



**EUROGOLD LIMITED**

**ABN 58 009 070 384**

**HALF YEAR REPORT**

**31 DECEMBER 2005**

## DIRECTORS REPORT

Your directors submit their report for the half-year ended 31 December 2005.

### DIRECTORS

The names and details of the directors of the company in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Peter Gunzburg	(Executive Chairman)
Brett Montgomery	(Non Executive Director)
Dennis Franks	(Non Executive Director)
Christopher Barker	(Executive Director) (Non Executive as of 1 January 2006)
Neil MacLachlan	(Non Executive Director)

### REVIEW AND RESULTS OF OPERATIONS

#### Corporate

- On 29 July 2005 the Company announced that it had agreed, subject to due diligence and shareholder approval, to sell its gold assets in Romania and Ukraine to Oxus Gold Plc, a UK gold mining group with existing gold production with exploration assets in Central Asia.
- On 26 October 2005 the Company announced that it had been advised by Oxus Gold Plc that it did not wish to proceed with the acquisition of the Company's assets.
- An Independent valuation of the Companies assets prepared by RSG Global that was prepared as part of the process of sale for the proposed Oxus transaction determined a "preferred value" of US\$26.1 million for those assets.
- Successful capital raising in December of A\$3.1 million through the issue of 32,000,000 shares.
- Following the extreme weather conditions experienced in Romania in January 2006 the balance of the loans due from Transgold totalling A\$3.8 million have been provided for in full.

#### Ukraine

- Exploration and feasibility work continued at the Saulyak Gold project in the Ukraine, where based on over 30km of drilling and 9km of underground development, Soviet "C1" and "C2" category resources of 578,000 ounces of gold (2.1 million tonnes at 8.4 g/t with a 1.5 g/t cut-off) were previously defined.
- A 550m diamond drill hole from surface intercepted mineralisation (3m at 6.75 g/t, including 1m @ 14.1 g/t) indicating continuation of the resource at grades similar to the present resource. On the basis of this result further surface drilling targets were generated to confirm the along strike and down dip continuity of the orebody, for possible drilling after the end of the Ukraine winter.
- During the December quarter the Company successfully completed a step out hole from surface which again supports the Company's belief that the ore body is continuous along strike and down dip.

## **DIRECTORS REPORT (cont)**

### **Romania**

- A total of 147,399 tonnes of material was treated in the plant during the half year.
- The Company repaid US\$600,000 as per its loan agreement schedule with UniCredit S.A.

### **Significant Events After Balance Date**

- Effective 1 January 2006 Mr Charlie Karelse was appointed to the position of Ukraine Operations Manager and Mr Brian Wilson to the position of Romanian Operations Manager. As a consequence Mr Christopher Barker ceased his role as Chief Operating Officer but retains his position on the board as a non-executive director.
- On 8 February 2006 the Company announced that due to extreme cold weather causing the pipes to freeze at Transgold's CIL plant, the Company had made the decision to shutdown the plant. Furthermore, due to damage to some pipe sections and welds caused by the freezing, the entire pipeline was dismantled and transported to the tailings dam for drainage and storage.

## **Auditor's Independence Declaration**

Section 307C of the Corporations Act 2001 requires the consolidated entity's auditors, Ernst & Young, to provide the directors with a written Independence Declaration in relation to their review of the financial report for the period ended 31 December 2005. The written Auditor's Independence Declaration is attached to the Auditor's Independent Review Report to the members and forms part of this Director's Report.

Signed in accordance with a resolution of the Directors.

**P GUNBURG**  
Chairman

Perth, 16 March 2006

**CONDENSED INCOME STATEMENT**  
**For the half year ended 31 December 2005**

	Note	CONSOLIDATED	
		For the half year ended 31 December 2005	For the half year ended 31 December 2004
<b>Continuing Operations</b>			
Revenue	2	192,216	513,664
Employee benefits expense		(438,824)	(348,020)
Depreciation expense		(126,901)	(33,985)
Consultants Fees		(312,234)	(170,536)
Write off exploration expenditure		-	(5,043)
Exchange gain/(loss)		395,810	(342,984)
Impairment of loans to associated companies		(3,821,669)	-
Administration and other expenses		(937,267)	(483,920)
<b>LOSS BEFORE INCOME TAX EXPENSE</b>		<b>(5,048,869)</b>	<b>(870,824)</b>
<b>INCOME TAX EXPENSE</b>		<b>-</b>	<b>(25,403)</b>
<b>NET LOSS FOR THE PERIOD</b>		<b>(5,048,869)</b>	<b>(896,227)</b>
<b>NET LOSS ATTRIBUTABLE TO MINORITY INTEREST</b>		<b>1,131</b>	<b>23,898</b>
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF EUROGOLD LIMITED</b>		<b>(5,047,738)</b>	<b>(872,329)</b>
Basic loss per share (cents per share)		(2.03)	(0.60)
Diluted loss per share (cents per share)		(2.03)	(0.60)

## CONDENSED BALANCE SHEET

### As at 31 December 2005

	CONSOLIDATED	
	As at 31 December 2005	As at 30 June 2005
<b>Current Assets</b>		
Cash and cash equivalents	2,476,727	2,853,463
Trade and other receivables	155,522	237,834
Other financial assets	2,635	2,635
Other	161,954	125,545
<b>Total Current Assets</b>	<b>2,796,838</b>	<b>3,219,477</b>
<b>Non-Current Assets</b>		
Trade and other receivables	860,437	4,260,483
Other financial assets	349,721	349,721
Plant and equipment	449,502	434,009
Deferred exploration, evaluation & development	12,067,409	10,100,993
<b>Total Non-Current Assets</b>	<b>13,727,069</b>	<b>15,145,206</b>
<b>TOTAL ASSETS</b>	<b>16,523,907</b>	<b>18,364,683</b>
<b>Current Liabilities</b>		
Trade and other payables	243,388	501,230
Provisions	72,626	55,401
<b>Total Current Liabilities</b>	<b>316,014</b>	<b>556,631</b>
<b>TOTAL LIABILITIES</b>	<b>316,014</b>	<b>556,631</b>
<b>NET ASSETS</b>	<b>16,207,893</b>	<b>17,808,052</b>
<b>EQUITY</b>		
<b><i>Parent Entity Interest</i></b>		
Issued capital	39,366,815	36,214,112
Reserves	1,229,963	929,042
Accumulated losses	(24,393,668)	(19,345,930)
<b>Total parent entity interest in equity</b>	<b>16,203,110</b>	<b>17,797,224</b>
Minority interest	4,783	10,828
<b>TOTAL EQUITY</b>	<b>16,207,893</b>	<b>17,808,052</b>

**CONDENSED CASH FLOW STATEMENT**  
**For the half year ended 31 December 2005**

	<b>CONSOLIDATED</b>	
	<b>For the half year ended 31 December 2005</b>	<b>For the half year ended 31 December 2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	238,789	133,022
Payments to suppliers and employees	(2,067,639)	(1,419,090)
Interest received	29,324	68,968
Expenditure on mining interests	(1,358,453)	(1,274,186)
Other	-	2,888
	<b>(3,157,979)</b>	<b>(2,488,398)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(143,972)	-
Purchase of controlled entity	-	(1,024,065)
Proceeds from sale of investments	-	11,265
	<b>(143,972)</b>	<b>(1,012,800)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances to related parties	(236,509)	(730,648)
Proceeds from issue of ordinary shares	3,197,645	6,127,680
Payment of share issue costs	(44,942)	(585,882)
	<b>2,916,194</b>	<b>4,811,150</b>
NET INCREASE/(DECREASE) IN CASH HELD	(385,757)	1,309,952
Cash & cash equivalents at beginning of period	2,853,463	358,946
Effects of exchange rate changes on cash	9,021	(20,022)
<b>CASH &amp; CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,476,727</b>	<b>1,648,876</b>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

### For the half year ended 31 December 2005

	Attributable to Equity Holders of the Parent				Total	Minority Interest	Total Equity
	Issued Capital	Foreign Currency Translation Reserve	Accumulated Losses	Discount on Minority Interest Reserve			
Balance at beginning of period	36,214,112	(514,034)	(19,345,930)	1,443,076	<b>17,797,224</b>	10,828	<b>17,808,052</b>
Issues of Share Capital	3,197,645	-	-	-	<b>3,197,645</b>	-	<b>3,197,645</b>
Capital Raising Costs	(44,942)	-	-	-	<b>(44,942)</b>	-	<b>(44,942)</b>
Currency Translation Difference	-	59,948	-	240,973	<b>300,921</b>	-	<b>300,921</b>
Loss for Period	-	-	(5,047,738)	-	<b>(5,047,738)</b>	(1,131)	<b>(5,048,869)</b>
Movement in Minority Interest	-	-	-	-	-	(4,914)	<b>(4,914)</b>
<b>Balance at End of Period</b>	<b>39,366,815</b>	<b>(454,086)</b>	<b>(24,393,668)</b>	<b>1,684,049</b>	<b>16,203,110</b>	<b>4,783</b>	<b>16,207,893</b>

### For the half year ended 31 December 2004

	Attributable to Equity Holders of the Parent				Minority Interest	Total Equity
	Issued	Foreign Currency Translation Reserve	Accumulated Losses	Total		
Balance at beginning of period	18,986,341	-	(16,395,858)	<b>2,590,483</b>	11,491	<b>2,601,974</b>
Issues of Share Capital	10,654,550	-	-	<b>10,654,550</b>	-	<b>10,654,550</b>
Capital Raising Costs	(585,882)	-	-	<b>(585,882)</b>	-	<b>(585,882)</b>
Currency Translation Difference	-	(1,446,096)	-	<b>(1,446,096)</b>	-	<b>(1,446,096)</b>
Loss for Period	-	-	(872,329)	<b>(872,329)</b>	(23,898)	<b>(896,227)</b>
Movement in Minority Interest	-	-	-	-	2,023,543	<b>2,023,543</b>
<b>Balance at End of Period</b>	<b>29,055,009</b>	<b>(1,446,096)</b>	<b>(17,268,187)</b>	<b>10,340,726</b>	<b>2,011,136</b>	<b>12,351,862</b>

## 1. Basis of Preparation of the Half Year Financial Report

The half-year consolidated financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Eurogold Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 July 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Eurogold Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Stock Exchange Listing Rules.

### (a) **Basis of Accounting**

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

### (b) **Statement of Compliance**

The half-year financial report complies with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement". From 1 July 2005, the Group elected to take the exemption under AASB 1 "First-Time Adoption of Australian Equivalents to International Reporting Standards" to apply AASB 132 "Financial Instruments: Disclosure and Presentation and AASB 139 "Financial Instruments: Recognition and Measurement" only from 1 July 2005. A summary of the significant accounting policies of the Group under AIFRS are disclosed below. For information on previous accounting policies, refer to the 2005 annual financial report under previous AGAAP.

Reconciliations of :

- AIFRS equity as at 1 July 2004, 31 December 2005 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2005 and the full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note (e) below.

### (c) **Statement of Significant Accounting Policies**

#### (i) **Basis of Consolidation**

The consolidated financial statements included the financial statements of the parent entity Eurogold Limited, and its controlled entities, referred to collectively throughout these financial statements as the "consolidated entity" or "the group".

## **Basis of Preparation of the Half Year Financial Report (cont)**

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are, for consolidated purposes, adjusted where necessary to comply with group policy and AIFRS. Adjustments are also made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

Minority interests represent interests in Saulyak Limited Liability Company ("SLLC") and SC Explorer S.A. not held by the Group.

### *(ii) Investment in associates*

The Group's investment in associates is accounted for under the equity method of accounting in the consolidated financial statements.

The financial statements of associates are used by the Group to apply the equity method of accounting.

Investments in associates are carried at cost plus post acquisition changes in the Group's share of net assets of associates, less any impairment of value.

In the year ended June 2002, the directors assessed that the investment in Transgold had no recoverable amount due to the potential liability to Transgold that may arise due to litigation resulting from the accidental overflow of treatment water from the tailings dam spillage in January 2000.

At this time therefore the equity method of accounting was suspended following the writedown of the investment to nil.

### *(iii) Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Rendering of Services*

Revenue is recognised when the services have been rendered in accordance with the terms and conditions of the contract.

#### *Interest*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset) to the net carrying amount of the financial asset.

## Basis of Preparation of the Half Year Financial Report (cont)

### (iv) *Borrowing costs*

Borrowing costs are recognised as an expense in the period they are incurred, or where the borrowing costs incurred are directly associated with the construction, purchase or acquisition of a qualifying asset, the borrowing costs are capitalised as part of the cost of the asset.

### (v) *Income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

## Basis of Preparation of the Half Year Financial Report (cont)

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

### (vi) Goods and services tax

Revenues, expenses and assets (other than receivables) are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (vii) Plant and equipment

#### Cost

Plant and equipment are stated at cost less any accumulated depreciation and any impairment losses.

The cost of an item of plant and equipment comprises:

- its purchase price, including import duties and non refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

#### Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment other than land. Major depreciation periods are:

	<u>Life</u>	<u>Method</u>
Mining plant & equipment	3 – 5 years	straight line
Other plant & equipment	3 – 5 years	straight line

#### Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

## Basis of Preparation of the Half Year Financial Report (cont)

### *Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

### *(viii) Recoverable amount of assets*

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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 assessment of the time value of money and the risks specific to the asset.

### *(ix) Trade and other receivables*

Receivables, usually due within 30 – 90 days, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### *(x) Inventories*

Inventories comprising spare parts and materials consumed in exploration, evaluation and development activities are 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 the estimated cost of completion on the estimated cost necessary to make the sale.

Cost includes expenditure incurred in acquiring and bringing the inventories to their existing location and condition.

### *(xi) Investments*

#### *Accounting policy for the period ended 31 December 2005*

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held for trading and available for sale, are measured at fair value. Gains and losses on investments held for trading are recognised in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

#### *Accounting policy for the year ended 30 June 2005*

For further information on previous AGAAP refer to the Annual Report for the year ended 30 June 2005.

## Basis of Preparation of the Half Year Financial Report (cont)

### (xii) *Leased assets*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the specific asset or assets and the arrangement conveys a right to use the asset.

#### *Finance Leases*

Finance leases, which transfer to the consolidated entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

#### *Operating Leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are expensed in the income statement on a straight-line basis over the term of the lease.

### (xiii) *Exploration and evaluation*

Exploration and evaluation costs are only carried forward in respect of areas of interest for which the rights of tenure are current and where:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- activities in the area have not yet reached a stage 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 are continuing.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation that area of interest. Should the carrying value of expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

#### *Impairment*

The carrying values of exploration and evaluation costs are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of exploration and evaluation costs is the greater of fair value less costs to sell and value in use.

## **Basis of Preparation of the Half Year Financial Report (cont)**

### *(xiv) Provision for Restoration*

The consolidated entity records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the income statement. The carrying amount capitalised is depreciated over the life of the related cost.

### *(xv) Trade and other payables*

#### *Accounting policy for the period ended 31 December 2005*

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

Payables to related parties are carried at amortised cost.

Interest, when charged by the lender, is recognised as an expense on an accruals basis.

#### *Accounting policy for the year ended 30 June 2005*

For further information on previous AGAAP refer to the Annual Report for the year ended 30 June 2005.

### *(xvi) Foreign currency translation*

Both the functional and presentation currency of Eurogold Limited is Australian dollars (A\$).

The functional currency of all the overseas subsidiaries is United States dollars (US\$). As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Eurogold Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rate for the period.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the original transaction.

Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## Basis of Preparation of the Half Year Financial Report (cont)

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

### *(xvii) Employee benefits*

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave, and include related on-costs such as superannuation, payroll tax and workers compensation insurance.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates expected to be paid when the liability is settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to national government bonds that have terms to maturity approximating the terms of the related liability are used.

Employee benefits expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profit on a net basis in their respective categories.

### *(xviii) Provisions*

A provision is recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### *(xix) Cash and cash equivalents*

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

## **Basis of Preparation of the Half Year Financial Report (cont)**

### *(xx) Issued Capital*

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

### *(xxi) Earnings Per Share*

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the Company for the reporting period, after excluding any costs of servicing equity (other than dividends on ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares of the Company adjusted for any bonus issue.

## **(d) AASB 1 Transitional Exemptions**

The rules for first time adoption of AIFRS are set out in AASB 1 "First-Time Adoption of Australian Equivalents to International Financial Reporting Standards". In general, a company is required to determine its AIFRS accounting policies and apply these retrospectively to determine its opening balance sheet at 1 July 2004 (Transitional Balance Sheet date), under AIFRS. The standard allows a number of exemptions to this general principle to assist companies as they transition to reporting under AIFRS.

Eurogold Limited has made its election in relation to the transitional exemptions allowed by AASB 1 "First time adoption of Australian Equivalents to International Financial Reporting Standards" as follows:

### *Share Based Payments*

Under AASB 2 "Share-based Payments" is applied only to equity instruments granted after 7 November 2002 and had not vested on or before 1 January 2005.

### *Exemption from the requirements to restate comparative information for AASB 132 and 139*

The group has elected to adopt the exemption not to restate comparatives for AASB 132 "Financial Instruments: Presentation and Disclosure" and AASB 139 "Financial Instruments Recognition and Measurement".

## **(e) Impact of Adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 July 2005 ('AGAAP') are illustrated below.

**Basis of Preparation of the Half Year Financial Report (cont)**

<i>(i) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)</i>	<b>30 June 2005</b>	<b>31 Dec 2004</b>	<b>1 July 2004</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Total Equity under AGAAP</b>	<b>16,882,839</b>	<b>13,615,070</b>	<b>2,781,657</b>
<i>Adjustments to retained earnings</i>			
Adjustment on raising foreign exchange translation reserve (a)	80,106	182,888	(95,748)
Write off foreign exchange translation reserve on transition (a)	83,935	83,935	83,935
<i>Adjustments to reserves</i>			
Transfer from retained earnings to foreign exchange translation reserve (a)	(1,166,029)	(1,446,096)	(83,935)
Write off foreign exchange translation reserve on transition (a)	(83,935)	(83,935)	(83,935)
Recognition of discount on acquisition of minority interest reserve (b)	2,011,136	-	-
<b>Total Equity under AIFRS</b>	<b>17,808,052</b>	<b>12,351,862</b>	<b>2,601,974</b>

<i>(ii) Reconciliation of profit reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)</i>	<b>30 June 2005</b>	<b>31 Dec 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Loss after income tax expense (before minority interests) as previously reported</b>	<b>(3,125,926)</b>	<b>(1,234,900)</b>
Reversal of foreign exchange gain/loss (a)	(67,372)	362,571
<b>Loss after tax under AIFRS</b>	<b>(3,193,298)</b>	<b>(872,329)</b>

**Notes to the reconciliations**

(a) Under AASB 121 *The Effects of Changes in Foreign Exchange Rates* there is no distinction between "integrated foreign operations" and "self-sustaining foreign operations" with all transition differences being accounted for through the foreign exchange translation reserve. The Company previously treated its overseas subsidiaries as integrated foreign operations with translation differences being accounted for in the consolidated income statement. As a result of the adoption of AASB 121 these movements are now accounted for through the Foreign Exchange Translation Reserve.

Under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*, the cumulative translation differences for all foreign operations are deemed to be zero and are netted off against opening retained earnings. Any subsequent transition (1 July 2004) movements are due to foreign currency movements adjusted on AIFRS assets and liabilities.

(b) The Company has adopted the equity concept method under AASB 3 "Business Combinations" in relation to the acquisition of the additional 25.04% in Saulyak Limited Liability Company and recognised the discount on acquisition of the minority interest in reserves.

**Basis of Preparation of the Half Year Financial Report (cont)****2. LOSS FROM ORDINARY ACTIVITIES**

	<b>CONSOLIDATED</b>	
	<b>31 December 2005</b>	<b>31 December 2004</b>
Loss from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
<b>Revenues</b>		
Revenues from services	162,892	471,413
Interest income	29,324	42,251
	<b>192,216</b>	<b>513,664</b>

**3. CONTINGENT ASSETS AND LIABILITIES**

Since the last annual reporting date, there has been no change in any contingent liabilities or contingent assets.

**4. SEGMENT INFORMATION****Primary Segment – Geographical Segments**

Eurogold Limited has the following geographical segments:

*Ukraine*

Ukraine is the location of the economic entity's main exploration activities, which comprise interests in the Saulyak Gold Mine project and a smaller interest in the Beregove Mine.

*Romania*

Romania is the location where the economic entities main production operations via its interest in Transgold are based.

*Cyprus*

Cyprus is the location of the mining services company that provides various services to the Eastern European operations of the Eurogold group.

*Australia*

Australia is the location of the central management and control of Eurogold, including where company secretarial services, accounting and cash management operations are performed.

**Basis of Preparation of the Half Year Financial Report (cont)****Primary Reporting – Geographical Segments  
2005**

	\$ Ukraine	\$ Romania	\$ Australia	\$ Eliminations	\$ Consolidated
Revenues from ordinary activities	-	162,982	29,234	-	192,216
Segment result (loss)	(598,534)	(3,875,078)	(542,686)	(32,571)	(5,048,869)
Segment assets	10,522,319	58,876	2,574,814	-	16,523,907
Segment liabilities	131,383	15,557	169,074	-	316,014
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	1,530,778	78,141	3,675	-	1,612,594
Depreciation and amortisation	103,324	22,215	1,362	-	126,901
Other non-cash expenses	4,667	-	3,421,192	-	3,425,859

**Primary Reporting – Geographical Segments  
2004**

	\$ Ukraine	\$ Romania	\$ Australia	\$ Cyprus	\$ Eliminations	\$ Consolidated
Revenues from ordinary activities	131	160,203	30,946	568,929	(246,545)	513,664
Segment result (loss)	101,900	(72,633)	(904,883)	(15,151)	(5,460)	(896,227)
Segment assets	6,487,120	1,139,779	7,389,025	568,934	(1,775,606)	13,809,252
Segment liabilities	(2,938,682)	(827,710)	(478,714)	(596,635)	4,073,654	(768,087)
Acquisition of plant & equipment, exploration & evaluation and other non-current assets	1,392,211	107,791	8,838,597	-	-	10,338,599
Depreciation and amortisation	(10,977)	(21,370)	(1,638)	-	-	(33,985)
Other non-cash expenses	96,522	(174,381)	(313,618)	2,619	114,072	(274,786)

**5. SUBSEQUENT EVENTS**

- Effective 1 January 2006 Mr Charlie Karelse was appointed to the position of Ukraine Operations Manager and Mr Brian Wilson to the position of Romanian Operations Manager. As a consequence Mr Christopher Barker ceased his role as Chief Operating Officer but retains his position on the board as a non-executive director.
- On 8 February 2006 the Company announced that due to extreme cold weather causing the pipes to freeze at Transgold's CIL plant, the Company had made the decision to shutdown the plant. Furthermore, due to damage to some pipe sections and welds caused by the freezing, the entire pipeline was dismantled and transported to the tailings dam for drainage and storage.

**6. ISSUED CAPITAL**

	Number of Shares	AUD\$
Issued capital at 30 June 2005	247,679,494	36,214,112
Allotted and issued on 29 December 2005 for cash at £0.0425 per share	5,570,714	554,717
Allotted and issued on 29 December 2005 for cash at \$0.10 per share	26,429,286	2,642,928
Share issue costs	-	(44,942)
Total at 31 December 2005 (fully diluted)	<b>279,679,494</b>	<b>39,366,815</b>

**7. EXPLORATION AND DEVELOPMENT COMMITMENTS – SAULYAK PROJECT**

During the financial year ended 30 June 2005 Eurogold Limited acquired 99.72% of the Saulyak Limited Liability Company ("SLLC"). SLLC holds various licences issued by the State Committee on Natural Resources of Ukraine to carry out exploration and exploration/commercial development of the Saulyak Gold Deposit.

SLLC has also entered into an Investment Agreement with Zakarpatskia Oblast State Administration in relation to the Saulyak Gold Project.

Under the licences and the first stage of the Investment Agreement which expires on 31 December 2006, SLLC has agreed to carry out certain exploration activities and meet various expenditure commitments in relation to carrying out geological exploration works and the calculation and approval of explored resources.

The terms of the Investment Agreement may be changed by mutual agreement between the parties.

SLLC is currently in discussions with the various Ukrainian authorities that administer its licences and the Investment Agreement in relation to the work commitments or contractual obligations that have to be carried out to satisfy the obligations under the licenses and Investment Agreement and for them to remain in good standing.

A failure to carry out the required work commitments or contractual obligations under the licences or Investment Agreement may result in SLLC being in breach of its obligations and render the licences or Investment Agreement liable to be cancelled.

The Company's ability to meet its work commitments in relation to the Saulyak Gold Project depends on its available cash resources, and should they be insufficient, its ability to raise additional funding in the financial markets (either debt or equity).

The Directors believe, based on discussions with the Company's financial advisors, that, should it be necessary, adequate funding should be able to be obtained.

In accordance with a resolution of the directors of Eurogold Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" 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.

On behalf of the Board

**P GUNZBURG**  
Chairman

Perth, 16 March 2006

## Independent review report to members of Eurogold Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Eurogold Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

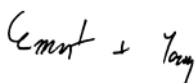
### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Eurogold Limited and the entities it controlled during the half year is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



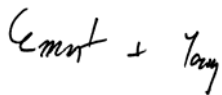
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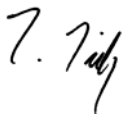
V W Tidy  
Partner  
Perth  
16 March 2006

## **Auditor's Independence Declaration to the Directors of Eurogold Limited**

In relation to our review of the financial report of Eurogold Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy  
Partner  
Perth  
16 March 2006