



**Orion Gold<sub>NL</sub>**

**and its Controlled Entities**

**ABN: 76 098 939 274**

**31 December 2010  
Interim Financial Report**

## Corporate Directory

### DIRECTORS

Denis Waddell (Executive Chairman)  
Graeme Sloan  
Alexander Haller

### COMPANY SECRETARY

Martin Bouwmeester

### PRINCIPAL & REGISTERED OFFICE

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Website: [www.oriongold.com.au](http://www.oriongold.com.au)

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Telephone: +61 8 9315 2333  
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### AUDITOR

KPMG  
147 Collins Street  
Melbourne Victoria 3000

### LEGAL ADVISORS

Clayton Utz  
Level 18 / 333 Collins Street  
Melbourne VIC 3000

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## Directors' Report

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2010 and the review report thereon.

### DIRECTORS

The names of Orion Gold NL directors in office during the half-year and until the date of this report are:

#### Non-executive

Mr Graeme Sloan	-	Non-executive director	Appointed 23 July 2008
Mr Alexander Haller	-	Non-executive director	Appointed 27 February 2009

#### Executive

Mr Denis Waddell	-	Executive Chairman	Appointed 27 February 2009
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### PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is minerals exploration. There were no significant changes in the nature of the consolidated entity's principal activities during the financial period.

### OPERATING RESULTS

The consolidated entity recorded a net loss for the period of \$5,237,290 (2009: net loss of \$35,803,155). The result is driven primarily by the non-cash net movement in fair value of convertible note options of \$2,830,999.

### REVIEW OF OPERATIONS

#### Walhalla Gold Project

During the half year ended 31 December 2010, the Company completed an initial 6,500 metre diamond drill program focusing on the Cohen's, West 1, West 2 and Happy Go Lucky ('HGL') mineralised structures, given their proximity to a large number of old workings and historical production centres. The results of the drilling program have assisted in identifying a number of new target zones in these areas. Of particular interest, the drilling at HGL intersected a pyrite-gold system associated with major structures, in a near-surface position that has largely been unexploited by previous mining. Further drilling is planned targeting higher grade zones of mineralisation.

At the completion of the HGL initial drilling program in November 2010, the Company undertook further interpretation and geological assessment of the results, which has identified what appear to be the key controls on mineralisation and has identified a number of priority drill targets for a follow-up drill program.

Concurrent with the HGL data review, the Company is continuing to review the 2010 drill results and historical data for Cohen's, Black Diamond, New Long Tunnel and nearby prospects and historical workings, with the objective of ranking drill targets to be drill tested in 2011. Based on this work, a regional structural model has been developed, which highlights that the Cohen's mineralisation occurs within a discrete north – south trending fault segment, with major north west – south east trending structures truncating mineralisation to the north and south.

The new regional structural model has also assisted in identifying and prioritising drill targets such as the Lomond area, which is associated with the main Cohen's reef, the

untested possible mirror – image position of Cohen's, located west of Black Diamond (Klein's Fault Segment) and other targets where faults intersect north west – south east trending structures, including, Meuleman's, Sun Hill and Longfellow's. The review process will form the basis of identifying and prioritising drill targets to be tested during 2011.

During the half, the Company also commenced a review of the Tubal Cain and Eureka gold resources. This review will assess the economic potential of the resources and determine the exploration potential of these prospects.

#### **Walhalla Gold Project - Regional**

The Company has previously identified a number of areas of interest within the more regional areas of the Walhalla Gold Project. A priority area of interest is the historic Toombon and New Dawn workings. Historically, Toombon produced approximately 51,000 ounces of gold from around 62,000 tonnes of ore at an average grade of 25.6 Au g/t, with production from a single reef system.

The Company has designed a drill program to test for extensions of the mineralisation below the historical workings, and for continuity of the reef between the workings. The program is planned to commence in the first half of 2011.

During the half, the Company continued its geological assessment of the Walhalla Gold Project regional exploration area, made up of a large tenement holding in the Woods Point/Walhalla district, an area that contains approximately 420 old workings. The review process and planning of regional exploration programs is assisted by the historic workings, which indicate the location of mineralisation and outline the mineralised 'trends'.

#### **Queensland Joint Venture**

At the Top Camp / Iron Ridge Project, the Company's joint venture partner, Queensland Mining Corporation Limited ('QMC') announced to the ASX on 21 December 2010, significant copper-cobalt drilling results from the Black Fort prospect at South Cloncurry, North Western Queensland, within the joint venture area.

QMC, as manager of the joint venture, may earn an 82.35% interest in the joint venture, which equates to a 70% interest in the Project (from 51%), by spending \$350,000. Orion is yet to be provided with information from QMC that will allow the Company to complete a review of any claim for earn in. Should QMC earn a 70% interest in the Project, Orion would then own 15% of the Project. Orion can then elect to contribute or dilute.

#### **Corporate**

Total cash on hand as at 31 December 2010 was \$2,368,245.

On 30 September 2010, the Company announced that it had renegotiated the repayment terms of the convertible notes ('Notes') which were issued to Silja Investment Limited ('Silja') pursuant to the terms of the Converting Loan Agreement ('CLA') between Silja and the Company dated 9 September 2008. In accordance with the CLA, Silja provided a total of \$6 million in funding to the Company by way of Notes.

Importantly, the amendment to the terms of the Notes will enable the Company at its election, to convert the Notes and accrued interest at maturity on 31 August 2013 to ordinary shares in the Company or redeem the Notes for cash, unless Silja elects to convert the Notes to ordinary shares on or before maturity.

The amendment to the terms of the Notes is considered by the Directors to be in the interests of shareholders as it enables the Company to satisfy its obligations with respect

to the Notes at maturity without relying upon its cash reserves. All other rights of Silja in respect of the Notes remain unchanged.

The 300 million options held by Silja Investment Limited with an exercise price of \$0.01, expired on 22 September 2010.

#### **EVENTS SUBSEQUENT TO BALANCE DATE**

No significant events occurred after the balance sheet date of the Company and the consolidated entity.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the directors



Denis Waddell  
Executive Chairman

Dated at Melbourne this 11th day of March 2011



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

To: the directors of Orion Gold NL

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten version of the KPMG logo in blue ink, with the letters 'KPMG' in a cursive style.

KPMG

A handwritten signature in blue ink that reads 'Alison Kitchen'.

Alison Kitchen  
*Partner*

Melbourne

10 March 2011

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	Notes	31 December 2010	31 December 2009
<b>Continuing operations</b>			
Other income	6	17,039	59,000
Exploration and evaluation expenses	6	(637,928)	(724,493)
Administration expenses	6	(921,328)	(1,366,576)
Impairment of non-current assets		---	---
Non-cash movement in convertible notes option fair value	10	(2,830,999)	(33,484,999)
<b>Results for operating activities</b>		<b>(4,373,216)</b>	<b>(35,517,068)</b>
Finance income	6	110,690	209,591
Finance expense	6	(974,764)	(748,862)
<b>Net finance costs</b>		<b>(864,074)</b>	<b>(539,271)</b>
<b>Loss before income tax</b>		<b>(5,237,290)</b>	<b>(36,056,339)</b>
Income tax (expense)/benefit	6	---	253,184
<b>Net loss from continuing operations</b>		<b>(5,237,290)</b>	<b>(35,803,155)</b>
<b>Loss for the period attributed to:</b>			
Equity holders of the Company		---	---
<b>Loss for the period</b>		<b>(5,237,290)</b>	<b>(35,803,155)</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the period, net of income tax		---	---
<b>Total comprehensive loss for the period</b>		<b>(5,237,290)</b>	<b>(35,803,155)</b>
<b>Earnings per share (cents per share)</b>			
- basic and diluted loss per share (AUD)		(0.68)	(9.71)

The Statement of Comprehensive Income is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 11 to 18.

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Notes	31 December 2010	30 June 2010
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash on hand and at bank	7	2,368,245	5,065,765
Receivables		53,868	140,633
Inventories		5,815	14,766
Prepayments		49,020	54,688
<b>Total Current Assets</b>		<b>2,476,948</b>	<b>5,275,852</b>
<b>Non-current Assets</b>			
Receivables		481,423	496,764
Property, plant and equipment	9	314,625	367,418
Deferred exploration, evaluation and development	8	8,066,577	6,918,642
<b>Total Non-current Assets</b>		<b>8,862,625</b>	<b>7,782,824</b>
<b>TOTAL ASSETS</b>		<b>11,339,573</b>	<b>13,058,676</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		205,401	800,241
Finance lease		---	1,020
Provisions		54,967	66,365
<b>Total Current Liabilities</b>		<b>260,368</b>	<b>867,626</b>
<b>Non-current Liabilities</b>			
Provisions		5,599	5,290
Convertible notes*	10	21,734,596	17,928,833
<b>Total Non-current Liabilities</b>		<b>21,740,195</b>	<b>17,934,123</b>
<b>TOTAL LIABILITIES</b>		<b>22,000,563</b>	<b>18,801,749</b>
<b>NET ASSETS</b>		<b>(10,660,990)</b>	<b>(5,743,073)</b>
<b>EQUITY</b>			
Issued capital	13	43,933,657	43,933,657
Accumulated losses		(57,084,588)	(51,847,298)
Other reserves	13	2,489,941	2,170,568
<b>TOTAL EQUITY</b>		<b>(10,660,990)</b>	<b>(5,743,073)</b>

\* The maximum amount payable in cash or shares, (at the election of the Company) in relation to the convertible notes is \$8,860,705 on 31 August 2013. The unrealised gain or loss recognised at each reporting date is not a cash gain or loss and will not affect the Company's cash reserves. Refer to Note 10 for further details.

The statement of financial position is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 11 to 18.

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	Notes	31 December 2010	31 December 2009
<b>Cash flows from operating activities</b>			
Receipts from customers		17,038	---
Interest received		185,539	99,853
Income tax refund		---	253,184
Payments to suppliers and employees		(1,103,502)	(1,867,356)
Payments for exploration and evaluation		(1,785,863)	(944,880)
Net cash flows used in operating activities		<u>(2,686,788)</u>	<u>(2,459,199)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(8,708)	(50,068)
Restricted cash investments		(1,004)	(220,586)
Proceeds for sale of property, plant and equipment		---	59,000
Net cash flows used in investing activities		<u>(9,712)</u>	<u>(211,654)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		---	200,050
Repayment of financial lease		(1,020)	(3,571)
Share issue expenses		---	(29,167)
Net cash flows from financing activities		<u>(1,020)</u>	<u>167,312</u>
Net decrease in cash and cash equivalents		(2,697,520)	(2,503,541)
Cash and cash equivalents at beginning of period		5,065,765	9,668,184
<b>Cash and cash equivalents at end of period</b>	<b>7</b>	<b><u>2,368,245</u></b>	<b><u>7,164,643</u></b>

The statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 11 to 18.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

	Share capital	Share option reserve	Accumulated losses	Total equity
<b>Balance at 1 July 2009</b>	<b>43,762,775</b>	<b>1,378,978</b>	<b>(37,701,808)</b>	<b>7,439,945</b>
Total comprehensive loss for the period	---	---	(35,803,155)	(35,803,155)
Shares issued	200,050	---	---	200,050
Transaction costs on share issue	(29,168)	---	---	(29,168)
Movement in reserves	---	361,140	---	361,140
<b>Balance at 31 December 2009</b>	<b>43,933,657</b>	<b>1,740,118</b>	<b>(73,504,963)</b>	<b>(27,831,188)</b>

	Share capital	Share option reserve	Accumulated losses	Total equity
<b>Balance at 1 July 2010</b>	<b>43,933,657</b>	<b>2,170,568</b>	<b>(51,847,298)</b>	<b>(5,743,073)</b>
Total comprehensive loss for the period	---	---	(5,237,290)	(5,237,290)
Shares issued	---	---	---	---
Transaction costs on share issue	---	---	---	---
Movement in reserves	---	319,373	---	319,373
<b>Balance at 31 December 2010</b>	<b>43,933,657</b>	<b>2,489,941</b>	<b>(57,084,588)</b>	<b>(10,660,990)</b>

The statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 11 to 18.

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010****1. REPORTING ENTITY**

Orion Gold NL (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interests in controlled entities.

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2010 is available upon request from the Company's registered office or at [www.oriongold.com.au](http://www.oriongold.com.au).

**2. STATEMENT OF COMPLIANCE**

The consolidated interim financial report has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2010.

This consolidated interim financial report was approved by the Board of Directors on (11 March 2011).

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2010.

**Estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial report as at and for the year ended 30 June 2010.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010****4. GOING CONCERN BASIS FOR PREPARATION**

The consolidated entity incurred a loss of \$5,237,290 for the half year ended 31 December 2010 (2009: \$35,803,155) and, as of that date, has a deficiency in shareholders' funds of \$10,660,990. A significant contributor to the loss and the deficiency in shareholder funds during the period is the accounting treatment of convertible notes ('Notes') issued to Silja Investment Limited ('Silja'). In particular:

- The net movement in the fair value of Notes for the six month period was a loss of \$2,830,999. This unrealised loss is not a cash loss and did not affect the consolidated entity's cash reserves.
- The Notes are classified as a non-current liability in the Balance Sheet, totalling \$21,734,596 at 31 December 2010 (30 June 2010: \$17,928,833). The Notes issued to Silja comprise a liability component and a conversion option component in the hands of Silja. Due to the variable conversion feature contained within the terms of the Notes, the instrument is accounted for as a financial liability and is measured at fair value each reporting date with any difference in valuation recognised in the statement of comprehensive income. The conversion option is not payable in cash and the unrealized gain or loss reported periodically is not a cash gain or liability and therefore will not affect the Company's cash reserves. Under the terms of Notes, the Company at its election, may convert the remaining Notes at maturity on 31 August 2013 to ordinary shares in the Company or redeem the Notes for cash. Should the Company elect to redeem the Notes for cash, the maximum amount payable in cash by the consolidated entity in relation to the Notes is \$8,860,705. Please refer to note 10 for further details in relation to the Notes.

Cash outflow from operations during the period was \$2,686,788 (including \$1,785,863 in payments for exploration and evaluation) and cash on hand as at 31 December 2010 was \$2,368,245. The Company has sufficient funds to undertake exploration activities during the next twelve months and to maintain the tenements in good standing. However, the exploration program and budget will be limited unless further funds are raised, to ensure a positive cash balance is maintained during the next twelve months from the date of this report. During the reporting period, the Company commenced an interpretation and geological assessment of the 2010 drilling program that includes an independent review by a consultant structural geologist, which has been very beneficial in providing further insight to the controls on mineralisation within the Company's Walhalla Gold Project. This work, which is expected to be finalised shortly, will enable the Company to update current and potential shareholders as to the prospects of the Company and the planned focus of future exploration activities.

Given the encouraging results from the current review process, the Company is considering various funding options aimed at placing the Company in a position to undertake ongoing exploration programs on its highly prospective Walhalla Gold Project. The financial statements for the half year ended 31 December 2010 have been prepared on a going concern basis as, in the opinion of the directors, the consolidated entity will be in a position to continue to meet its operating costs and exploration expenditure commitments for at least twelve months from the date of this report.

However, the Directors recognise that if additional funding is not raised, the going concern basis may not be appropriate with the result that the entity may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010**

**5. SEGMENT INFORMATION**

The consolidated entity has one reportable segment which is the Walhalla and Victoria Regional Gold Project. The Group conducts minerals exploration on this tenement area.

The reportable segment information that is reviewed by the Executive Chairman in the monthly management reports is presented for the Company in its entirety and is consistent with the information provided in the financial statements and notes presented in this Interim Financial Report.

**6. REVENUE, INCOME AND EXPENSES**

	31 December 2010	31 December 2009
<b>Other income</b>		
Sale of plant, equipment and tenements	---	59,000
Sundry income	17,039	---
<b>Total revenue</b>	<b>17,039</b>	<b>59,000</b>
<b>Exploration and evaluation expenses</b>		
Exploration and evaluation expenses	(297,623)	(541,538)
Employee expenses	(340,305)	(182,955)
<b>Total exploration and evaluation expenses</b>	<b>(637,928)</b>	<b>(724,493)</b>
<b>Administration expenses</b>		
Administration expenses	(383,251)	(610,929)
Employee expenses	(157,203)	(314,977)
Employee share based payments	(319,373)	(361,139)
Depreciation	(61,501)	(79,531)
<b>Total administration expenses</b>	<b>(921,328)</b>	<b>(1,366,576)</b>
<b>Net finance costs</b>		
<b>Finance income</b>		
Interest revenue	110,690	209,591
<b>Total finance income</b>	<b>110,690</b>	<b>209,591</b>
<b>Finance expense</b>		
Interest expense	---	(314)
Interest expense convertible notes	(306,536)	(280,432)
Unwinding interest expense convertible notes	(633,008)	(432,896)
Amortisation of borrowing costs	(35,220)	(35,220)
<b>Total finance expense</b>	<b>(974,764)</b>	<b>(748,862)</b>
<b>Income tax (expense)/benefit</b>		
Income tax research and development cash rebate	---	253,184
<b>Total income tax (expense)/benefit</b>	<b>---</b>	<b>253,184</b>

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010**

**7. CASH AND CASH EQUIVALENTS**

For the purposes of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	<b>31 December 2010</b>	<b>30 June 2010</b>
Cash at bank and in hand	368,245	565,765
Short term deposits	2,000,000	4,500,000
<b>Total cash and cash equivalents</b>	<b>2,368,245</b>	<b>5,065,765</b>

**8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE**

	<b>31 December 2010</b>	<b>30 June 2010</b>
<b>Deferred exploration and evaluation expenditure</b>		
Opening cost	6,918,642	5,300,000
Expenditure incurred	1,785,863	3,121,382
<b>Exploration, evaluation and development</b>	<b>8,704,505</b>	<b>8,421,382</b>
Exploration expensed (a)	(637,928)	(1,502,740)
<b>Net carrying amount at end of period</b>	<b>8,066,577</b>	<b>6,918,642</b>

Exploration and evaluation expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest. Exploration expenditure related to an area of interest is carried forward provided that rights to tenure of the areas of interest are current and that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration activities in the area of interest have not, at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision is raised against deferred exploration and evaluation expenditure in the event that an area of interest is abandoned or if the directors are of the opinion that the carried forward net cost may not be recoverable under the above policy. The increase in the provision is charged against the financial performance for the year.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**

For the half year ended 31 December 2010

**8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)**

(a) During the half year ended 31 December 2010 the consolidated entity incurred exploration expenditure of \$637,928 which under the consolidated entity's deferred exploration, evaluation and development policy did not qualify and was expensed.

During the year ended 30 June 2010 the consolidated entity incurred exploration expenditure of \$1,502,740 which under the consolidated entity's deferred exploration, evaluation and development policy did not qualify and was expensed.

**9. PROPERTY PLANT & EQUIPMENT**

	<b>31 December 2010</b>	<b>30 June 2010</b>
<b>Property, plant &amp; equipment</b>		
Opening cost - July	4,410,274	4,325,927
Accumulated depreciation	(2,160,036)	(1,988,246)
Accumulated impairment loss	(1,882,820)	(1,882,820)
<b>Net carrying amount at beginning of period</b>	<b>367,418</b>	<b>454,861</b>
Additions	8,708	109,496
Disposals	---	(25,149)
Depreciation	(61,501)	(171,790)
<b>Net carrying amount at end of period</b>	<b>314,625</b>	<b>367,418</b>

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010**

**10. CONVERTIBLE NOTE**

	<b>31 December 2010</b>	<b>30 June 2010</b>
Opening balance	17,928,833	6,888,375
Non-cash movement in convertible note option fair value	2,830,999	9,333,039
Interest unwinding expense - convertible notes	633,008	1,068,658
Interest expense - convertible notes	306,536	568,896
Amortisation of borrowing costs	35,220	69,865
Closing balance	<b>21,734,596</b>	<b>17,928,833</b>

Under the converting loan agreement between Silja Investment Limited ("Silja") and the Company, Silja provided a total of \$6 million in funding to the Company by way of Convertible Notes ("Notes"). Settlement of the Notes (\$6 million) plus interest is due on 31 August 2013 unless Silja elects to convert the Notes to fully paid ordinary shares ("Shares") on or before such date. The Company may elect at its discretion to repay the remaining principal and interest on the Notes in cash or by converting the Notes into Shares. Silja does not have a right to demand cash to settle the outstanding amount. Further details in relation to these Notes can be found in the Company's 2010 Annual Report.

The Notes issued to Silja comprise a liability component and a conversion option in the hands of Silja under the terms of the Notes. The number of Shares in the Company that will be issued upon conversion may vary depending upon the issue price of any capital raisings the Company may have on or before 31 August 2013. Should the Company issue Shares for a price of less than 1 cent per Share on or before 31 August 2013, the Notes can be converted at the lowest price Shares are issued at up until that date. If the Company does not issue Shares at less than 1 cent before 31 August 2013, the conversion price will be 1 cent per Share.

As a result of the variable feature contained within the terms of the Notes, the instrument is accounted for in accordance with AASB 139 Financial Instruments: Recognition and Measurement as a financial liability and is measured at fair value each reporting date with any difference in valuation recognised in the statement of comprehensive income.

The conversion option is not payable in cash and the unrealized gain or loss reported periodically is not a cash gain or liability and therefore will not affect the Company's cash reserves.

The aggregate amount of the convertible note liability at 31 December 2010 is \$21,734,596 (2010: \$17,928,833).

**11. RELATED PARTIES**

**Transactions with key management personnel**

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payments.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010**

**12. COMMITMENTS AND CONTINGENCIES**

There are no material contingent liabilities that have arisen since 30 June 2010.

**13. ISSUED CAPITAL AND RESERVES**

	Number of Shares	Issue/Exercise Price	\$
<b>Issued Capital</b>			
<b>Movements in shares on issue</b>			
Opening balance at 1 January 2010	764,960,097		43,931,306
Issue of ordinary fully paid shares	---	---	---
Less: Issue costs	---	---	---
<b>Closing balance at 30 June 2010</b>	<b>764,960,097</b>		<b>43,931,306</b>
Opening balance at 1 July 2010	764,960,097		43,931,306
Issue of ordinary fully paid shares	---	---	---
Less: Issue costs	---	---	---
<b>Closing balance at 31 December 2010</b>	<b>764,960,097</b>		<b>43,931,306</b>
<b>Contributing Shares</b>			
<b>Movements in contributing shares on issue</b>			
Opening balance at 1 January 2010	2,351,000		2,351
<b>Closing balance at 30 June 2010</b>	<b>2,351,000</b>		<b>2,351</b>
Opening balance at 1 July 2010	2,351,000		2,351
<b>Closing balance at 31 December 2010</b>	<b>2,351,000</b>		<b>2,351</b>
<b>Reserves</b>			
<b>Share Option Reserve</b>			
			<b>\$</b>
Opening balance at 1 July 2009			1,378,978
Share based payments			361,139
<b>Closing balance at 31 December 2009</b>			<b>1,740,117</b>
Share based payments			430,451
<b>Closing balance at 30 June 2010</b>			<b>2,170,568</b>
Share based payments			319,373
<b>Closing balance at 31 December 2010</b>			<b>2,489,941</b>

On 13 September 2010, Mr Sean Cahoon, an employee of the Company, was granted 2,000,000 options under the Company's Option and Performance Rights Plan. The vesting conditions of these options are 50% on 30 June 2011 and 50% on 30 June 2012. The exercisable price of the granted options is \$0.04 and the expiry date is 30 June 2015.

On 13 September 2010, there was 640,000 performance rights ('Rights') issued to employees of the Company under the Company's Option and Performance Rights Plan. The vesting conditions of these Rights are 50% on 30 June 2011 and 50% on 30 June 2012. No amount will be payable on the exercise of the Rights and the expiry date is 30 June 2015.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2010**

**14. EVENTS AFTER THE BALANCE SHEET DATE**

No significant events occurred after the balance sheet date of the Company and the consolidated entity.

**DIRECTORS' DECLARATION**

In the opinion of the directors of Orion Gold NL ("the Company"):

1. the interim consolidated financial statements and notes set out on pages 7 to 18, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance, as represented by the results of its operations and cash flows for the six month period ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Denis Waddell  
Executive Chairman  
Dated at Melbourne this 11th day of March 2011.



## **Independent auditor's review report to the members of Orion Gold NL Limited**

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Orion Gold NL Limited, which comprises the consolidated statement of financial position as at 31 December 2010, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 14, 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 half-year's end or from time to time during the half-year.

#### *Directors' responsibility for the interim financial report*

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Orion Gold NL Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

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

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Orion Gold NL Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



*Material uncertainty regarding continuation as a going concern*

Without qualification to the opinion expressed above, we draw attention to Note 4, which indicates the Group is reliant upon raising additional funds to enable it to continue with its operations. Because of this and the matters referred to in Note 4, there is material uncertainty which may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore whether they will be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

  
KPMG



Alison Kitchen  
*Partner*

Melbourne

10 March 2011