fixed rate deposits for rolling terms of three to six months. The average interest rate applied during the period was 4% (2011: 5%). Interest accruing on balances is payable to the Group. The facilities have been established to issue bank guarantee's to satisfy the Group's environmental and office lease bond requirements.

16. Trade and other receivables

	2012 $'000	2011 $'000
Other receivables	435	263
Goods and services and equivalent indirect taxes	117	445
Balance at the end of the period	552	708
Current	384	542
Non current	168	166
Balance at the end of the period	552	708

17. Cash and cash equivalents

	2012 $'000	2011 $'000
Bank balances	5,384	40,133
Cash and cash equivalents in the statement of cash flows	5,384	40,133

18. Borrowings

	2012 $'000	2011 $'000
Unsecured loans	10,500	-
Secured loans	122,344	55,256
Balance at the end of the period	132,844	55,256
Current	64,748	13,814
Non current	68,096	41,442
Balance at the end of the period	132,844	55,256

Facility Agreements – secured loan

In 2011 the Group entered into a US$90 million Facility Agreement with Macquarie Bank Limited to fund the development of the Tucano Gold Project. During the year the Group negotiated a US$20 million extension to the Facility Agreement. The Facility expires on 31 December 2014. Interest rates are fixed for terms of 3 to 6 months from rolling of principal amounts.

Notes to the consolidated financial statements

As at 31 December 2012, the Group had fully drawn the US$110 million Facility (approximately A$106 million) (2011: approximately A$58 million). The weighted average interest rate that applied during the year was 4.80% per annum (2011: 4.46%).

The Facility is secured by a first priority charge over all assets of the Group until commercial production and various other performance parameters are achieved (“Project Completion”). At Project Completion, the Facility will be secured by a first priority charge over Group’s wholly owned subsidiary, Beadell Brasil Ltda (incorporating the Tucano Gold Project) and the Group’s ownership interests in Beadell Brasil Ltda and the Tucano Gold Project.

As at 31 December 2012 the Group was in breach of certain loan covenants in relation to the Facility. The lender, Macquarie Bank Limited have confirmed these breaches had been waived at the reporting date so that the bank loan is not payable upon demand as at 31 December 2012.

Master Lease Agreement – secured loan

In 2011 the Group entered into a US$20 million Master Lease Facility with Macquarie Bank Limited to finance up to 90% of the acquisition costs of certain equipment for use at the Tucano Gold Project. Interest rates are fixed for the term of each Lease.

As at 31 December 2012, the Group had drawn US$18.9M (approximately A$18.2M) (2011: nil) from the Lease Facility. The weighted average interest rate that applied during the period was 5.4% per annum (2011: nil).

Convertible note – unsecured loan

During the year the Group issued one unsecured convertible note with a face value of $10,000,000 repayable by 22 April 2013. In the event the Group does not repay all or any portion of the Convertible Note, the amount that is unpaid, multiplied by 1.05, converts automatically to fully paid Ordinary Shares at the lower of the closing price or the 30 Day VWAP of Beadell Ordinary Shares with a minimum price of $0.50 per share. The convertible note does not accrue any interest.

19. Derivative financial instruments

	2012 $’000	2011 $’000
Derivative assets		
Gold forward contracts	-	1,391
Foreign exchange forward contracts	-	24
Balance at end of the period	-	1,415
Current	-	442
Non current	-	973
Balance at end of the period	-	1,415
Derivative Liabilities		
Gold forward contracts	16,384	-
Gold call options	14,954	
Foreign exchange forward contracts	16,024	10,254
Balance at end of the period	47,362	10,254
Current	10,035	-
Non current	37,327	10,254
Balance at end of the period	47,362	10,254

Forward contracts designated as cash flow hedges

The Group’s forward contracts have been designated as cash flow hedges. As at 31 December 2012 the Group had a hedge liability of $32,409,000 reflecting the mark to market value of derivative contracts.

Gold forward contracts relate to the sale of 195,000 gold ounces at a value of US$1,600 per ounce, maturing from 3 April 2013 to 2 July 2015.

Foreign exchange forward contracts relate to the sale of 160 million United States Dollars (USD) and receipt of Brazilian Real (BRL) at weighted average exchange rate of 1 USD = 1.9668 BRL, maturing from 3 April 2013 to 2 July 2015.

Gold call options

The Group has sold gold call options over 68,735 gold ounces at a weighted average exercise price of US$1,612 per ounce. 20,250 options are exercisable and expire on 31 December 2013; the remaining 48,485 options are exercisable and expire on 31 December 2014.

Notes to the consolidated financial statements

20. Loss per share

Basic loss per share

The basic loss per share for the period is $0.06 (2011: $0.05). The calculation of basic loss per share at 31 December 2012 was based on the consolidated loss attributable to ordinary shareholders of $42,993,000 (2011: $34,840,000) and a weighted average number of ordinary shares outstanding of 712,301,599 (2011: 640,079,331) calculated as follows:

Loss attributable to ordinary shareholders

	2012 $'000	2011 $'000
Loss for the period	42,993	34,840
Loss attributable to ordinary shareholders	42,993	34,840

Weighted average number of ordinary shares

Weighted average effects	2012 '000	2011 '000
Opening balance	640,079,331	621,937,828
Effect of shares issued	72,222,268	18,141,503
Weighted average number of ordinary shares at the end of the period	712,301,599	640,079,331

Diluted loss per share

The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect on basic loss per share and as such diluted loss per share is equal to basic loss per share. Potential ordinary shares of the Company consist of 18,980,000 share options issued as share based payments (refer note 25) and a convertible note (refer note 18).

In accordance with AASB 133 'Earnings per Share' these options have been excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

21. Employee benefits

	2012 $'000	2011 $'000
Salaries, wages and benefits accrued	768	660
Liability for annual leave	1,188	701
Total employee benefits	1,956	1,361

22. Share-based payments

Employee Share Option Plan

In 2007 the Group established a share option programme that entitles employees to purchase shares in the Company, all options issued under the plan are subject to the Company's rules for incentive options.

The following table illustrates the number and movements in share based payment options during the period:

	2012 options	2011 options
Opening balance	28,630,000	28,255,000
Options granted during the period	3,850,000	1,800,000
Options exercised during the period	(13,200,000)	(675,000)
Options forfeited during the period	(300,000)	(750,000)
Options outstanding at the end of the period	18,980,000	28,630,000
Options exercisable at the end of the period	14,980,000	27,030,000

Notes to the consolidated financial statements

The following table illustrates the exercise of options granted as share based payment options during the period:

Number of options exercised	Date exercised	Exercise price per option	Closing share price on date of exercise
Period ending 31 December 2012			
200,000	29-Jun-12	0.30	0.63
1,500,000	29-Jun-12	0.35	0.63
1,500,000	29-Jun-12	0.50	0.63
500,000	24-Jul-12	0.19	0.59
5,000,000	29-Aug-12	0.19	0.81
10,000,000	15-Oct-12	0.19	0.95
500,000	15-Oct-12	0.12	0.95
5,000,000	19-Oct-12	0.19	0.95
2,000,000	14-Nov-12	0.19	0.99
Period ending 31 December 2011			
70,000	12-Jan-11	0.35	0.80
90,000	28-Jan-11	0.35	0.69
50,000	28-Mar-11	0.25	0.88
225,000	24-May-11	0.25	0.80
190,000	30-Jun-11	0.25	0.85
50,000	30-Jun-11	0.35	0.85

The outstanding balance of employee share options are options as at 31 December 2012 is represented by:

Number of options	Grant date	Vesting	Expiring	Strike price per option	Contractual life (years)	Fair value per option
Key Management Personnel						
500,000	27 August 2009	Vested	30 June 2013	\$0.12	3.84	\$0.05
1,000,000	25 November 2009	Vested	30 June 2013	\$0.12	3.60	\$0.07
5,000,000	20 July 2010	Vested	30 June 2014	\$0.19	3.95	\$0.10
4,500,000	29 November 2010	Vested	30 June 2014	\$0.19	3.59	\$0.44
600,000	12 July 2011	400,000 vested and 200,000 vesting 12 July 2013	30 June 2014	\$0.65	2.97	\$0.43
1,500,000	12 June 2012	750,000 vesting 1 July 2013 and 750,000 vesting 1 July 2014	30 June 2017	\$0.65	5.10	\$0.34
300,000	14 December 2012	150,000 vesting 14 December 2013 and 150,000 vesting 14 December 2014	150,000 expiring 10 June 2014 and 150,000 expiring 14 June 2015	\$1.15	2.00*	\$0.33*

Other employees

300,000	27 August 2009	Vested	30 June 2013	$0.12	3.84	$0.05
830,000	20 July 2010	Vested	30 June 2014	$0.19	3.95	$0.10
1,250,000	6 December 2010	Vested	30 June 2014	$0.65	3.57	$0.38
500,000	21 January 2011	Vested	1 January 2015	$0.80	3.95	$0.48
500,000	6 July 2011	Vested	1 January 2015	$0.85	3.49	$0.45
50,000	5 October 2011	Vested	30 June 2014	$0.65	2.74	$0.29
50,000	11 October 2011	Vested	30 June 2014	$0.65	2.72	$0.36
50,000	9 November 2011	Vested	1 January 2015	$0.85	3.15	$0.33
50,000	6 June 2012	Vested	30 June 2014	$0.65	2.10	$0.22
300,000	10 July 2012	150,000 vesting 1 July 2013 and 150,000 vesting 1 July 2014	30 June 2017	$0.65	5.00	$0.32
1,700,000	14 December 2012	850,000 vesting 14 December 2013 and 850,000 vesting 14 December 2014	850,000 expiring 10 June 2014 and 850,000 expiring 14 June 2015	$1.15	2.00*	$0.33*

**weighted average*

Vesting conditions for unvested options as at 31 December 2012 is represented below:

Number of options	Grant date/period	Vesting conditions of unvested options
200,000	12 July 2011	Key Management Person must be in the Group’s employment as at 12 July 2013
750,000	12 June 2012	Key Management Person must be in the Group’s employment as at 1 July 2013
750,000	12June 2012	Key Management Person must be in the Group’s employment as at 1 July 2014
150,000	10 July 2012	Employees must be in the Group’s employment as at 1 July 2013
150,000	10 July 2012	Employees must be in the Group’s employment as at 1 July 2014
850,000	14 December 2012	Employees must be in the Group’s employment as at 14 December 2013
850,000	14 December 2012	Employees must be in the Group’s employment as at 14 December 2014
150,000	14 December 2012	Key Management Person must be in the Group’s employment as at 14 December 2013
150,000	14 December 2012	Key Management Person must be in the Group’s employment as at 14 December 2014

Notes to the consolidated financial statements

The grant date fair value of employee share options was measured using the Black-Scholes formula. The inputs to the model used to determine the fair value of options granted during the year were:

Period ended 31 December 2012	Employee grant 6 Jun 2012	KMP grant 12 Jun 2012	Employee grant 10 Jul 2012	Employee grant 14 Dec 2012	KMP grant 14 Dec 2012
Fair value at grant date	$0.22	$0.34	$0.32	$0.33*	$0.33*
Expected dividends	-%	-%	-%	-%	-%
Contractual life (years)	2.1	5.1	5.0	2.00*	2.00*
Market value of underlying shares	$0.63	$0.63	$0.61	$1.06	$1.06
Option exercise price	$0.65	$0.65	$0.65	$1.15	$1.15
Expected volatility of the underlying shares	61.54%	61.46%	61.22%	59.29%	59.29%
Risk free rate applied	2.38%	2.50%	2.50%	2.81%	2.81%

**weighted average*

No other features of options granted were incorporated into the measurement of fair value.

Period ended 31 December 2011	Employee grant 21 Jan 2011	Employee grant 6 Jul 2011	Employee grant 9 Nov 2011	Employee grant 15 Sep 2011	Employee grant 5 Oct 2011	Employee grant 11 Oct 2011	KMP grant 12 Jul 2011
Fair value at grant date	$0.48	$0.45	$0.33	$0.44	$0.29	$0.36	$0.43
Expected dividends	-%	-%	-%	-%	-%	-%	-%
Contractual life (years)	3.95	3.49	3.15	2.79	2.74	2.72	2.97
Market value of underlying shares	$0.82	$0.87	$0.76	$0.85	$0.65	$0.75	$0.81
Option exercise price	$0.80	$0.85	$0.85	$0.65	$0.65	$0.65	$0.65
Expected volatility of the underlying shares	72.29%	66.59%	65.39%	64.81%	66.16%	66.02%	66.50%
Risk free rate applied	5.29%	4.73%	3.58%	3.52%	3.45%	3.71%	4.42%

No other features of options granted were incorporated into the measurement of fair value.

Employee share options forfeited during the period ended 31 December 2012

250,000 options were forfeited on 31 May 2012 and a further 50,000 options were forfeited on 6 June 2012 due to failure to meet vesting conditions stated in the terms and conditions of the Employee Share Option Scheme.

Recognised as employee costs

	2012 $'000	2011 $'000
Opening balance	9,509	947
Share options granted - equity settled	518	8,679
Share options forfeited - equity settled	(110)	(117)
Share based payments recognised	9,917	9,509

Notes to the consolidated financial statements

Other share based payments

In April 2010 the Company issued 5,000,000 options each to Macquarie Bank Ltd and Macquarie Capital Group Ltd in relation to a prior capital raising approved by shareholders. All 5,000,000 options were exercised in August 2012 and the remaining 5,000,000 were exercised in October 2012. The options were granted and vested on 21 April 2010; each option had a strike price of $0.1875, expiring on 21 April 2014 and a fair value of $0.11.

The grant date fair value of share options was measured using the Black-Scholes formula.

The following table illustrates the number and movements in these share based payment options during the period:

	2012 options	2011 options
Opening balance	10,000,000	10,000,000
Options exercised during the period	(10,000,000)	-
Options outstanding at the end of the period	-	10,000,000
Options exercisable at the end of the period	-	10,000,000

The following table illustrates the value of these share based payment options:

	2012 $'000	2011 $'000
Opening balance	1,076	1,076
Share options granted - equity settled	-	-
Closing share based payments recognised	1,076	1,076

23. Trade and other payables

	2012 $'000	2011 $'000
Trade and other payables	21,898	8,719
Balance at the end of the period	21,898	8,719
Current	21,898	8,661
Non current	-	58
Balance at the end of the period	21,898	8,719

24. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012 $'000	2011 $'000
Less than a year	2,901	853
Between one and five years	5,185	336
Operating lease rentals payable	8,086	1,189

The Group leases property and equipment in Australia and Brazil under operating leases. Leases run for a period of up to three years.

During the year the Group entered into a drilling services agreement whereby the Group is required to drill a minimum of 50,000 metres per year for a period of 3 years. Drilling service rates vary dependent on the drilling activity performed. The minimum drilling commitment per year is R$5,500,000 (approximately A$2,600,000).

Leases as lessor

Non-cancellable operating lease rentals are receivable as follows:

	2012 $'000	2011 $'000
Less than a year	95	340
Between one and five years	-	85
Operating lease rentals receivable	95	425

The Company has entered into a sub-lease agreement to lease a portion of its head office space where the Company is head lessee. The sub-lease agreement expires within 1 year, coincident with the expiration of the head lease agreement

Notes to the consolidated financial statements

25. Capital and reserves

Ordinary share capital	2012 '000 shares	2011 '000 shares
On issue at the beginning of the period	657,906	621,937
Exercise of share options	26,200	675
Issued for cash	58,098	35,294
On issue at the end of the period	742,204	657,906

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares are fully paid and rank equally with regard to the Company's residual assets.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Option premium reserve

The option premium reserve comprises consideration paid for 3 million options issued to initial shareholders of the Company on 25 June 2007 at an average fair value of $0.001. The options were exercised on 29 June 2012.

Share based payments reserve

The share based payments reserve includes the cumulative expense recognised in respect of options granted.

Employee share option plan

Options have been granted to employees of the Company as part of the Company's share option plan. All options expire on the earlier of;

- 30 June 2013 (1,800,000 options), 10 June 2014 (1,000,000 options), 30 June 2014 (12,330,000 options), 1 January 2015 (1,050,000 options), 14 June 2015 (1,000,000 options) and 30 June 2017 (1,800,000 options);
- The day employee ceases employment with the Company, unless the Board determines otherwise; and
- 30 days after the employee ceases employment by reason of retirement.

The share options carry no voting rights.

Other share based payments

10,000,000 options granted to Macquarie Bank Ltd and Macquarie Capital Group Ltd in April 2010 and exercised in August and October 2012.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

26. Provisions

	2012 $'000	2011 $'000
Balance at beginning of the period	9,789	11,159
Unwind of discount on site restoration costs	632	319
Provisions made during the period	1,268	893
Provisions reversed during the period	(497)	(1,583)
Effect of movements in exchange rates	(957)	(999)
Balance at end of the period	10,235	9,789
Current	561	24
Non Current	9,674	9,765
Balance at the end of the period	10,235	9,789

The Group's provisions comprise provisions for site restoration of $8,298,000 (2011: $8,189,000), legal proceedings of $1,377,000 (2011: $1,575,000) and community contributions of $281,000 (2011: $24,000) and various other provisions of $280,000 (2011: nil).

Notes to the consolidated financial statements

Site restoration

The provision includes estimates of costs associated with reclamation, rehabilitation and other costs associated with the restoration of the present mine site. Estimates of restoration costs are based on current legal requirements and future costs that have been discounted to their present value.

Legal proceedings

The provision includes estimates to discharge various claims, legal proceedings and complaints arising in the ordinary course of business. These matters are ongoing and are being vigorously defended by the Group.

27. Capital and other commitments

These obligations at balance date have not been provided for and are as set out in the table below.

Not yet provided for	2012 $'000	2011 $'000
Minimum exploration expenditure commitments		
Within one year	208	364
Contractual commitments		
Within one year	2,152	1,077
Balance at end of the period	2,360	1,441
Capital and other commitments within one year		
Contractual commitments		
One year or later and no later than five years	1,622	3,128
Capital and other commitments one year or later and no later than five years	1,622	3,128
Capital commitments	3,982	4,569

Minimum exploration expenditure requirements

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet minimum expenditure requirements specified by various State governments. These commitments are subject to renewal of exploration permits, renegotiation upon expiry of the exploration permit or when an application for a mining permit is made.

Contractual commitments

The Group's significant contractual commitments are as described below;

Supply agreements

Power

The Group has entered into a power supply agreement expiring 15 July 2014. The Group may terminate the agreement at any time during the period of supply. As at 31 December 2012 the Group has a minimum commitment in respect of the agreement of R$3,657,000 (approximately A$1,722,000).

Lime

The Group has entered into a Lime supply agreement expiring in December 2016. The Group may terminate the agreement at any time during the period of supply. As at 31 December 2012 the Group has a minimum commitment in respect of the agreement of R$602,000 (approximately A$283,000).

Community fund

The Group has an agreement with the Municipality of Pedra Branca and the Municipality of Serra do Navio in whose region the Group's Brazilian Tucano Gold Project resides. The agreement requires the Group make minimum annual payments of R$550,000 (approximately A$260,000). R$357,500 is payable to the Municipality of Pedra Branca and R$192,500 is payable to the Municipality of Serra do Navio.

28. Contingencies

	2012 $'000	2011 $'000
Litigation and claims	471	528
Total contingent liabilities not considered remote	471	528

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Notes to the consolidated financial statements

Litigation and claims

The Group is currently vigorously defending an infraction relating to environmental damage to William Creek in Brazil. The alleged damage is related to the modification of the Creek's riverbed, soiling and sedimentation. The infraction was assumed by the Group on acquisition of the Tucano gold project.

29. Related parties

Key management personnel compensation

The key management personnel compensation is as set out below.

	2012 $	2011 $
Short-term employee benefits	2,144,115	1,860,576
Post-employment benefits	161,960	100,404
Share based payments	281,860	7,371,319
Key management personnel compensation	2,587,935	9,332,299

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report in section 16.

Key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial and/or operating policies of those entities.

During the year the Group transacted with a company of which Mr Jewell is the sole director. Mr Jewell resigned as a director on 12 June 2012 but continued with his engagement with the Company to provide various construction management and technical services. Amounts have been billed based on normal market rates for such services and are payable under normal payment terms. In the reporting period the Group transacted with Allion Legal Pty Ltd, a company of which Mr Readhead is a director.

Allion Legal Pty Ltd was engaged during the period to provide legal advice on various commercial issues. Amounts have been billed based on normal market rates for such services and are payable under normal payment terms.

The value of transactions and balances outstanding relating to key management personnel and entities over which they control or have significant influence are as follows:

Key management person	Transaction with related party	Transactions value 12 months ended 31 December 2012 $	Balance outstanding 31 December 2012 $	Transactions value 12 months ended 31 December 2011 $	Balance outstanding 31 December 2011 $
Mr Readhead	Legal services	24,881	3,888	27,008	-
Mr Jewell*	Construction management & technical services	163,735	-	199,530	12,740
Total and current liabilities		188,616	3,888	226,538	12,740

** Mr Jewell and his related parties ceased to be related parties of the Group at the date of his resignation as a Director of the Company.*

Notes to the consolidated financial statements

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by key management personnel, including their related parties, is as follows;

For the twelve months ended 31 December 2012

	1 January 2012	Granted as compensation	Sold or exercised	Cancelled	Resignations during the period	31 December 2012	Vested during the period	Vested and exercisable at 31 December 2012
Directors								
Mr Readhead	1,000,000	-	-	-	-	1,000,000	-	1,000,000
Mr Jewell	500,000	-	-	-	(500,000)	-	-	-
Dr Donaldson	1,000,000	-	-	-	-	1,000,000	-	1,000,000
Mr Bowler	11,500,000	-	(11,500,000)	-	-	-	-	-
Mr Watkins	6,500,000	-	(3,000,000)	-	-	3,500,000	-	3,500,000
Executives								
Mr Barrett	6,500,000	1,500,000	(1,000,000)	-	-	7,000,000	-	5,500,000
Mr Andrade	600,000	300,000	-	-	-	900,000	200,000	400,000

For the twelve months ended 31 December 2011

	1 January 2011	Granted as compensation	Sold or exercised	Cancelled	31 December 2011	Vested during the period	Vested and exercisable at 31 December 2011
Directors							
Mr Readhead	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
Mr Jewell	500,000	-	-	-	500,000	500,000	500,000
Dr Donaldson	1,000,000	-	-	-	1,000,000	500,000	1,000,000
Mr Bowler	11,500,000	-	-	-	11,500,000	10,000,000	11,500,000
Mr Watkins	6,500,000	-	-	-	6,500,000	5,000,000	6,500,000
Executives							
Mr Barrett	6,500,000	-	-	-	6,500,000	5,000,000	6,500,000
Mr Andrade	-	600,000		-	600,000	200,000	200,000
Mr Torresini	750,000	-	-	(750,000)	-	-	-

Further details regarding options granted as compensation to key management personnel during the year can be found at note 22.

Notes to the consolidated financial statements

Movements in shares

The movement during the reporting period in the number of ordinary shares in Beadell Resources Limited held, directly, indirectly or beneficially, by key management personnel, including their related parties, is as follows;

For the twelve months ended 31 December 2012:

	1 January 2012	Purchased	Exercise of options	Sold	Resignations during the period	31 December 2012
Directors						
Mr Readhead	12,000	133,000	-	-		145,000
Dr Donaldson	1,733,333	-	-	(400,000)		1,333,333
Mr Jewell	410,000	-	-	-	(410,000)	-
Mr Kestel	-	50,000	-	-		50,000
Mr Bowler	12,543,333	-	12,500,000	(4,000,000)		21,043,333
Mr Watkins	6,150,001	-	-	-		6,150,001
Executives						
Mr Barrett	8,351,651	-	1,000,000	-		9,351,651
Mr Andrade	-	-	-	-		-

For the twelve months ended 31 December 2011:

	1 January 2011	Purchased	Exercise of options	Sold	31 December 2011
Directors					
Mr Readhead	12,000	-	-	-	12,000
Dr Donaldson	2,233,333	-	-	500,000	1,733,333
Mr Jewell	410,000	-	-	-	410,000
Mr Bowler	12,543,333	-	-	-	12,543,333
Mr Watkins	6,650,001	-	-	500,000	6,150,001
Executives					
Mr Barrett	8,351,651	-	-	-	8,351,651
Mr Andrade	-	-	-	-	-

No shares were granted to key management personnel during the reporting period as compensation.

30. Group entities

Ultimate parent and subsidiaries	Country of incorporation	Interest 2012	Interest 2011
Parent entity			
Beadell Resources Ltd	Australia		
Significant Subsidiaries			
Beadell Resources (Holdings) Ltd	British Virgin Islands	100%	100%
Beadell Resources Mineracao (Holdings) Ltd	British Virgin Islands	100%	100%
Beadell Resources Mineração Ltda	Brazil	100%	100%
Beadell (Brazil) Pty Ltd	Australia	100%	100%
Beadell (Brazil 2) Pty Ltd	Australia	100%	100%
Beadell Brasil Ltda	Brazil	100%	100%

Notes to the consolidated financial statements

31. Subsequent events

On 26 March 2013 the Group entered into amending agreements for the Group's Facility Agreements. The amending agreements have rescheduled the Group's schedule of repayments under the Facility Agreements and also require the Group to complete a $20 million equity raising by 30 April 2013.

There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements.

32. Government grants

In June 2012 the Group entered into an agreement with the Western Australian State Government and was awarded a drilling grant as part of the Royalties for Regions Exploration Incentive Scheme (Funding Agreement). Under the terms of the Funding Agreement, amounts are payable as a reimbursement of 50% of direct drilling costs invoiced (Funding Amount) on certain tenements. The total Funding Amount granted to the Company was $125,000 for drilling to be completed prior to 30 June 2012 of which no amount is receivable as at 31 December 2012.

33. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 the wholly owned Beadell (Brazil) Pty Ltd and Beadell (Brazil 2) Pty Ltd are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and Directors' reports. It is a condition of the class order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company Guarantees to each creditor payment in full in the event of a winding up. The subsidiaries have also given similar guarantees in the event the Company is wound up.

A consolidated statement of comprehensive income and a consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between the parties are as set out below.

Statement of comprehensive income	**2012 $'000**	**2011 $'000**
Other income	644	371
Administrative expenses	(4,128)	(11,628)
Project exploration and evaluation expenses	(4,295)	(7,061)
Impairment Losses/Reversals	(59,072)	(31,628)
Results from operating activities	**(66,851)**	**(49,946)**
Finance income	63	1,368
Finance expense	-	-
Net finance income	**63**	**1,368**
Loss for the period before income tax	**(66,788)**	**(48,578)**
Income tax recovery	269	157
Loss for the period after income tax	**(66,519)**	**(48,421)**
Other comprehensive loss	408	-
Other comprehensive loss for the period net of tax	**(66,111)**	**(48,421)**
Total comprehensive loss for the period	**(66,111)**	**(48,421)**
Loss attributable to:		
Equity holders of the Company	(66,111)	(48,421)
Loss for the period	**(66,111)**	**(48,421)**

Notes to the consolidated financial statements

Statement of financial position	2012 $'000	2011 $'000
Assets		
Cash and cash equivalents	3,474	3,747
Prepayments	111	163
Trade and other receivables	378	471
Non-current assets held for sale	-	279
Total current assets	**3,963**	**4,660**
Exploration and evaluation assets	980	1,614
Property, plant and equipment	98	130
Mineral properties under development	17,527	-
Investments	25,074	47,854
Other non-current assets	300	1,137
Total non-current assets	**43,979**	**50,735**
Total assets	**47,942**	**55,395**
Liabilities		
Trade and other payables	15,204	2,218
Employee benefits	507	424
Total current liabilities	**15,711**	**2,642**
Trade and other payables	(371)	58
Total non-current liabilities	**(371)**	**58**
Total liabilities	**15,340**	**2,700**
Net assets	**32,602**	**52,695**
Equity		
Share capital	170,110	124,500
Reserves	10,996	10,588
Accumulated losses	(148,504)	(82,393)
Total equity	**32,602**	**52,695**

34. Auditors' remuneration

	2012 $'000	2011 $'000
Audit services		
KPMG Australia		
Audit and review of financial reports	160,355	100,323
Overseas KPMG firms		
Audit and review of financial reports	68,303	74,554
Audit services	228,658	174,877
Other services		
KPMG Australia		
Taxation services	-	23,350
Overseas KPMG firms		
Taxation services	-	5,982
Other services	-	29,332

35. Parent entity

As at and during the period ending 31 December 2012 the parent company of the Group was Beadell Resources Ltd.

	2012 $'000	2011 $'000
Result		
Loss for the period	(66,115)	(48,423)
Other comprehensive income	-	-
Total comprehensive loss	(66,115)	(48,423)
Financial position		
Current assets	3,963	4,681
Total assets	48,306	55,393
Current liabilities	15,711	2,642
Total liabilities	15,711	2,700
Net assets	**32,595**	**52,693**
Equity		
Share capital	170,110	124,500
Reserves	10,995	10,588
Accumulated losses	(148,510)	(82,395)
Total equity	**32,595**	**52,693**

Parent entity contingencies

The parent entity has entered into a Deed of Cross Guarantee with two of its wholly owned subsidiaries. The effect of the Deed of Cross Guarantee is that the Company guarantees debts in respect of these subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed are disclosed in note 33.

Auditor’s independence declaration

1. In the opinion of the directors of Beadell Resources Limited (the Company):

   (a) the consolidated financial statements and notes 1 to 35 that are contained within and the Remuneration report in the Directors’ report, set out in section 16, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group’s financial position as at 31 December 2012 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in note 33 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the period ended 31 December 2012.

4. The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

PETER BOWLER
Managing Director

Dated at Perth, this 27th day of March 2013.

KPMG

Independent auditor's report to the members of Beadell Resources Limited

Report on the financial report

We have audited the accompanying financial report of Beadell Resources Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2012, and consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 35 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in 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 the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

KPMG

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in section 16 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Beadell Resources Limited for the year ended 31 December 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg
Partner

Perth

27 March 2013

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Beadell Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

G Hogg

Graham Hogg
Partner

Perth

27 March 2013