



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

**and its Controlled Entities**

**ABN: 76 098 939 274**

**31 December 2011  
Interim Financial Report**

## Corporate Directory

### DIRECTORS

Denis Waddell (Executive Chairman)  
Graeme Sloan  
Alexander Haller  
Chris Roberts

### COMPANY SECRETARY

Martin Bouwmeester

### PRINCIPAL & REGISTERED OFFICE

Suite 302  
Level 3, 488 Bourke Street  
Melbourne, Victoria 3000  
Telephone: +61 3 8080 7170  
Facsimile: +61 3 8080 7174  
Website: [www.oriongold.com.au](http://www.oriongold.com.au)

### SHARE REGISTRARS

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross, Western Australia 6153  
Telephone: +61 8 9315 2333  
Facsimile: +61 8 9315 2233

### AUDITOR

KPMG  
147 Collins Street  
Melbourne Victoria 3000

### LEGAL ADVISORS

Clayton Utz  
Level 18 / 333 Collins Street  
Melbourne VIC 3000

## Table of Contents

CORPORATE DIRECTORY .....	1
TABLE OF CONTENTS .....	2
DIRECTORS' REPORT .....	3
AUDITOR'S INDEPENDENCE DECLARATION .....	7
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME .....	8
CONSOLIDATED INTERIM BALANCE SHEET .....	9
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS.....	10
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY .....	11
1. REPORTING ENTITY .....	12
2. SIGNIFICANT ACCOUNTING POLICIES .....	12
3. SEGMENT INFORMATION .....	14
4. REVENUE, INCOME AND EXPENSES.....	14
5. CASH AND CASH EQUIVALENTS.....	15
6. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE.....	15
7. PROPERTY PLANT & EQUIPMENT.....	16
8. CONVERTIBLE NOTE.....	17
9. LOAN.....	18
10. RELATED PARTIES.....	18
11. ISSUED CAPITAL AND RESERVES .....	19
DIRECTORS' DECLARATION .....	20
INDEPENDENT AUDITOR'S REVIEW REPORT .....	21

## Directors' Report

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2011 and the review report thereon.

### DIRECTORS

The names of Orion Gold NL directors at any time during or since the end of the interim period are:

#### Non-executive

Mr Graeme Sloan	-	Non-executive director	Appointed 23 July 2008
Mr Alexander Haller	-	Non-executive director	Appointed 27 February 2009
Mr Chris Roberts	-	Non-executive director	Appointed 7 September 2011

#### Executive

Mr Denis Waddell	-	Executive Chairman	Appointed 27 February 2009
------------------	---	--------------------	----------------------------

### NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Group during the year was the exploration and evaluation of the Walhalla Gold Project in Victoria. The Group also has exploration interests in Queensland.

### OPERATING RESULTS

The Group recorded a net profit for the half year of \$3,405,988 (2010: net loss of \$5,237,290). The result is driven primarily by the non-cash net movement in fair value of convertible note option of \$5,573,529.

### REVIEW OF OPERATIONS

#### Walhalla Gold Project

During the half year ended 31 December 2011, the Company completed a diamond drilling program at New Dawn - Toombon, with the initial holes planned to test targets at depth under the old New Dawn workings.

The group of workings in the immediate area (including New Dawn, Clarke's, Toombon and McLean's) are situated along the recently reinterpreted Cohen's Trend. The Cohen's trend hosts many of the major historical mines in the Walhalla-Woods Point goldfield, with the recorded gold production from mines located along the Cohen's trend totalling approximately four million ounces. Based upon the Company's regional structural model, Orion regards the New Dawn - Toombon area as particularly prospective, as the historic workings are interpreted to be situated in the same stratigraphy and structural setting as the main Cohen's Reef at Walhalla, which produced 1.5 million ounces of gold. The New Dawn - Toombon deposits are also interpreted to be similar in style to the mineralisation at Cohen's Reef. The area has been subject to very little modern exploration and almost no drilling.

Orion Gold's 3D model of the New Dawn workings, based upon the available historic data, indicates that a series of moderately easterly-dipping reefs was mined. The dips outlined in the various reefs, the nature of the stoping and the disposition of the drives suggest that intersection lodes may have been exploited under Clarke's Adit. Based upon this interpretation, the drilling was designed to test across the prospective stratigraphy for a series of parallel reefs. The drilling was also designed to test for potentially southerly plunging intersection lodes ('shoots').

Diamond drill hole OND001 was completed to a down hole depth of 331.1 metres and was designed to drill to the south of and down dip of the historic workings, essentially perpendicular to stratigraphy, testing for a series of bedding-parallel reefs mined at higher levels. Drilling intersected two separate zones of interest, in approximately the down dip positions predicted by the 3D modelling. Orion Gold is encouraged by OND001, as the zones of interest that have been intersected are believed to represent the down-dip extension of reefs mined at higher levels in the New Dawn and Clarke's adits. This suggests that the reefs are likely to represent persistent, deep-seated structures with significant exploration potential at depth. Diamond drill hole OND002 targeted the interpreted intersection lode(s) directly beneath the south drive of the New Dawn workings. This hole reached a total depth of 337.9 metres and intersected a number of new zones of quartz veining which do not appear to correlate with the geology and reefs described in either the workings or encountered in OND001. Subsequent assessment suggests that OND002, which lifted significantly in dip during drilling, was not optimally orientated in order to test the interpreted down-plunge continuation of the modelled high grade shoot. Based on the results of the drilling, additional drill holes have been designed to test the interpreted target.

The Company demobilised the drilling contractor at the completion of OND002. Subsequent geological assessment has identified a clear target at the New Dawn for follow up drilling and fieldwork along strike is currently in progress to confirm additional drilling targets in the vicinity.

During the half year, the results of detailed structural modelling of the controls and disposition of mineralisation at Cohen's Reef (Walhalla) were received from Dr Steve King. This study involved the digital compilation of all available detailed underground plans from past mining and mapping and drilling results, to develop a new framework for mineralisation. A number of targets have been identified from this work, including an untested corridor spanning the old Long Tunnel Company's Inclined Shaft and the Long Tunnel Extended Company's Main shaft, between the No. 3 and No. 6 levels.

The Cohen's Reef structural project provides a new focus for exploration on this historically important deposit, which produced 1.5 million ounces, at an average grade of approximately one ounce of gold per tonne. New targets exist relatively near to surface and have the potential to add to existing bulk tonnage gold resources. In addition, deeper targets have been identified which could represent incremental extensions to previously mined, high grade mineralisation. The Company has submitted a Work Plan application to drill test this ground.

#### **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. Regional structural reinterpretation of the Cohen's Trend undertaken during 2011 highlighted the prospectivity of a relatively restricted strip of stratigraphy for over 35 km north of Walhalla through the Company's tenements. Mineralisation along the Cohen's Trend appears to be influenced where this trend is intersected by cross-cutting structures. The revised regional geological and structural model also upgrades the prospectivity of other locations along the Cohen's trend.

Fieldwork was conducted in the Victors Quartz-Harbinger area during the half with the intention of planning a drill program. A work program for the Holy Terror mine, situated between the two aforementioned historic mines, was approved in late December 2011. The Holy Terror prospect is planned to be drill tested during 2012.

Additional fieldwork was also conducted at the historic Luck's All workings during the half. The Luck's All deposit is typical of the dyke-hosted reef gold deposits that occur

throughout the length of the Walhalla - Woods Point goldfield. The Luck's All dyke bulge is an ellipsoid around 50 x 250 metres that hosts fifteen distinct reefs with historical production of approximately 17,300 ounces of gold. The Company has submitted a Work Plan for a drilling program to investigate this target and sees it as a substantial target in the northern section of the belt, where the A1 and Morning Star dyke-hosted deposits demonstrate the scale and gold endowment of this type of deposit in this region. The Luck's All prospect is planned to be drill tested during 2012.

### Queensland Joint Venture

The Company's joint venture partner, Queensland Mining Corporation Limited ('QMC') announced to the ASX on 31 October 2011, that it had completed 10 reverse circulation drill holes over 5 targets across the 'Just There' prospect within the joint venture area. Following a review of QMC's earn-in claim completed during the half-year, Orion confirmed that QMC as manager of the joint venture has an 82.35% interest in the joint venture, which equates to a 70% interest in the Project. Orion owns 15% of the Project and Findex Pty Ltd owns the remaining 15%.

### Corporate

Total cash on hand as at 31 December 2011 was \$637,741. On 29 September 2011, the Company announced that it had entered into a loan agreement for up to \$1.5 million ('Facility') with Silja Investment Limited ('Silja'), the Company's major shareholder. Under the terms of the Facility, Silja has committed to convert cash drawn down under the Facility to shares, as part of a possible future capital raising subject to various conditions including shareholder approval where required by law, including the ASX listing rules, the capital raising including Silja's allocation being a minimum of \$1.5 million, the capital raising issue price of shares not being less than 1 cent per share and Silja's participation in the capital raising being an amount equivalent to Silja's proportionate shareholding in the Company (approximately 27%). Shares will be issued to Silja on the same terms as shares issued to other subscribers as part of a capital raising.

The Facility expires on 30 June 2013, and the Company would be required to repay the Facility in cash on that date to the extent the loan balance has not been converted into shares by then. Under the terms of the Facility, a capital raising fee would be payable by the Company to Silja where it subscribes for its share allocation in a capital raising. The fee is calculated by multiplying the amount subscribed for by Silja under the terms of the Facility by the percentage commission payable to a broker or underwriter as part of the capital raising. No facility fee is payable by the Company to Silja. Silja has a fixed and floating charge over the assets of the Company.

Interest will be capitalised under the Facility at a margin of 1.5% over the 90-day dealers' bill rate (re-set every 90 days). In order to draw on the Facility, the Company must meet certain conditions precedent including the continued employment of key personnel.

Under the terms of the Facility, Silja's commitment to participate in a future capital raising as outlined above is in place irrespective of whether or not the Company utilises the Facility.

During the half-year ended 31 December 2011, Orion Gold NL under the terms of the Facility, had drawn \$1.0 million of the Facility and incurred an interest expense of \$3,436.

The Group continues to focus strongly on exploration within its Walhalla Gold Project and to a lesser extent on the surrounding exploration licences. A total of \$1.5 million in exploration expenditure was incurred in the half-year ended 31 December 2011.

During the half-year ended 31 December 2011, Orion Gold NL under the terms of the converting loan agreement with Silja, incurred an interest expense of \$0.3 million and interest unwinding expense of \$0.6 million.

**EVENTS SUBSEQUENT TO BALANCE DATE**

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

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for the half-year ended 31 December 2011.

Signed in accordance with a resolution of the directors



Denis Waddell  
Executive Chairman

Dated at Melbourne this 15th day of March 2012



*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 2011 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.

  
KPMG



Alison Kitchen  
*Partner*

Melbourne

15 March 2012

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**

	Notes	31 December 2011	31 December 2010
<b>Continuing operations</b>			
Other income	4	44,851	17,039
Exploration and evaluation expenses	4	(543,085)	(637,928)
Administration expenses	4	(721,872)	(921,328)
Fair value movement in convertible note derivative	8	5,573,529	(2,830,999)
<b>Results for operating activities</b>		<u>4,353,423</u>	<u>(4,373,216)</u>
Finance income	4	30,765	110,690
Finance expense	4	(978,200)	(974,764)
<b>Net finance costs</b>		<u>(947,435)</u>	<u>(864,074)</u>
<b>Profit/(loss) before income tax</b>		3,405,988	(5,237,290)
Income tax (expense)/benefit		---	---
<b>Net Profit/(loss) from continuing operations</b>		<u>3,405,988</u>	<u>(5,237,290)</u>
<b>Profit/(loss) for the period attributed to:</b>			
Equity holders of the Company		---	---
<b>Profit/(loss) for the period</b>		<u>3,405,988</u>	<u>(5,237,290)</u>
<b>Other comprehensive income</b>			
Other comprehensive income for the period, net of income tax		---	---
<b>Total comprehensive income/(loss) for the period</b>		<u>3,405,988</u>	<u>(5,237,290)</u>
<b>Earnings per share (cents per share)</b>			
- Basic earnings per share (AUD)		0.44	(0.68)
- Diluted earnings per share (AUD)		0.24	(0.68)

The Consolidated Interim Statement of Comprehensive Income is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 12 to 19.

**CONSOLIDATED INTERIM BALANCE SHEET  
AS AT 31 DECEMBER 2011**

	Notes	31 December 2011	30 June 2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash on hand and at bank	5	637,741	1,416,263
Receivables		40,884	27,196
Inventories		18,205	1,133
Prepayments		56,256	66,510
<b>Total Current Assets</b>		<b>753,086</b>	<b>1,511,102</b>
<b>Non-current Assets</b>			
Receivables		362,652	498,967
Property, plant and equipment	7	295,525	277,795
Deferred exploration, evaluation and development	6	9,223,327	8,306,954
<b>Total Non-current Assets</b>		<b>9,881,504</b>	<b>9,083,716</b>
<b>TOTAL ASSETS</b>		<b>10,634,590</b>	<b>10,594,818</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		438,253	292,982
Provisions		47,086	49,645
<b>Total Current Liabilities</b>		<b>485,339</b>	<b>342,627</b>
<b>Non-current Liabilities</b>			
Provisions		24,141	9,454
Convertible note – derivative	8	3,804,155	9,377,684
Convertible note – liability	8	5,620,613	4,645,849
Loan	9	1,000,000	---
<b>Total Non-current Liabilities</b>		<b>10,448,909</b>	<b>14,032,987</b>
<b>TOTAL LIABILITIES</b>		<b>10,934,248</b>	<b>14,375,614</b>
<b>NET ASSETS</b>		<b>(299,658)</b>	<b>(3,780,796)</b>
<b>EQUITY</b>			
Issued capital	11	43,933,657	43,933,657
Accumulated losses		(46,942,476)	(50,348,464)
Other reserves	11	2,709,161	2,634,011
<b>TOTAL EQUITY</b>		<b>(299,658)</b>	<b>(3,780,796)</b>

The Consolidated Interim Balance sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 12 to 19.

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**

	Notes	31 December 2011	31 December 2010
<b>Cash flows from operating activities</b>			
Receipts from customers		18,062	17,039
Interest received		23,416	185,539
Income tax refund		---	---
Payments to suppliers and employees		(458,472)	(1,103,503)
Payments for exploration and evaluation		(1,459,458)	(1,785,863)
Net cash flows used in operating activities		<u>(1,876,452)</u>	<u>(2,686,788)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(73,275)	(8,708)
Restricted cash investments		136,315	(1,004)
Proceeds for sale of property, plant and equipment		34,890	---
Net cash flows from/(used) in investing activities		<u>97,930</u>	<u>(9,712)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,000,000	---
Repayment of financial lease		---	(1,020)
Net cash flows from financing activities		<u>1,000,000</u>	<u>(1,020)</u>
Net decrease in cash and cash equivalents		(778,522)	(2,697,520)
Cash and cash equivalents at beginning of period		1,416,263	5,065,765
<b>Cash and cash equivalents at end of period</b>	<b>5</b>	<b><u>637,741</u></b>	<b><u>2,368,245</u></b>

The Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 12 to 19.

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2011**

	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>

	Share capital	Share option reserve	Accumulated losses	Total equity
<b>Balance at 1 July 2011</b>	<b>43,933,657</b>	<b>2,634,011</b>	<b>(50,348,464)</b>	<b>(3,780,796)</b>
Total comprehensive income for the period	---	---	3,405,988	3,405,988
Shares issued	---	---	---	---
Transaction costs on share issue	---	---	---	---
Movement in reserves	---	75,150	---	75,150
<b>Balance at 31 December 2011</b>	<b>43,933,657</b>	<b>2,709,161</b>	<b>(46,942,476)</b>	<b>(299,658)</b>

The Consolidated Interim Statement of Changes in Equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 12 to 19.

---

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011****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 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2011 is available upon request from the Company's registered office or at [www.oriongold.com.au](http://www.oriongold.com.au).

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2011.

**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 2011.

This consolidated interim financial report was approved by the Board of Directors on 15 March 2012.

**Basis of measurement**

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 Group'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 2011.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Going concern**

The Group has a deficiency of shareholders' funds at 31 December 2011 of \$299,658.

The Group's main activity is the exploration and evaluation of the Walhalla Gold Project in Victoria and as such it does not have a source of income, rather it is reliant on debt or equity raisings to fund its activities. Secured debt facilities have already been made available to the Group at 31 December 2011 through both a convertible note (see note 8) and a loan agreement (see note 9).

Current forecasts indicate that cash on hand as at 31 December 2011 will not be sufficient to fund all planned exploration activities during the next twelve months and to maintain the Group's tenements in good standing. Accordingly, the Group will be required to raise additional equity capital, restructure the existing loan agreement for up to \$1.5 million with Silja Investment Limited, consider alternate funding instruments or a combination of the foregoing.

The financial statements for the half year ended 31 December 2011 have been prepared on a going concern basis as, in the opinion of the directors, the Group 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, having regard to the following factors:

- Given the encouraging results from recent exploration work undertaken at New Dawn combined with numerous highly prospective exploration targets located within the Group's Walhalla Gold Project, the Group is considering various funding options aimed at placing the Group in a position to undertake ongoing exploration programs.
- The Group has confirmed ongoing commitment to the Project from its major shareholder and lender, Silja Investment Limited. In addition, the Group is in discussions with other potential investors interested in contributing equity to the Group who are believed to have the ability and means to do so on a timely basis. Any restructure of existing loan arrangements and / or new equity raisings may be subject to shareholder and regulatory approvals.

The amount and timing of any additional funding requirements is the subject of ongoing review of the Company's cash flows and exploration plans. At the date of this report, in the directors' opinion there are reasonable grounds to expect that such fund raising or restructuring activities will be successful and that the Group will be able to continue as a going concern.

However, the Directors recognise that if additional funding is not raised, the going concern basis may not be appropriate with the result that the Group 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. In this case, Silja Investment Limited as the holder of a fixed and floating charge over the assets of the Group under existing funding agreements would take priority in relation to the assets of the Group. 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 2011**

**3. SEGMENT INFORMATION**

The Group 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.

**4. REVENUE, INCOME AND EXPENSES**

	31 December 2011	31 December 2010
<b>Other income</b>		
Sale of plant and equipment	26,789	---
Sundry income	18,062	17,039
<b>Total revenue</b>	<b>44,851</b>	<b>17,039</b>
<b>Exploration and evaluation expenses</b>		
Exploration and evaluation expenses	(313,501)	(297,623)
Employee expenses	(229,584)	(340,305)
<b>Total exploration and evaluation expenses</b>	<b>(543,085)</b>	<b>(637,928)</b>
<b>Administration expenses</b>		
Administration expenses	(376,548)	(383,251)
Employee expenses	(222,730)	(157,203)
Employee share based payments	(75,150)	(319,373)
Depreciation	(47,444)	(61,501)
<b>Total administration expenses</b>	<b>(721,872)</b>	<b>(921,328)</b>
<b>Net finance costs</b>		
<b>Finance income</b>		
Interest revenue	30,765	110,690
<b>Total finance income</b>	<b>30,765</b>	<b>110,690</b>
<b>Finance expense</b>		
Interest expense	(3,436)	---
Interest expense - convertible note liability	(974,764)	(974,764)
<b>Total finance expense</b>	<b>(978,200)</b>	<b>(974,764)</b>

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011**

**5. 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 2011</b>	<b>30 June 2011</b>
Cash at bank and in hand	637,741	109,532
Short term deposits	---	1,306,731
<b>Total cash and cash equivalents</b>	<b>637,741</b>	<b>1,416,263</b>

**6. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE**

	<b>31 December 2011</b>	<b>30 June 2011</b>
<b>Deferred exploration and evaluation expenditure</b>		
Opening cost	8,306,954	6,918,642
Expenditure incurred	1,459,458	2,342,859
<b>Exploration, evaluation and development</b>	<b>9,766,412</b>	<b>9,261,501</b>
Exploration expensed (a)	(543,085)	(954,547)
<b>Net carrying amount at end of period</b>	<b>9,223,327</b>	<b>8,306,954</b>

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure which can be directly attributed to operational activities in the area of interest, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred. For each area of interest the expenditure is recognised as an exploration and evaluation asset where the following conditions are satisfied:

- 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.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011**

**6. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE (Continued)**

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Topographical, geological and geophysical studies;
- Exploration drilling, trenching and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resources.

(a) During the half year ended 31 December 2011 the Group incurred exploration expenditure of \$543,085 (2010: \$637,928) which under the Group's deferred exploration, evaluation and development policy did not qualify and was expensed.

**7. PROPERTY PLANT & EQUIPMENT**

	<b>31 December 2011</b>	<b>30 June 2011</b>
<b>Property, plant &amp; equipment</b>		
Opening cost – 1 July	4,444,122	4,410,274
Accumulated depreciation	(2,283,507)	(2,160,036)
Accumulated impairment loss	(1,882,820)	(1,882,820)
<b>Net carrying amount at beginning of period</b>	<b>277,795</b>	<b>367,418</b>
Additions	73,275	33,848
Disposals	(8,101)	---
Depreciation	(47,444)	(123,471)
<b>Net carrying amount at end of period</b>	<b>295,525</b>	<b>277,795</b>

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011**

**8. CONVERTIBLE NOTE**

	<b>31 December 2011</b>	<b>30 June 2011</b>
Opening balance	9,377,684	15,216,620
Fair value movement in convertible note - derivative	(5,573,529)	(5,838,936)
Closing balance	<b>3,804,155</b>	<b>9,377,684</b>
<b>Convertible notes - liability</b>		
Opening balance	4,645,849	2,712,213
Effective interest rate expense (i)	639,695	1,311,784
Interest expense	335,069	621,852
Closing balance	<b>5,620,613</b>	<b>4,645,849</b>

(i) Effective interest rate expense includes both interest unwinding and borrowing costs.

The converting loan agreement between Silja Investment Limited and the Company dated 9 September 2008, provided for Silja Investment Limited to provide a total of up to \$6 million in funding to the Company by way of the following convertible notes:

- First tranche note - \$1,400,000;
- Second tranche note - \$1,600,000; and
- Third tranche note - \$3,000,000.

The issue of the convertible notes was subject to the satisfaction of a number of conditions precedent, including shareholder approval, which was given at a general meeting of the Company held on 25 November 2008. The first tranche note was issued on that date, and the second and third tranche notes were issued on 24 June 2009. As a result of the issue of convertible notes and in accordance with the converting loan agreement the holder of the convertible notes, Silja Investment Limited has a fixed and floating charge over the assets of the Company.

The convertible notes issued to Silja Investment Limited comprise a liability component and a conversion option in the hands of Silja investment Limited.

The liability component of the convertible notes accrues interest at 9% per annum (compounding annually) and is due to be repaid as at 31 August 2013 (if not converted earlier). The liability component balance of the convertible note will be accreted up to the face value over the life of the convertible note under the effective interest method.

The conversion option in the convertible note allows the holder to convert the outstanding principal and accrued interest balance at any point in time at a conversion rate of 1 share for the lower of:

- i) \$0.10 (i.e. the shares will have an issue price of \$0.10 each); and
- ii) The lowest price at which the Company issue any new shares prior 31 August 2013.

Prior to maturity on 31 August 2013, the holder is only able to convert the outstanding amount to shares in the Company. The holder does not have a right to demand cash to settle the outstanding amount prior to this date.

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT**  
**For the half year ended 31 December 2011****8. CONVERTIBLE NOTE (Continued)**

On 29 September 2010, the Company renegotiated the terms of the converting loan agreement which will now enable the Company at its election, to convert or redeem the remaining convertible notes at maturity. Prior to the 29 September 2010 on the third anniversary of the convertible note drawdown, the Holder held the right to convert or redeem at its election. The Company is able to offer to settle the outstanding amount in cash but the holder is unable to request repayment in cash. However, the holder is able to demand settlement in shares at that point in time.

The aggregate amount of the convertible note liability at 31 December 2011 is \$9,424,768 (30 June 2011: \$14,023,533).

**9. LOAN**

On 29 September 2011, the Company announced that it had entered into a loan agreement for up to \$1.5 million ('Facility') with Silja Investment Limited ('Silja'), the Company's major shareholder. Under the terms of the Facility, Silja has committed to convert cash drawn down under the Facility to shares, as part of a possible future capital raising subject to various conditions including shareholder approval where required by law, including the ASX listing rules, the capital raising including Silja's allocation being a minimum of \$1.5 million, the capital raising issue price of shares not being less than 1 cent per share and Silja's participation in the capital raising being an amount equivalent to Silja's proportionate shareholding in the Company (approximately 27%). Shares will be issued to Silja on the same terms as shares issued to other subscribers as part of a capital raising.

The Facility expires on 30 June 2013, and the Company would be required to repay the Facility in cash on that date to the extent the loan balance has not been converted into shares by then. Under the terms of the Facility, a capital raising fee would be payable by the Company to Silja where it subscribes for its share allocation in a capital raising. The fee is calculated by multiplying the amount subscribed for by Silja under the terms of the Facility by the percentage commission payable to a broker or underwriter as part of the capital raising. No facility fee is payable by the Company to Silja. Silja has a fixed and floating charge over the assets of the Company.

Interest will be capitalised under the Facility at a margin of 1.5% over the 90-day dealers' bill rate (re-set every 90 days). In order to draw on the Facility, the Company must meet certain conditions precedent including the continued employment of key personnel.

Under the terms of the Facility, Silja's commitment to participate in a future capital raising as outlined above is in place irrespective of whether or not the Company utilises the Facility.

During the half-year ended 31 December 2011, Orion Gold NL under the terms of the Facility, had drawn \$1,000,000 of the Facility and incurred an interest expense of \$3,436.

**10. 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 2011**

**11. 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 2011	764,960,097		43,931,306
Issue of ordinary fully paid shares	---	---	---
Less: Issue costs	---	---	---
<b>Closing balance at 30 June 2011</b>	<b>764,960,097</b>		<b>43,931,306</b>
Opening balance at 1 July 2011	764,960,097		43,931,306
Issue of ordinary fully paid shares	---	---	---
Less: Issue costs	---	---	---
<b>Closing balance at 31 December 2011</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 2011	2,351,000		2,351
<b>Closing balance at 30 June 2011</b>	<b>2,351,000</b>		<b>2,351</b>
Opening balance at 1 July 2011	2,351,000		2,351
<b>Closing balance at 31 December 2011</b>	<b>2,351,000</b>		<b>2,351</b>
<b>Total Issued Capital</b>	<b>767,311,097</b>		<b>43,933,657</b>

**Reserves**

	\$
<b>Share Option Reserve</b>	
Opening balance at 1 July 2010	2,170,568
Share based payments	319,373
<b>Closing balance at 31 December 2010</b>	<b>2,489,941</b>
Share based payments	144,070
<b>Closing balance at 30 June 2011</b>	<b>2,634,011</b>
Share based payments	75,150
<b>Closing balance at 31 December 2011</b>	<b>2,709,161</b>

**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 8 to 19, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the Group as at 31 December 2011 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 15th day of March 2012.



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

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

We have reviewed the accompanying interim financial report of Orion Gold NL, which comprises the consolidated interim balance sheet as at 31 December 2011, consolidated interim statement of comprehensive income and consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the interim period ended on that date, Notes 1 to 11 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 interim period.

#### *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 internal 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 2011 and its performance for the interim period 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, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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 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 2011 and of its performance for the interim period 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 modification to the conclusion reached above, we draw attention to Note 2, which indicates that the Group is reliant upon the results of its exploration program, raising additional equity and / or restructuring its existing loans and / or obtaining alternate funding instruments to enable it to continue with its operations. Because of this and matters referred to in Note 2, 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 it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

  
KPMG



Alison Kitchen  
*Partner*

Melbourne

15 March 2012