

Australian Mines Limited

ABN 68 073 914 191



ANNUAL REPORT 2005

## CORPORATE DIRECTORY



Keith S Liddell



Neil Warburton



Mick Elias



Brett Young

### Directors

Keith S Liddell	Non-executive - Chairman
Neil Warburton	Non-executive Director
Mick Elias	Non-executive Director

### Chief Operating Officer/ Company Secretary

Brett Young

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## CHAIRMAN'S LETTER

### Dear Shareholder

It has been another significant year for the Company with the shift from contractor to owner mining occurring mid year. The management team introduced cost efficiencies and mining strategies that resulted in record mine production in the June quarter 2005.

The Company has flagged a renewed focus on exploration with significant exploration upside in both nickel and gold on the Blair project tenements, 35 kms south east of Kalgoorlie. The Blair nickel mine now provides your Company with an opportunity for continued cash flow and success in an exploration drive over the next 12 months.

Our achievements through the year include:

- Blair mine produced 52,297 tonnes at 2.98% for 1,561 Ni tonnes.
- Blair mine sulphide nickel Resource increased to 80,645 tonnes at 4.83% for 3,897 Ni tonnes as at 30 June 2005.
- Board approval to recommence capital decline development in May 2005 to access Ore Reserves in Blair Deepes.
- Record quarter production from Blair Mine in June Quarter 2005.
- New Inferred Nickel oxide Resource of 1.65m tonnes at 0.63% containing 10,441 Ni tonnes identified on exploration tenements. Preliminary metallurgical studies on extraction techniques under way.

The safety of all employees, whether Company or contractors, is an integral part of the Company's management plan. Our aim is to provide a safe and secure working environmental for all. The Company recorded one lost time injury during the year.

Total revenue generated for the year from the sale of nickel ore was \$18.2 million generating an operating profit before depreciation, amortisation, interest and tax of \$2.4 million. The net loss for the year was \$7.5 million, which included a write off of \$1.2 million in exploration expenditure, \$5.3 million in amortisation and depreciation of mine assets and \$3.4 million write down in mine acquisition costs. Cash and receivables at 30 June 2005 was approximately \$0.9 million and \$3.1 million respectively.

In March 2005 the Company sustained a significant fall in production against forecast and the Company suspended work on any further decline development. After a strategic review the Company implemented cost efficiencies, reviewed the mine plans and designed a new partly "in ore" decline. Blair implemented this new mining strategy to stabilise nickel production in the June quarter and, on this improved basis, recommenced capital development with the "in ore" decline in June 2005.

Your Company has now improved its position and should capitalise on the cash flow generated from our operating nickel mine.

In line with this strategy, we are currently drilling to extend the mine life and exploring the significant tenement position surrounding the Blair mine site with the support of BHP Billiton's Geoferret technology.

In the new financial year, production from Blair is forecast to exceed 2,000 tonnes of contained nickel metal at cash costs similar to those achieved this year (A\$8.03 per nickel pound payable).

The Company completed an entitlements issue, post 30 June 2005, that has raised \$2.8 million and a significant proportion of these funds will be expended on the exploration targets that have been identified from our exploration to date.

We welcome new board member Mick Elias as a Non-executive Director to the Board and also thank past board members Tony Fairweather and Barry Cahill for their contribution to the Company. Also we would like to thank our dedicated team including management, staff and contractors for their efforts at the Blair nickel mine.

I must also thank our shareholders for your continued support in this challenging year. We look forward to improving on the past year and achieving production and exploration success in this financial year.

Yours sincerely



Keith S. Liddell  
Chairman

# HIGHLIGHTS FOR THE YEAR

## Production

- Full year production 1,561 contained Ni Tonnes with cash costs at \$8.03 per lb Ni payable.
- In the June 2005 quarter, the consolidated entity produced a record quarter of 474 tonnes of nickel at an average cash cost of A\$6.92 per lb of Ni payable.
- The mining contractor was replaced in January/February 2005 and the operation changed over to owner mining with a replacement workforce and leased equipment.
- In ore decline commenced in late June to mine at Blair Deepes with access to the 470, 457, 437 and 417m RL levels.

## Exploration

- In August 2004, the company announced significant nickel intersections at Blair. Diamond drilling of the 03 and 01 Surface below the existing bottom level of mining intersected nickel mineralisation over a depth of more than 80 meters (limit of drilling). This was significant in extending the reserves and resources of Stage 2 (Blair Deepes).
- Area 57 nickel reserve extensions were also generated outside of the original resource on the 1042 m RL in September 2004.
- The company updated resource and reserve effective as at 30 June 2005, confirming that mining would continue past 2006 and also the Blair mine resource remains open at depth both for the main 03 and 01 Surfaces and Area 57. The reserve tonnes are 49,346 tonnes @ 3.32% Ni for a total of 1,637 nickel tonnes from a total resource of 80,645 tonnes @ 4.83% Ni for a total of 3,897 nickel tonnes.
- In October 2004, the company completed a successful drilling campaign on Anomaly 11 which is located 5km south of Blair. Several new nickel intercepts including 10m @1.04%, 11m @1.18% and 9m @ 0.88% at Anomaly 11 were returned and identified a new nickel discovery near Blair mine site.



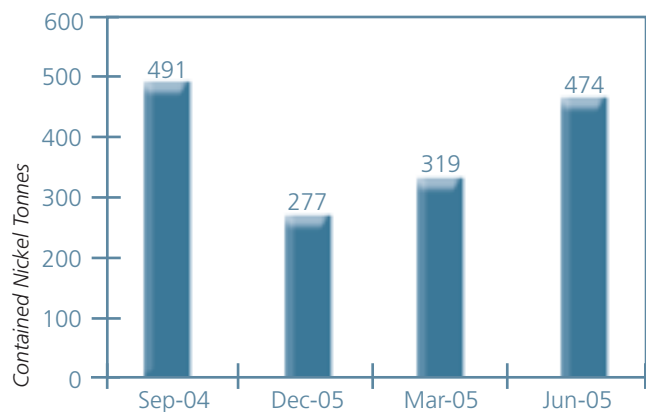
- Further results in October from RC drilling were successful at 18 Footer where several high grade intercepts of gold were encountered. Also encouraging, gold soil anomalies generated from auger sampling programmes at Goldstar and Saturno.
- The company completed the acquisition of E26/64 Duplex Hill South from Niagara Mining Limited by issuing 250,000 restricted shares on 28th October 2004 at 15 cents.
- In December the company received results from RAB drilling at Duplex Hill that included intervals of highly anomalous nickel and copper. Further results showed Platinum group elements (PGE) at Anomaly 11. Further EM fieldwork and RC drilling was planned for Anomaly 11 to test the targets generated.

## HIGHLIGHTS FOR THE YEAR

- Gold exploration in December identified new anomalies in soil samples at Commando and Fireblade. RAB Drilling was planned for March quarter 2005 to test these areas.
- Further to the December half, drill results in January at Anomaly 11 reconfirmed that the company had discovered a prospective new nickel deposit with potential for a higher grade core of mineralisation within a large low grade nickel resource.
- The results of a detailed surface fixed loop EM program at Area 57 and Anomaly 11 were released with promising results. The Area 57 survey identified conductors vertically above Area 57 and extending south 200m.
- Outstanding gold intersections were announced in March at Duplex Hill South of 26m @ 4.99g/t Au including 5m @ 12.74 g/tn Au and 1m @ 25.48 g/tn Au.
- Results of the January drilling at Blair South indicated high prospectivity for accumulation of nickel sulphides.

### Corporate

- The Company held a general meeting on 24th June 2005 and approved a 2 for 1 non-renounceable entitlements issue at 1 cent per share to raise \$2.8m for the purposes of exploration in the Blair region. As a result there were 289,852,264 new shares issued in July 2005 and the funds were banked in July and August 2005.
- Part of the fund raising, being \$500,000 was used to settle a debt of \$1.2m owing to the previous mining contractor. The balance of the debt was settled by issuing 17.5m shares and payment of \$320,000 cash.



Blair Mine - Quarterly Production



## REVIEW OF OPERATIONS

The company continued its focus on mining of nickel ore at the Blair Nickel Mine and exploration for nickel and gold in the surrounding tenements located near Kalgoorlie in Western Australia.

### Safety

It is an integral aim of this company to have an accident free workplace and to conduct our operations in such a manner as to have no injuries to any personnel, whether employee or contractor, in any part of our organisation. We have this year had one lost time injury.

### Production

Blair Mine is an underground nickel mine. Operations were commenced in 1989 by WMC to mine a North-South trending ore surface called the Ø1 Surface. Subsequent exploration and development led to the discovery of a continuation of the ore surface in an East-West direction called the Ø3 Surface. WMC continued mining through to 1999 when they sold the mine to Macmahon Contractors who mined it until 2001. The mine was placed on care and maintenance until it was subsequently purchased and re-opened by your company in November 2003.

The initial schedule to re-open the mine was aimed at mining an ore body called Area 57 located some 200 metres south-west of the old Blair mine workings and striking north-west for about 70 metres with a southerly plunge. While the mining of Area 57 was taking place the existing deeper workings were dewatered and the decline was restarted to access the down plunge continuations of the Ø1 and the Ø3 Surfaces.

Currently ore is being mined from the main surfaces between the 480m RL (some 850m below surface) and 534m RL, as well as remnant material on the Ø1 Surface between the 594m RL and 714m RL. Ore is also being mined from the up plunge extension of the Area 57 ore body.

Ore on the main Blair shoots is typically found on the contact between the footwall basalt and the hanging wall ultra-mafic. The ore-bodies are a



typical komatiite flow-type contacts with the nickel sulphide mineralisation occurring as narrow shoots of ore with plunge continuity. Typically the continuity of the shoots is variable with some shoots having a great vertical depth +1000m while others typically pinch and swell. Typical ore shoot strike are about the 20 to 25 metres along strike but can extend to as much as 50 metres. Ore types are disseminated (0.5% to 3.0% Ni), matrix (up to 6.0% Ni) and massive (up to 20% Ni).

The Area 57 ore body, which was delineated by Australian Mines, is a remobilised body of massive nickel sulphide ore body of massive nickel sulphides with a lesser tenor (5.5% to 7.5% Ni) than the main Blair Surfaces. The ore body appears to coincide with structures associated with sediment material alongside the basalt footwall. The ore body is mainly massive sulphide mineralisation

## REVIEW OF OPERATIONS

located in the sediment which pinches and swells rapidly along strike.

The mine is accessed by a standard 1 in 7, 5.5m in height by 5.5m in width decline driven in the more competent footwall basalt. The decline is capable of taking trucks of up to 50 tonne capacity. Accesses to the ore body are driven at a smaller size and then the ore drives are driven with

handheld rock drills at a nominal 2.8m in height x 2.2m in width. Stopping is conducted by using either half uppers or flat backing methods both using fill in the stope void for support and for miners to stand on to take successive lifts.

Total site manpower is 34 which includes all site based management and technical staff and 4 permanent contractors (3 mechanical, 1 electrical).

Table 1: Quarterly Production Summary 2004 - 2005

		Sep-04	Dec-04	Mar-05	Jun-05	FY04/05
Ore Mined	Tonnes	16,543	10,920	9,985	13,945	51,393
	Tonnes	441	317	309	467	1,534
Ore Treated	Tonnes	17,682	9,860	10,477	14,278	52,297
Grade	% Ni	2.78	2.81	3.01	3.31	2.98
	% Cu	0.2	0.19	0.19	0.19	0.19
Contained Ni	Tonnes	491	277	319	474	1,561
Recovered Ni	Tonnes	427	242	281	421	1,371
Nickel Price (received)	A\$/lb	9.65	9.16	9.55	9.58	9.31
Operating cash cost *	A\$/lb	6.54	8.05	11.04	6.92	8.03
Total cost inc capital *	A\$/lb	7.40	11.44	12.5	6.92	9.28

\*Note Ni payable is the adjusted cost including the toll treatment charges and deductions made from revenue under the contract with BHP Billiton



## REVIEW OF OPERATIONS

### Geology – Blair Mine Resource and Reserves

The resource estimate at the mine was continuously being revised by underground diamond drilling and geologically mapping openings. Logging and assessment of the core was conducted by Australian Mines personnel. Resource definition and calculations were conducted by our Senior Mine Geologist in consultation with Cube Consulting. Resource was based on the previous mining history and all diamond drilling completed to date on the 03 and 01 Surfaces.

### Geology and Resource Estimation

The ore surfaces at Blair lie at the stratigraphic base of an ultramafic sequence on a contact with metabasalt or metasediments, and are typical of Kambalda-type contact mineralisation. The two main surfaces from which there is mining experience are the Ø3C and Ø1C, both steeply-dipping. The Ø3C lies in the E-W trending keel of a narrow synclinal structure and comprises continuous massive, matrix and disseminated sulphides over a strike length of 40-60 metres and

a mined plunge extent of 800 metres. The Ø1C is a more-or-less N-S trending fault-affected surface which intersects with the eastern edge of the Ø3C, and has more irregular ore distribution.

There is a wealth of previous mining experience and documentation which indicates that the geological picture is well understood, and there is no measurable risk that the picture will be any different as the decline is extended.

The geological interpretations were based on a combination of geological and economic controls with a basalt or sedimentary contact defining the footwall surface, on which nickel ore is generally located. As a general guideline the wire framed mineralised envelope encloses a 1% Ni economic limit, but where necessary the interpretation may incorporate some lower grade material so as to aid continuity of the interpretation.

The resources for the Blair Nickel Mine are listed below in Table 2 and are current to 30 June 2005.

The Ore Reserves for the Blair Nickel mine are listed below in Table 3 and are current as at the 30 June 2005.

Table 2: Blair Mineral Resource

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Area 57 - Sulphide Resource	Measured	4,144	2.88	119
	Indicated	1,983	2.87	57
	Inferred	0	0.00	0
	Sub-total	6,127	2.87	176
01 & 03 Surfaces - Sulphide Resources	Measured	23,365	5.12	1,197
	Indicated	30,303	5.23	1,585
	Inferred	20,850	4.50	939
	Sub-total	74,518	4.99	3,721
Sulphide Resources	Total	80,645	4.83	3,897

NB: The Information in this report that relates to Mineral Resources is based on a resource estimate compiled by Ted Coupland who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM), Mineral Industry Consultants Association (MICA) and is a Chartered Professional (Geology). Ted Coupland is a director of Cube Consulting Pty Ltd. Ted Coupland has sufficient experience which is relevant to nickel sulphide mineralisation and resource estimation to qualify as a competent Person as defined in the December 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Ted Coupland consents to the inclusion in this report of the Information, in the form and context in which it appears.

## REVIEW OF OPERATIONS

The Ore Reserves for the Blair Nickel mine are listed below in Table 3 and are current as at the 30 June 2005.

Table 3: Blair Ore Reserve

Location	Category	Ore Tonnes Tonnes	Nickel %	Nickel Tonnes
Area 57	Proven	595	4.09	24
	Probable	2,569	1.67	43
	Sub-total	3,164	2.12	67
01 & 03 Surfaces	Proven	21,052	4.41	775
	Probable	25,130	3.54	795
	Sub-total	46,182	3.40	1,570
	Total	49,346	3.32	1,637

NB: The information in the table above that relates to Ore Reserves is based upon information compiled by Mr Neil Warburton, who is a Member of The Australasian Institute of Mining & Metallurgy. Mr Warburton is a director of the company and has sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration and the activity to which he is undertaking to qualify as a competent person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves".

### Review and Feasibility Study for in Ore Decline

Decline development by conventional footwall decline was commenced in September 2004 and then discontinued in February 2005 due to slow progress and rising cost. Under the current operating conditions this type of development is high risk.

The decline at the Blair Nickel Mine historically has been a 5.5m X 5.5m footwall decline driven in waste at a gradient of 1:7. The last program of decline development undertaken by AUZ was expensive and hampered by slow rates of advance. An alternative design was proposed where the decline is taken as a smaller size development and driven down partly in ore along the Ø1 Surface on C-shoot with the turning loops being driven back into the footwall sediment and basalt.

The Board of Directors made the following decisions: -

1. Commence the in-ore decline with a view to developing and mining to the 417m RL Level and reassess the viability of continuing the decline at that point depending on the continued profitability of the mine.
2. Continue to assess opportunities for expanding

the resource/reserve base laterally around the current working areas as the opportunities arise using latest exploration techniques.

### Mining Reserves (Figure 1)

The planned mine has now been extended to March 2007 based on the extension of the "in ore" decline.

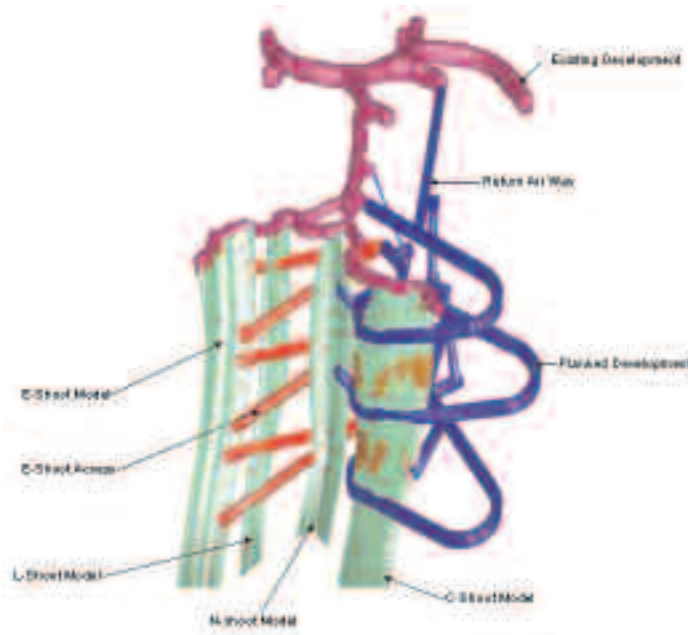


Figure 1: 3D View of the Deeps Development and Orebody

# REVIEW OF OPERATIONS

## Exploration

### Blair Project (Figure 3)

The Blair Project tenement block is located approximately 35km to the ESE of Kalgoorlie along the Mt Monger Road. The tenement package covers 105km<sup>2</sup> of greenstone belt which is considered highly prospective for Kambalda-style nickel sulphide deposits such as the Blair Mine

The tenement package is also considered highly prospective for mesothermal gold deposits such as the historic 500,000 ounce Golden Ridge Deposit, which straddles the Woollibar and Mt. Monger regional fault structures in a similar geological setting to gold anomalies on the Blair Leases.

### Blair Mine Exploration

#### Blair Deep

A diamond drilling program was undertaken from the lowest level in the mine so as to provide confirmation of the resource at depth, and also to provide support for a complete remodeling of each of the six ore shoots. The drilling programs were considered highly successful at establishing the down plunge potential and as a result the company was able to complete a feasibility study into mining down to the 417m RL.

#### Area 57

During the year a fixed loop EM survey was conducted over Area 57. A complete review of previous down hole EM was incorporated into an exploration strategy to further extend the orebody, and during the year a strong downhole EM response above Area 57 was successfully drill tested and prepared for mining.

### Blair Mine Exploration Potential

The company has an active strategy to build resources at shallower depths, and it is believed that Area 57 and the L01C shoot offer the best chances of quickly bringing new resources into production.

A drilled out area of the L01C shoot was re-modelled in May 2005 and as a result a 100 metre



Figure 2: Exploration Projects



Figure 3: Blair Project

long access drive was commenced in July, with the first ore expected to be mined in December 2005.

The above mentioned decline will also a position for further drilling of the L01C shoot and also for drilling below Area 57.

Down hole geophysics has established that there is a strong EM Conductor above the Area 57 orebody which will be drill tested in September 2005.

## REVIEW OF OPERATIONS

### Nickel Exploration on the Blair Project Leases (Figure 4)

During the year a low level detailed aeromagnetic survey was flown in preparation for structural interpretation of the geology on the Blair Leases and also to help to locate the basalt – ultramafic contact, on which the Blair style nickel orebodies are located.

### Anomaly 11 Prospect (Figure 5)

RC drilling at Anomaly 11 identified a 300 metre zone of highly anomalous nickel and copper values which potentially is defining the top of a nickel trough position.

A fixed loop EM survey over Anomaly 11 in December 2004 has indicated there are two subparallel moderate conductors at 60 to 100 metres depth. Preliminary interpretation of the drilling to date suggests that the Ni mineralisation comprises a northerly plunging zone of disseminated sulphides, but this is affected by

significant faulting. Future drilling will be required to more specifically target the plunge of the Ni sulphide mineralisation in the plane of the contact, and this may include some orientated diamond drilling to locate faulting (Figure 4).

### Potential Leachable Nickel at Anomaly 11 Prospect

Australian Mines has identified a potential resource of leachable non-sulphide nickel mineralization at Anomaly 11; interpretation suggests there is approximately 1.5 million cubic metres of outcropping 'oxide' material averaging about 0.5 % nickel, and as well there is a considerable volume of material with 0.5% nickel which is better described as 'transitional' (between oxide and fresh rock).

The initial metallurgical test work suggests that a weakly acidic leach process will recover 50% of the total nickel, and subsequent calculations of an economic nature have given the company sufficient encouragement to proceed with a more representative and detailed programme of metallurgical test work.

### Duplex Hill Prospect

Previous drilling by WMC had identified a strong coincident nickel and copper anomaly which contained indications of primary nickel sulphides. A follow up programme of 773 metres of RAB was drilled at Duplex Hill in October 2004 to locate and test the contact, and this programme was then followed up by a 5 hole 405 metre RC programme in January 2005.

The RC assay results confirmed the presence of disseminated low grade Ni mineralization and defined the overall dip and stratigraphic succession.

### BSA Prospect

Shallow drilling by Australian Anglo American in 1974 yielded significant coincident Ni and Cu results between BSA and Blair South in a hanging wall position, but the basal contact may not have been properly tested.



Figure 4: Nickel Prospects

## REVIEW OF OPERATIONS

Following aeromagnetic interpretation, a RAB drilling programme in March 2005 tested the strike potential of the Blair South contact. The sediment – ultramafic contact was drilled on the western end of the northern traverses with the best result of 6m @ 0.98% Ni. This new drilling extends the +0.5% Ni anomalism in shallow drilling over a 1km strike length, with good disseminated sulphide hits noted in the deeper drilling at Blair South which therefore indicates a primary source of the anomalism

### Nickel Potential on the Blair Exploration Leases

The low level detailed aeromagnetics flown in early 2004 have proven invaluable in defining the position of the open contact and in prioritising drill targets.

There is about 6 kilometers of folded basalt – ultramafic contact immediately south of the Blair Nickel Mine which is particularly prospective for nickel orebodies, and the programmes to be focussed on in the coming year include Blair South – BSA (3 kilometers of coincident nickel copper anomalism and untested EM targets) and Anomaly 11 (300 metres of coincident nickel copper anomalism and a possible trough structure).

### Gold Exploration on the Blair Project Leases (Figure 6)

The Blair Project Area covers an 18-km long section of the prospective NNW trending Boorara-Woollibar fault zone, which is host to the Boorara-Golden Ridge and Mt Martin gold mining centres. The Golden Ridge mine operated by Harmony Gold, with an endowment of 500,000 ounces, lies immediately north of and along strike from the project area which is also cross-cut by the Boorara Fault. To the east the Mt Monger Fault extends from the Daisy-Milano Mine (150,000 ounces) and the historic Wombola workings before continuing to the north where it intersects the Kanowna Shear Zone.

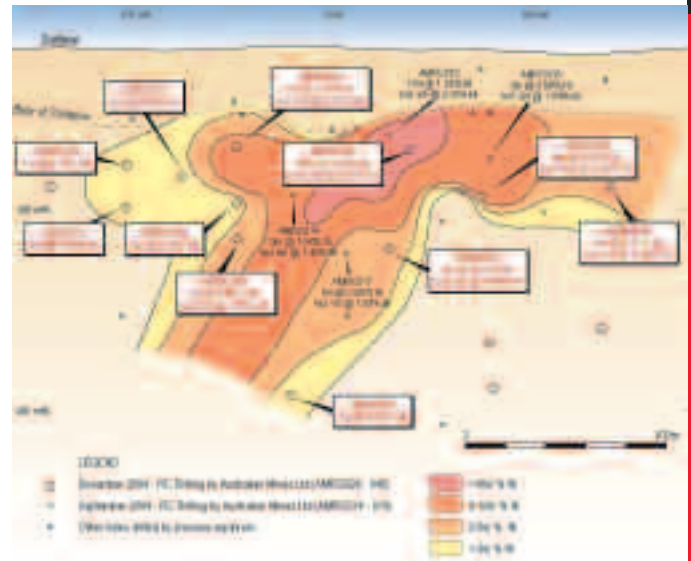


Figure 5: Anomaly 11 – Longsection and Drill Intercepts

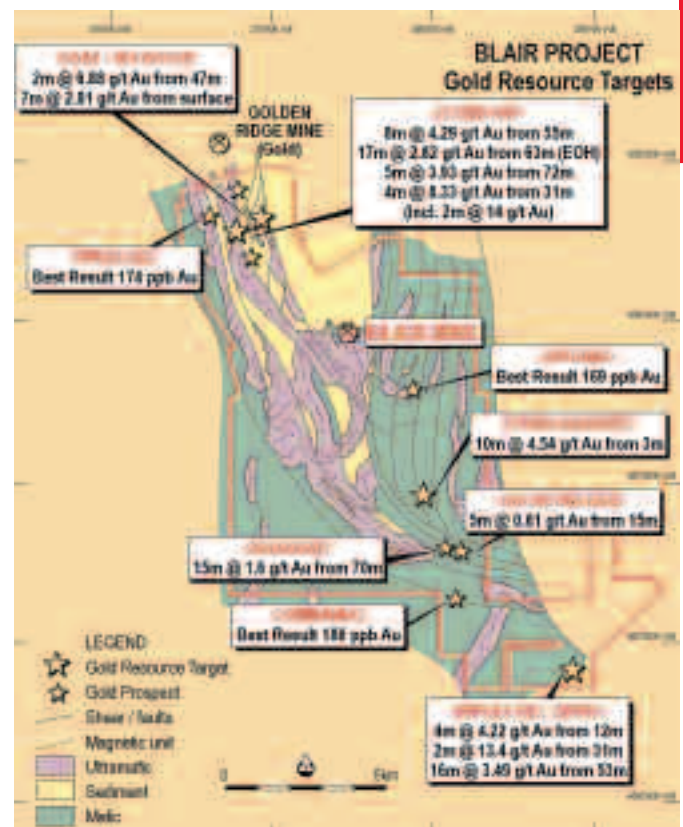


Figure 6: Gold Prospects

## REVIEW OF OPERATIONS

### Duplex Hill South Prospect (Figure 7)

The Duplex Hill South prospect forms part of the tenement package over which Australian Mines has acquired an option to purchase from Niagara Mining. The prospect has had two phases of surface geochemistry by Niagara and Anglo Gold to define a broad gold in soil anomaly. This anomaly was subsequently RAB and RC drilled by Niagara and Anglo with some good results received, including 18m @ 3.19g/t Au in one RC hole.

The company's geologists have interpreted a pair of parallel North East striking reefs (SE dipping) with strong supergene enrichment at the base of weathering.

RC resource definition drilling and additional exploration holes at Duplex Hill South are planned.

### Goldstar Prospect

The Goldstar Au prospect was highlighted by a pedogenic carbonate sampling programme completed in early 2005; two distinct anomalous

zones were then tested with five RAB lines in March 2005, with the best intersection being 15 metres at 1.6 grams per tonne.

The surface anomaly is spatially associated with an elongate laterite ridge and minor quartz veining at the surface. Drilling encountered dominantly gabbroic lithologies with some minor sediments and minor quartz veining with better results associated with sheared gabbro / sediment contact. Further RAB drilling will be required to close off the anomalies before RC holes are drilled.

### Flying Ant, Flying Squirrel, Goat/18 Footer Micks Hill Prospects

A RAB program was implemented over the northern portion of the tenements covering gold in soil anomalies at Micks Hill, Flying Ant and 18 Footer. Further RAB drilling was also completed at the Flying Squirrel prospect where previous drilling had intersected 10m @ 4.54 g/t Au from surface. All of the programs were drilled on an 80 x 200m grid pattern, and were completed to locate the source of significant gold in soil anomalies. The results warrant follow-up RC drilling.

### Gold Potential on the Blair Tenements

There are a number of shallow workings on outcropping ridges, but a high proportion of the tenement package is overlain by transported cover, and there is obviously good potential for blind gold discoveries to be made.

As an orientation exercise the auger sampling of pedogenic carbonate was trialed at the alluvial covered Duplex Hill South Area; the resultant gold anomaly in pedogenic carbonate was an order of magnitude stronger than the weak soil anomaly, and so it is now proposed that pedogenic carbonate sampling be used over the remaining areas of cover on the Blair leases, with the highest priority given to structural targets as derived from the detailed aeromagnetics.

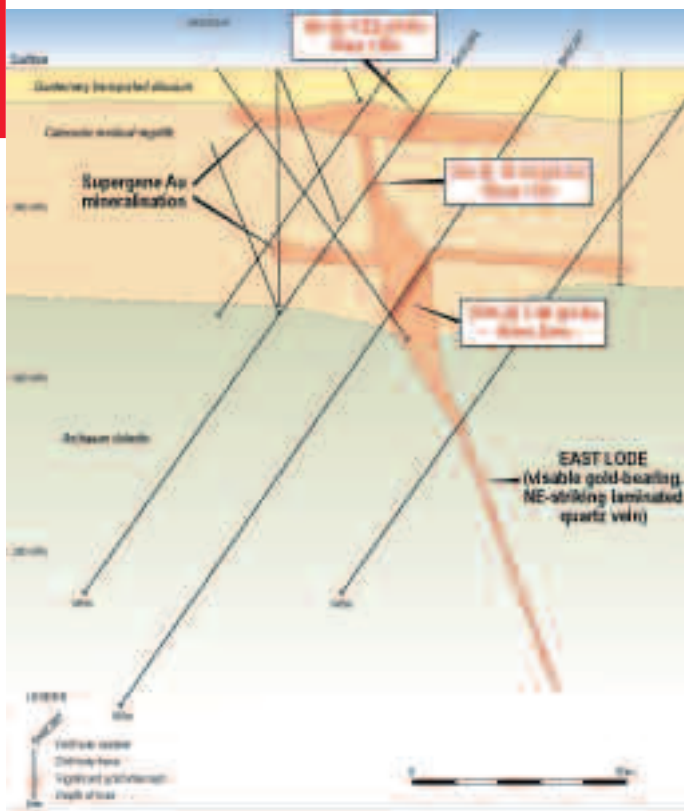


Figure 7: Duplex Hill South – Interpreted Cross Section

## REVIEW OF OPERATIONS

### Musgrave Project (Figure 8)

The directors of Australian Mines have decided to rationalize the remote West Musgrave Project and the company is actively seeking an interested party to take on the project.

### Future Nickel Potential

The strategy going forward is to continue mining from the deeper ore on the 01 & 03 Surfaces, with supplementary ore coming from shallower remnants and undeveloped shoots, and to this purpose the following programmes are being undertaken:

- Remnant blocks of ore on the C01C and B01C Surfaces are being accessed in the middle and upper levels of the mine;
- A 100 metre access level has commenced so as to mine a drilled out block of ore on the L01C Surface;
- Drilling will commence in September 2005 to test the EM target above Area 57, and if successful an incline ramp will be developed so as to allow mining above the current 1115m RL workings;
- A combination of geophysics and diamond drilling is planned to commence in September so as to locate the down plunge extension of the Area 57 orebody

In terms of our exploration effort we will endeavour to find new gold and nickel orebodies on the tenements surrounding Blair. In the West



Figure 8: Musgrave Project

Musgrave we will actively continue to seek an interested party to take on the project.

### Market

Australian Mines has a long term agreement to treat its ore and purchase of the resulting concentrate with BHP Billiton. The agreement is based on industry standard terms and conditions and bases its metal price for payment on 3 month averages for nickel quoted on the London Metal Exchange. The price of nickel during the year has been very strong. Table 4 below demonstrates the pricing during the year.

Quarter ending		Nickel spot price per quarter		Nickel price 90 day ave + hedging A\$/tonne
		USD/tonne	A\$/tonne	
1st Qtr	30th September 2004	14,010	19,727	20,688
2nd Qtr	31st December 2004	14,060	18,587	16,648
3rd Qtr	31st March 2005	15,278	19,645	20,047
4th Qtr	30th June 2005	15,905	20,703	21,083
Full Year 2005		14,800	19,662	19,966

## REVIEW OF OPERATIONS

### Outlook

The company at the Blair mine has been successful in completing the resource drill out for the 01 and 03 Surfaces at depth and recommencing the decline to deepen the mine and mine the resource below the current bottom level at the 480mRL. The focus of mining will be the next four levels at the 470m RL, 457m RL, the 437m RL and the 417m RL. The reserve and resource base are completed and will allow planning for mining into March 2007.

It is also planned to drill the Area 57 to try and extend the ore body both laterally and up plunge.

Concurrently the program to delineate near mine and remnant resources in the higher levels of the mine will continue.

In summary the strategy going forward is to be able to mine from the deeper ore on the 01 & 03 Surfaces, with production from remnant areas and explore around the Area 57 ore-body.

In terms of our exploration effort we are accelerating our exploration for nickel and gold on our tenement area surrounding Blair. The programs will include potential targets that include Duplex Hill South (gold), Blair South and Anomaly 11 (nickel).

### Tenement Schedule

Tenement Schedule		
<i>Musgrave Project</i>		
Tenement Number	Project Name	AUZ interest
E69/1455	Morgan Range	100%
E69/1456	Mt Morphett	100%
E69/1457	Mt Morphett	100%
E69/1389	Cavenagh Range	51% earning 80%
E69/1390	Blackstone Range	51% earning 80%
E69/1391	Cavenagh Range	51% earning 80%
<i>Blair Project</i>		
Tenement Number	Project Name	Blair Project interest
M26/219	Blair Project	100%
M26/220	Blair Mine	100%
M26/221 – M26/223	Blair Project	100%
M26/225	Blair Project	100%
M26/284 – M26/289	Blair Project	100%
M26/384	Blair Project	100%
M26/469	Blair Project	Application
M26/508	Blair Project	Application
M26/782	Blair Project	Application
P26/2403	Blair Project	100%
P26/2899	Blair Project	Application
P26/2900	Blair Project	Application
P26/2901	Blair Project	Application
E26/46	Blair Project	100%
E26/64	Blair Project	100%

# DIRECTORS' REPORT

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The Directors present their report together with the financial report of Australian Mines Limited ("the Company" or "Australian Mines") and its controlled entities ("the consolidated entity") for the year ended 30 June 2005 and the auditor's report thereon.

## DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

**Keith S. Liddell – Non-Executive Chairman appointed 2 June 2003, director since 24 May 2001.**  
***BSc, MSc CP (Metallurgy) & CP (Management) (Australia), C Eng (UK), Pr Eng (South Africa) FIE Aust, FSAIMM, MIMM***

Keith Liddell is an experienced metallurgical engineer and resource company manager, having worked exclusively in the minerals industry for 25 years. His technical expertise includes engineering of plant and equipment, process development, project management, and risk planning. He has particular experience with the development of resource projects for platinum group metals, base metals, gold, diamonds and industrial minerals. He holds a number of patents in his name.

Mr Liddell has extensive experience in the management of resource companies, including the formulation and implementation of corporate strategy, managing stakeholder relationships, and in arranging corporate project finance. He is the former Managing Director of Aquarius Platinum Limited, a leading platinum mining company that successfully developed the Kroondal Platinum Mine in South Africa under his direction, and is the former Executive Chairman of Sally Malay Mining Limited.

He is also Chairman of CopperCo Limited, Tianshan Goldfields Limited and Mineral Securities Limited. He has also been a past director of Sally Mallay Mining Limited.

**Neil Warburton – Non-Executive Director appointed 22 April 2003**  
***Associate Mining Engineering – WASM, FIAMM***

Neil Warburton is a qualified mining engineer with more than 25 years experience in the development and mining of gold and nickel projects in Australia.

He has held executive and board positions with a number of Australian resource companies and is currently Western Australian General Manager of Operations for Barmenco Ltd.

Mr Warburton is a Member of the Australasian Institute of Mining and Metallurgy.

## APPOINTMENTS

**Mick Elias – Non-Executive Director appointed 1 July 2005**  
***BSc(Hons) FAusIMM CPGeo***

Mr Elias has over 23 years of extensive, international experience in all aspects of nickel resource development in both laterites and sulphides, from project generation and evaluation, exploration planning and management, development studies, open cut and underground mine geology, resource/reserve estimation, and resource economics.

He previously held the positions of Chief Geologist – WA Nickel Operations and Chief Geologist – Nickel Resource Development at WMC Resources Ltd. Mr Elias holds a Bachelor of Science (Honours) in Geology from the University of Melbourne. Mr Elias is a director of Mercator Gold plc and Braemore Resources plc.

## DIRECTORS' REPORT

### RESIGNATIONS

**Barry John Cahill – Managing Director appointed 31 May 2004 (appointed executive director 10 May 2004).**

***BEng (Mining) WASM. Resigned 15 July 2005***

Barry Cahill is a highly experienced mining engineer with a strong track record in operational management. He has more than 15 years experience in the management and operation of a number of mining projects in Australia, including the Leinster Nickel Operations, Fortnum gold mine, the Tarmoola gold project, Yilgarn Star gold mine and the Mt Pleasant Gold Project. Mr Cahill was, until recently, the Executive Director - Operations for Perilya Limited and was responsible for the Broken Hill base metal operations.

Mr Cahill is a member of the Australasian Institute of Mining and Metallurgy.

**Anthony (Tony) W. Fairweather – Non-Executive Director appointed 12 June 2001**

***B. Juris, LLB. Resigned 28 April 2005***

Tony Fairweather has practised as a solicitor in Western Australia for more than 10 years. He is a foundation partner of the commercial law firm, Fairweather & Lemonis. He holds Bachelor of Jurisprudence and Bachelor of Laws degrees from the University of Western Australia.

Mr Fairweather has had extensive experience in providing corporate advisory services to public and private sector entities including resource companies. The corporate advisory services he undertakes include capital raising work, corporate transactions and regulatory and strategic advice to public and ASX listed companies.

### COMPANY SECRETARY

The Company Secretary of the Company during the year and at the end of the financial year is:

**Brett Young - CA BComm, appointed 1 September 2004**

Mr Young is a Chartered Accountant and holds a Bachelor of Commerce Degree from UWA. He has worked in the mining industry for 25 years with senior positions in management including company secretarial positions as well as holding various commercial manager roles with some of the largest mines in Australia.

# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year is as follows:

Director	Board Meetings		Remuneration Committee	
	Held	Attended	Held	Attended
Keith Liddell	12	11	1	1
Barry Cahill	12	12		
Neil Warburton	12	12	1	1
Tony Fairweather	10	10	1	1

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

## PRINCIPLE ACTIVITIES

The principal activities of the company during the year comprised the mining of nickel ore at the Blair Nickel Mine and exploration for nickel and gold in the surrounding tenements located near Kalgoorlie in Western Australia.

## OPERATING AND FINANCIAL REVIEW

### Company overview

The consolidated entity made a loss of \$7.5 million compared with a loss of \$6.8 million for 2004. The main factors contributing to the loss are:

- Revenue from the Blair mine was \$18.2 million.
- EBITDA before write downs was \$2.4 million.
- Depreciation and amortisation of \$5.3 million.
- Exploration write down of \$1.2 million on the West Musgrave project.
- Write down in mine acquisition costs of \$3.4 million.

A comparison of the company's financial performance is included in the table below.

Financials	2005 \$'000 s	2004 \$'000 s
Total Revenue	18,200	6,063
EBITDA before write downs	2,451	1,129
Net Profit /(Loss)	(7,461)	(6,843)
Cash in Bank	882	1,753

# DIRECTORS' REPORT

## DIVIDENDS

No dividends were paid or declared by the Company during the year.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- The consolidated entity replaced the mining contractor at the Blair nickel mine in February 2005 and commenced owner mining employing its own workforce and financing a fleet of equipment.
- In the March 2005 Quarter, the consolidated entity experienced lower than forecast production of 319 tonnes on Nickel that resulted in a negative cash flow for the quarter of \$1.8 million.
- In the June 2005 quarter, the consolidated entity produced a record quarter of 474 tonnes of nickel at an average cash cost of A\$6.92 per lb of Ni payable.

Fully paid ordinary share capital increased during the year as follows:

- 250,000 ordinary shares issued to acquire the Duplex Hill South Option agreement.

## EVENTS SUBSEQUENT TO BALANCE DATE

- In July 2005, the company completed an entitlements Issue on the basis of two shares for one in the Company at one cent per share. The issue raised \$2.8m and resulted in the issue of 289,852,264 additional shares in the Company.
- In September 2005 the Company settled an outstanding debt of \$1.2 million with a cash payment of \$820,630 and the issue of 17.5 million shares in the Company.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## LIKELY DEVELOPMENTS

At the date of this report, there have been developments in the operations of the consolidated entity that are likely to be finalised within the next year. These include:

- Divestment of the West Musgrave project.
- The adoption of International Financial Reporting Standards (IFRS) from 1 July 2005, requiring the implementation of a formal plan to address the associated risks (refer to section on Financial Reporting for more information on the plan).

Further information about likely developments in the operations of the consolidated entity and the expected results of these operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the company at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares		
		Expiry 31 December 2005	Expiry 1 February 2006	Expiry 31 December 2008
Mr K S Liddell	39,301,500	7,750,000	-	-
Mr N Warburton	34,200,000	-	11,333,333	-
Mr M Elias	1,000,000	-	-	-

Included in the shares and options in which K S Liddell has a relevant interest, 33,600,000 shares and 7,500,000 options are owned by Mineral Securities Limited, a company for which Mr Liddell is the Executive Chairman. There are 4,980,000 shares in the name of Liddell Investment Trust and 721,500 shares in the name of Tintron Pty Ltd as trustee for Liddell Super Fund. The balance of 250,000 options is in the name of Mr Keith Liddell.

The 34,200,000 shares in which Mr N Warburton has a relevant interest are owned by Michlange Pty Ltd, a company of which Mr Warburton is a Director.

## OPTIONS - Unissued shares under option

At the date of this report unissued ordinary shares of the company under option are:

Expiry date	Exercise price	Number of shares
31 December 2005	\$0.20	15,400,001
1 February 2006	\$0.20	37,500,000
31 December 2008	\$0.20	500,000

These options do not entitle the holder to participate in any share issue of the company or any other body corporate.

## REMUNERATION REPORT

### Overview of Remuneration Policies

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and Executives with a remuneration package that reflects the person's responsibilities, duties and personal performance. An employee option scheme for key Executives is in place.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-Executive Directors by other companies of similar size in the industry.

The Board has established a Remuneration and Nomination Committee (Remuneration Committee) responsible for making recommendations to the Board on remuneration arrangements for Directors and Executives of the Company.

# DIRECTORS' REPORT

## Fixed Remuneration

Fixed remuneration consists of base remuneration as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually through a process that considers individual and overall performance of the Consolidated Entity.

## Performance Linked Remuneration

The long-term incentive is in the form of options that are able to be issued under the Employee Option Scheme. During the financial year options were only issued to the Managing Director under this scheme.

## Consequences of Performance on Shareholder Wealth

In considering the Consolidated Entity's performance and benefits for shareholder wealth, the Remuneration Committee take into account profitability, share price movements and total production of the Consolidated Entity when setting the total amount any bonuses.

## Executive Directors

The Consolidated Entity's had a service agreement contract for Executive Director, Mr. Barry Cahill. The contract was varied during the year and to make it extendable by mutual consent for additional periods. If the Company does not intend to extend the contract, at least three months written notice will be provided. Contracts may be terminated by the Company forthwith if the Executive Director (amongst others items) breaches duties connected with the performance of services; commits an act of bankruptcy; engages in misconduct; is of ill health or of unsound mind. If an Executive Director elects to terminate the contract, three months written notice will be provided to the Company. Under such circumstances the Company will pay an amount equal to the aggregate of unpaid salary, annual leave and long service leave accrued to the date of termination.

The Company provides insurance for Executive Directors for any liability arising from statute or common law and public indemnity insurance in respect of shareholder or third party actions.

The Remuneration Committee undertakes to review Directors' remuneration on an annual basis to take into account changes to the cost of living and changes in the scope of the Directors' roles and responsibilities. If warranted the Remuneration Committee may approve bonus payments up to a reasonable limit for exceptional performance.

## Executive Officers

The Company has entered into employment contracts with Executive Officers, Mr Brett Young and Mr Cullum Winn. The contracts are for an unlimited term and may be terminated with four weeks written notice.

## Non-Executive Directors

Total remuneration for all Non-Executive Directors, is not to exceed \$200,000 per annum and are set with reference to fees paid to other Non-Executive Directors of comparable companies. Directors' base fees are presently \$32,500 per annum.

The Chairperson and Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of committees.

# DIRECTORS' REPORT

## Options granted to directors and senior executives

During or since the end of the financial year, the company granted options for no consideration over unissued ordinary shares to the following directors of the company as part of their remuneration:

A resolution to approve the allotment of 2,000,000 options exercisable over 4 years to Barry Cahill was made at the Company's Annual General Meeting on 24 November 2004 as follows:

Directors	Number of options granted	Exercise price	Expiry date
Mr B. J. Cahill	500,000	\$0.20	31 December 2008

No options have been granted since the end of the financial year.

## Directors' and senior executive remuneration

Details of the nature and amount of each major element of the remuneration of each Director of the Company and the executive officers of the company and the consolidated entity receiving the highest remuneration are:

Directors	Directors' fees	Consulting Services	Superannuation contribution	Termination and Retirement benefit	Options Issued (A)	Insurance Premiums	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive</b>							
Mr K S Liddell	26,250	-	-	-	-	4,500	30,750
Mr A W Fairweather (ii)	18,750	-	-	-	-	4,500	23,250
Mr N Warburton	18,750	-	-	-	-	4,500	23,250
<b>Executive</b>							
Mr B J Cahill							
(i)(A)(B)	225,469	-	18,277	-	20,750	4,500	268,996

(i) Payment for Mr Cahill's services as Managing Director commenced in July 2004 and he resigned on 15 July 2005

(ii) Mr Fairweather resigned on 28 April 2005.

(A) 500,000 options issued to Mr B Cahill lapsed as at 15 July 2005 pursuant to the terms of issue.

(B) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model. Further details of options granted during the year are set out under "Options" above. This value has been ascertained using the following inputs and assumptions:

- a share price of 13 cents being the sale price of ordinary shares on 8 September 2004 being the date of valuation;
- option exercise prices of 20 cents;
- a risk free rate of 5.495%;
- a volatility factor of 50% which has been determined with reference to the historical trading of the Company's shares on ASX; and
- Expiry of date 31 December 2008.

# DIRECTORS' REPORT

Certain director related entities have also been paid other amounts by the consolidated entity as disclosed in **Note 22**.

Executive officers	Salary	Consulting	Superannuation	Termination	Options	Total
	\$	\$	\$	\$	\$	\$
Mr B Young (iii)	109,345	-	9,841	-	-	119,186
Mr C Winn (iv)	71,777	-	6,975	-	-	78,752

(iii) Mr B Young commenced on 6 September 2004

(iv) Mr C Winn commenced on 1 January 2005

## ENVIRONMENTAL REGULATIONS

The Company has conducted mining and exploration activities on mineral tenements. The right to conduct these activities is granted, subject to environmental conditions and requirements. The Company aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations.

## FINANCIAL REPORTING

The Directors and the Chief Operating Officer have declared, in writing to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

## NON-AUDIT SERVICES

During the year KPMG, the consolidated entity's auditor, did not perform any services other than their statutory audits.

In the event that non-audit services are provided by KPMG, the board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- Non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- Ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The lead auditor's independence declaration is set out on page X and forms part of this Directors' Report for the year ended 30 June 2005.

## DIRECTORS' REPORT

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### INDEMNIFICATION OF OFFICER AND AUDITORS

#### Indemnification

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Also pursuant to the Deed, the Company must insure the officers against liability and provide access to all board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company.

The Company has paid insurance premiums during the year of \$27,500 in respect of liability for any current and future Directors, Company Secretary, executives and employees of the Company.

Signed for and on behalf of the Board of Directors



Keith Liddell  
Chairman



## DECLARATION

**Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001 to the directors of Australian Mines Limited.**

I declare that, to the best of my knowledge and belief in relation to the audit for the year ended 30 June 2005, there have been: -

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

KPMG

A handwritten signature in black ink, appearing to be 'T R Hart', written in a cursive style.

T R Hart,  
Partner

Perth  
30 September 2005

KPMG, an Australian partnership, is a member of KPMG International, a Swiss non-operating association.

# STATEMENTS OF FINANCIAL PERFORMANCE

## STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		The Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue from sale of goods	2(a)	18,200	5,034	-	-
Cost of product sold					
Site operating costs		(13,706)	(3,713)	-	-
Royalties		(971)	(364)	-	-
Depreciation and amortisation		(5,296)	(3,645)	-	-
Change in inventories of ore stocks		76	222	-	-
Total cost of product sold		(19,897)	(7,500)	-	-
Gross loss from sale of product		(1,697)	(2,466)	-	-
Revenue from other ordinary activities	2(b)	44	1,095	1,061	397
Borrowing costs	3	(35)	(105)	-	-
Corporate overheads and indirect expenses		(1,157)	(1,040)	(1,217)	(1,170)
Write downs to recoverable amount		(3,382)	(1,300)	-	-
Provision for intercompany receivables		-	-	(2,000)	(1,748)
Diminution in investment in controlled entity		-	-	(4,184)	(1,300)
Exploration expenses written off		(1,234)	(3,027)	(1,234)	(3,022)
Loss from ordinary activities before related income tax		(7,461)	(6,843)	(7,574)	(6,843)
Income tax benefit relating to ordinary activities	4	-	-	-	-
Net Loss	17	(7,461)	(6,843)	(7,574)	(6,843)
<b>Basic loss per share</b>	26	(5.15 cents)	(5.45 cents)		

The consolidated entity's potential ordinary shares are not dilutive and accordingly diluted earnings per share are the same as basic earnings per share.

These statements of financial performance are to be read in conjunction with the accompanying notes.

# STATEMENTS OF FINANCIAL POSITION

## STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	Consolidated		The Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CURRENT ASSETS</b>					
Cash assets	6	882	1,753	37	1,702
Receivables	7	3,146	1,854	-	20
Inventory	8	158	222	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>4,186</b>	<b>3,829</b>	<b>37</b>	<b>1,722</b>
<b>NON CURRENT ASSETS</b>					
Receivables	7	-	-	3,606	4,097
Other financial assets	9	-	-	-	4,183
Exploration and evaluation expenditure	10	2,991	3,188	30	1,133
Property, plant and equipment	11	3,396	7,802	62	33
<b>TOTAL NON CURRENT ASSETS</b>		<b>6,387</b>	<b>10,990</b>	<b>3,698</b>	<b>9,446</b>
<b>TOTAL ASSETS</b>		<b>10,573</b>	<b>14,819</b>	<b>3,735</b>	<b>11,168</b>
<b>CURRENT LIABILITIES</b>					
Payables	12	3,707	3,012	128	296
Interest bearing liabilities	13	2,278	190	284	-
Provisions	14	266	34	41	25
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,251</b>	<b>3,236</b>	<b>453</b>	<b>321</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	13	792	736	5	-
Provisions	14	140	-	-	-
		932	736	5	-
<b>TOTAL LIABILITIES</b>		<b>7,183</b>	<b>3,972</b>	<b>458</b>	<b>321</b>
<b>NET ASSETS</b>		<b>3,390</b>	<b>10,847</b>	<b>3,277</b>	<b>10,847</b>
<b>EQUITY</b>					
Contributed equity	15	17,870	17,866	17,870	17,866
Reserves	16	1,246	1,246	1,246	1,246
Accumulated losses	17	(15,726)	(8,265)	(15,839)	(8,265)
<b>TOTAL EQUITY</b>		<b>3,390</b>	<b>10,847</b>	<b>3,277</b>	<b>10,847</b>

These statements of financial position are to be read in conjunction with the accompanying notes.

# STATEMENTS OF CASH FLOWS

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		The Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from operations		16,601	3,256	-	294
Cash payments in the course of operations		(14,319)	(2,976)	(241)	(1,173)
Interest received		49	98	11	97
Borrowing costs		(35)	(105)	-	-
<b>Net cash provided / (used) in operating activities</b>	20(a)	2,296	273	(230)	(782)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from closure of hedge contracts		-	987	-	-
Payments for exploration and evaluation		(999)	(2,066)	(93)	(239)
Payments for property, plant and equipment		(2,941)	(4,451)	(71)	(40)
Receipts from sale of plant and equipment		41	-	-	-
<b>Net cash used in investing activities</b>		(3,899)	(5,530)	(164)	(279)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		-	6,000	-	6,000
Payments for costs of capital raising		(34)	(313)	(34)	(313)
Payments for loans to controlled entities		-	-	(1,509)	(4,486)
Proceeds from loans		1,462	2,950	277	1,000
Repayments of loans		-	(2,950)	-	(1,000)
Finance lease payments		(696)	(239)	(5)	-
<b>Net cash provided / (used) by financing activities</b>		732	5,448	(1,271)	1,201
<b>Net increase/(decrease) in cash held</b>		(871)	191	(1,665)	140
<b>Cash at the beginning of the financial period</b>		1,753	1,562	1,702	1,562
<b>Cash at the end of the financial period</b>	6	882	1,753	37	1,702

These statements of cash flows are to be read in conjunction with the accompanying notes.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies, which have been adopted in the preparation of this financial report, are:

### (a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

### (b) Financial Position

This report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2005, the consolidated entity recorded a loss of \$7,461,000 and had a working capital deficiency as at 30 June 2005 of \$2,065,000.

To assist the consolidated entity with working capital requirements, it has secured a receivables draw down facility from a financier. The facility provides immediate cash against sales receivables and is secured by them to a maximum of US\$2.0 million. The facility is repayable in December 2006. As at 30 June 2005 a total of A\$1,184,000 was drawn down. In addition the Company has successfully completed an entitlements issue in July 2005, raising \$2.8 million, as described in Note 29.

The Directors' cash flow forecast for the consolidated entity anticipates a net cash flow surplus sufficient to recover the carrying value of property, plant and equipment and settlement of liabilities in the normal course of business. The cash flow forecast and the ability to recover the carrying value of property, plant and equipment is dependent upon the ability of the consolidated entity to achieve its targets from the Blair Nickel Mine with nickel production and price of nickel. It is also dependent on maintaining operating costs in line with this forecast. The Directors are confident that the Blair Nickel Mine will achieve its production, costs and output forecasts allowing the Consolidated Entity to recover the carrying value of its assets in the normal course of business and to meet its creditor obligations

### (c) Principles of Consolidation

#### ***Controlled entities***

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### **Joint ventures**

A joint venture is either an entity or operation that is jointly controlled by the consolidated entity.

### **Joint venture operations**

The consolidated entity's interests in unincorporated joint ventures are brought to account by including its proportionate share of joint venture operations' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

### **Transactions eliminated on consolidation**

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates and joint venturers, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates and joint venture entities are eliminated against the carrying amount of the investment.

Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

### **(d) Revenue recognition – Note 2**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

### **Sale of goods**

Revenue is recognised when control of the goods passes to the customer.

### **Interest revenue**

Interest is recognised as it is accrued.

### **Sale of non-current assets**

The gross proceeds of non-current asset sales are recognised as revenue, at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

**(e) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows 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.

**(f) Foreign currency**

***Transactions***

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange difference relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- hedging specific anticipated transactions or net investments in self sustaining operations
- relating to the acquisition of qualifying assets.

***Exchange rates used***

The following exchange rates are the main exchange rates used in translating foreign currency transactions, balances and financial statements (expressed in Australian dollars).

	Average 2005	Average 2004	As at 30 June 2005	As at 30 June 2004
US Dollar	0.75	0.72	0.76	0.69

**(g) Derivatives**

The consolidated entity is exposed to changes in interest rates, foreign exchange rates and commodity prices from its activities. The consolidated entity uses the following derivative financial instruments to hedge these risks: forward foreign exchange contracts and nickel commodity put options. Derivative financial instruments are not held for speculative purposes.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### **Hedges**

#### *Anticipated transactions*

Transactions are designated as a hedge of the anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transactions when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date. Refer to Note 23.

The net amounts receivable or payable under currency, commodity swaps, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest or commodity rates current at reporting date. Refer to Note 23.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### (h) **Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges of borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Ancillary costs incurred in connection with the arrangement of borrowings are netted against the relevant borrowings and amortised over their life.

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward in relation to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

### (i) **Taxation – Note 4**

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

#### ***Tax consolidation***

The Company is the head entity in the tax-consolidated group comprising of the Company and its Australian wholly-owned subsidiary. The implementation date for the tax-consolidated group was 9 April 2004. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases: and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Under the tax funding agreement, the contributions are calculated on a "stand-alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

### **(j) Earnings per share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as 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 adjusted for any bonus issue.

### **(k) Acquisition of assets**

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

The costs of assets constructed or internally generated by the consolidated entity, other than goodwill, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, the costs are expensed as incurred

### **(l) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods.

**(m) Receivables – Note 7**

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

**(n) Inventories – Note 8**

Raw materials, work in progress and finished goods are carried at the lower of cost allocated and net realisable value.

***Mining activities***

The cost of ore inventories is determined using the lower of the weighted average cost or the net realisable value of metal content.

**(o) Investments**

***Controlled entities***

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer to {Note 1(q)}

***Joint ventures***

In the Company's financial statements, investments in joint venture operations are accounted for as set out in Note 1(b).

**(p) Leased assets**

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

***Finance Leases – Note 13***

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

***Operating leases***

Payments made under operating leases are expensed over the term of the lease.

**(q) Exploration, evaluation and development expenditure – Note 10**

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

**(r) Recoverable amount of non-current assets valued on cost basis**

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to the present value. The write-down is expensed in the reporting period in which it occurs.

**(s) Depreciation and amortisation**

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

**Useful lives**

All assets have limited useful lives. With the exception of motor vehicles, assets are depreciated/amortised using the assessed life of the relevant mine or asset, whichever is the shorter. Depreciation/amortisation is determined on a "units of production" basis over proved and probable reserves. Any anticipated cost of future capital expenditure is included in the depreciable amount.

Motor vehicles are depreciated on a straight-lined basis over their estimated useful life, taking into account estimated residual values.

The depreciation/amortisation rate or useful lives used for each class of asset are as follows:

	2005	2004
<i>Property, plant and equipment</i>		
Buildings	5%	5%
Plant and equipment	15-37.5%	15-37.5%
Leased plant and equipment	15-37.5%	15-37.5%
<i>Mine property and development expenditure</i>		
Production phase (recovered nickel tonnes)	1,371	888

**(t) Payables**

Liabilities are recognised for amounts to be paid in the future for goods and services received. Accounts payable are normally settled within 60 days.

**(u) Interest bearing liabilities**

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in Note 12 Payables "Other creditors and accruals".

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

**(v) Employee Benefits**

***Wages, salaries and annual leave***

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

***Long service leave***

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance sheet date which most closely match the terms of maturity of the related liabilities.

**(w) Provisions**

Provisions for restoration costs relating to non-current assets are made for estimated costs relating to the remediation of soil, ground water and untreated waste is provided for progressively over the life of the mine.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>2. REVENUE</b>				
(a) <b>Sale of goods revenue from operating activities</b>	18,200	5,034	-	-
(b) <b>Revenue from outside operating activities</b>				
Gain / (loss) on hedge	-	987	-	-
Interest Revenue	49	98	11	97
Management fees	-	-	1,050	300
Other	(5)	10	-	-
Total revenue from ordinary activities	44	1,095	1,061	397
<b>3. LOSS FROM ORDINARY ACTIVITIES</b>				
Loss from ordinary activities before income tax expense has been arrived at after charging the following items:				
(a) <b>Borrowing costs:</b>				
Project loan fees	35	30	-	-
Amortisation of finance fees	-	75	-	-
	35	105	-	-
(b) <b>Depreciation of:</b>				
Buildings	23	7	-	-
Plant and equipment	313	82	50	19
Plant and equipment leased	986	159	-	-
Mine properties	3,974	3,397	-	-
	5,296	3,645	50	19
(c) <b>Individually significant (expense)/revenue items:</b>				
Exploration expenditure written off	(1,234)	(3,027)	(1,234)	(3,022)
Provisions for intercompany receivables	-	-	(2,000)	(1,748)
Diminution in investment in controlled entity	-	-	(4,184)	(1,300)
Gain / (loss) on ineffective hedge	-	987	-	987
Mine properties written off	(3,222)	(1,300)	-	-
Buildings written off	(40)	-	-	-
Plant and equipment written off	(120)	-	-	-
	(4,616)	(3,340)	(7,418)	(5,083)

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>4. INCOME TAX</b>				
Prima facie income tax (benefit) calculated at 30% (2004 30%) on the loss from ordinary activities	(2,238)	(2,053)	(2,272)	(2,053)
Adjustment for the tax effect of permanent differences:				
Non deductible expenses	8	3	8	3
Future income tax benefit not brought to account	2,230	2,050	2,264	2,050
Income tax benefit attributable to operating loss	-	-	-	-

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery is not virtually certain. The cumulative amount of potential future income tax benefit (tax effected) net of timing differences that has not been recognised as an asset to date in the consolidated entity is \$4,112,960 (2004: \$2,537,457).

These potential future income tax benefits will only be obtained if:

- (i) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised in accordance with Section Division 170 the Income Tax Assessment Act 1997;
- (ii) the Company continues to comply with the conditions for deductibility imposed by the law; and
- (ii) no changes in tax legislation adversely affect the Company in realising the benefit.

### Tax Consolidation

Effective as of 9 April 2003, for the purposes of income taxation, Australian Mines Limited and its 100% wholly owned subsidiary formed a tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, there is no income tax liability. The head entity of the tax consolidated group is Australian Mines Limited.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>5. AUDITORS' REMUNERATION</b>				
Audit Services				
Auditors of the Company:				
KPMG Australia:				
- Audit and review of financial reports	38,249	31,000	38,249	31,000
Other services:				
- Taxation services	-	1,815	-	1,815
	38,249	32,815	38,249	32,815

	Consolidated		The Company	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
<b>6. CASH ASSETS</b>				
Cash at bank and on hand	882	1,753	37	1,702
<b>7. RECEIVABLES</b>				
<b>Current</b>				
Trade debtors	3,136	1,783	-	-
Other debtors	10	5	-	5
GST refundable	-	66	-	15
	3,146	1,854	-	20
<b>Non Current</b>				
Loan to controlled entity (i)	-	-	7,354	5,845
Provision for non-recovery	-	-	(3,748)	(1,748)
			3,606	4,097

- (i) The loan to the controlled entity is unsecured, interest free and without formal terms of repayment

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
8. <b>Inventories</b>				
<b>Current</b>				
Ore stocks at cost	158	222	-	-
9. <b>OTHER FINANCIAL ASSETS</b>				
<b>Non Current</b>				
Investment in controlled entity				
Blair Nickel Mine Pty Ltd	-	-	4,183	5,483
Provision for diminution	-	-	(4,183)	(1,300)
	-	-	-	4,183
10. <b>EXPLORATION AND EVALUATION EXPENDITURE</b>				
<b>Exploration and evaluation phase</b>				
Opening balance	3,188	9,722	1,133	3,916
Exploration expenditure	1,037	2,703	131	239
Exploration written off	(1,234)	(3,027)	(1,234)	(3,022)
Exploration transferred to Mine properties	-	(6,210)	-	-
<b>Exploration costs carried forward</b>	2,991	3,188	30	1,133

The ultimate recoupment of costs carried forward for mineral properties in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Mine Properties</b>				
Mine properties	12,070	9,527	-	-
Write down	(3,222)	-	-	-
Accumulated amortisation	(7,372)	(3,397)	-	-
At recoverable amount	1,476	6,130	-	-
<b>Building</b>				
At cost	88	88	-	-
Write down	(40)	-	-	-
Accumulated depreciation	(30)	(7)	-	-
At recoverable amount	18	81	-	-
<b>Plant &amp; Equipment</b>				
At cost	1,022	626	126	56
Write down	(120)	-	-	-
Accumulated depreciation	(445)	(88)	(74)	(23)
At recoverable amount	457	538	52	33
<b>Leased Plant &amp; Equipment</b>				
At cost	2,539	1,212	17	-
Accumulated amortisation	(1,094)	(159)	(7)	-
At recoverable amount	1,445	1,053	10	-
<b>Total Property, Plant &amp; Equipment</b>	<b>3,396</b>	<b>7,802</b>	<b>62</b>	<b>33</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Reconciliations</b>				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<b>Mine Properties</b>				
Opening balance	6,130	-	-	-
Exploration costs transferred	-	6,210	-	-
Additions	2,542	4,617	-	-
Amortisation	(3,974)	(3,397)	-	-
Write down to recoverable amount	(3,222)	(1,300)	-	-
Carrying amount at end of year	1,476	6,130	-	-
<b>Buildings</b>				
Carrying amount at beginning of year	81	40	-	-
Additions	-	48	-	-
Write down to recoverable amount	(40)	-	-	-
Depreciation	(23)	(7)	-	-
Carrying amount at end of year	18	81	-	-
<b>Plant and Equipment</b>				
Carrying amount at beginning of year	538	130	33	10
Additions	352	490	69	42
Write down to recoverable amount	(120)	-	-	-
Depreciation	(313)	(82)	(50)	(19)
Carrying amount at end of year	457	538	52	33
<b>Plant and Equipment leased</b>				
Carrying amount at beginning of year	1,053	-	-	-
Additions	1,426	1,212	17	-
Disposals	(48)	-	-	-
Amortisation	(986)	(159)	(7)	-
Carrying amount at end of year	1,445	1,053	10	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>12. PAYABLES</b>				
<b>Current (unsecured)</b>				
Trade creditors and accruals	3,477	2,972	120	271
Other creditors and accruals	230	40	8	25
	3,707	3,012	128	296
<b>13. INTEREST BEARING LIABILITIES</b>				
<b>Current</b>				
Loans secured (i)	1,184			
Loans unsecured (ii)	277	-	277	-
Lease liabilities (note 18)	817	190	7	-
	2,278	190	284	-
<b>Non Current</b>				
Lease liabilities (note 18)	792	736	5	-
	792	736	5	-
(i) The controlling entity has access to a facility totalling US\$2,000,000 (A\$2,597,000) which provides immediate cash against sales receivables and is secured against nickel receivables. As at 30 June 2005, the consolidated entity had drawn down US\$919,673 (A\$1,184,000) of the facility, leaving US\$1,080,327 (A\$1,413,000) unused in the event of future sales proceeds.				
(ii) The loan advance is provided interest free from Directors of the Company as part of the July 2005 entitlements issue. Disclosed in note 22 as related party transaction.				
<b>14. PROVISIONS</b>				
<b>Current</b>				
Employee benefits	193	34	35	25
Other	-	-	6	-
	266	34	41	25
<b>Non Current</b>				
Rehabilitation	140	-	-	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
15. <b>CONTRIBUTED EQUITY</b>				
<b>Issued and paid up capital</b>				
144,926,132 (2004: 144,676,132) ordinary shares fully paid	17,870	17,866	17,870	17,866
<b>Reconciliation of contributed equity</b>				
Balance at beginning of year	17,866	11,354	17,866	11,354
Issue of 5,000,000 ordinary shares at \$0.14 each and 2,500,000 options at a fair value of 5.2 cents in August 2004 for the acquisition of Golden Ridge project.	-	825	-	825
Issue of 8,252,936 ordinary shares at \$0.2175 in October 2004 for cash	-	1,795	-	1,795
Issue of 15,527,855 ordinary shares on exercise of 31 March 2005 listed options finalised in April 2005	-	3,105	-	3,105
500,000 ordinary shares on exercise of 31 December 2005 unlisted options in October 2004.	-	100	-	100
Issue of 5,000,000 ordinary shares comprising 1,972,145 31 March 2005 options exercised and 3,027,855 ordinary shares at 20 cents each.	-	1,000	-	1,000
Acquisition of Duplex Hill South 250,000 ordinary shares at 15 cents.	38	-	38	-
Costs of capital raisings	(34)	(313)	(34)	(313)
Contributed equity at end of year	<u>17,870</u>	<u>17,866</u>	<u>17,870</u>	<u>17,866</u>

### Terms and conditions

Holders of ordinary shares are entitled to receive dividends from time to time and are entitled one vote per share at shareholders' meetings. In the event of winding up, ordinary shares rank after creditors.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Company has on issue the following options over ordinary shares as at 30 June 2005.

Expiry date	Exercise price	Number of Options	
		2005	2004
31 December 2005 (i)	\$0.20	15,400,001	16,100,001
1 February 2006 (ii)	\$0.20	35,000,000	35,000,000
1 February 2006 (iii)	\$0.20	2,500,000	2,500,000
31 December 2008 (iv)	\$0.20	500,000	-

- (i) Employee options have reduced by 700,000 due to staff resignations.
- (ii) This issue was made as part consideration for the Blair Nickel Mine Pty Ltd.
- (iii) This issue was made as part consideration for the Golden Ridge project.
- (iv) Refer Note 22.

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>16. RESERVES</b>				
Option premium reserve	1,246	1,246	1,246	1,246

### Nature and purpose

The option premium reserve represents the fair value of unexercised options issued by Australian Mines Limited for the acquisition of assets. Fair value is estimated using the Black and Scholes option pricing model.

### 17. ACCUMULATED LOSSES

Balance at beginning of period	(8,265)	(1,422)	(8,265)	(1,422)
Net loss for the year	(7,461)	(6,843)	(7,574)	(6,843)
Accumulated losses at end of period	(15,726)	(8,265)	(15,839)	(8,265)

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>18. COMMITMENTS</b>				
<b>Exploration expenditure</b>				
In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to re-negotiation when application for a mining lease is made and at other times. These annual obligations are not provided for in the financial report and are payable:				
Within one year	1,246	1,283	450	454
<b>Total</b>	<b>1,246</b>	<b>1,283</b>	<b>450</b>	<b>454</b>

The Company can apply for exemption from compliance with the minimum expenditure requirements.

In addition the Company has commitments to pay compensation to the Ngaanyatjarra Land Council ("NLC") for access to the agreement area and for land disturbance in respect of the tenements in the West Musgrave region of Western Australia it owns directly, and in joint venture with Viper Resources Pty Ltd, Blackstone Minerals Pty Ltd and Peachlands Pty Ltd.

In respect of the tenements owned directly (E69/1455-1457) the value of these commitments is;

- \$60,000 per annum annual compensation for the duration of the title.
- In addition the Company must pay to the NLC 5% of the exploration expenditure incurred on these tenements, to the extent that 5% of the exploration expenditure exceeds the stated annual compensation.

In respect of the tenements owned via joint venture (E69/1389-1391) the value of these commitments is;

- \$55,000 per annum annual compensation for the duration of the title.
- In addition the Company must pay to the NLC 5% of the exploration expenditure incurred on these tenements, to the extent that 5% of the exploration expenditure exceeds the stated annual compensation.

The Company has been reviewing options with respect to West Musgrave and expects to divest its interests in the project in the forthcoming financial year at which time these commitments are no longer applicable.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
18. <b>COMMITMENTS</b> (Continued)				
<b>Non-cancellable operating lease expense commitments</b>				
Future operating lease commitments not provided for in the financial statements and payable:				
Within one year	58	30	58	-
One year or later and no later than five years	-	-	-	-
	-	30	-	-
<b>Finance Lease Commitments</b>				
Finance lease commitments are payable:				
Within one year	900	210	7	-
One year or later and no later than five years	873	807	6	-
	1,773	1,017	13	-
Less: Future lease finance charges	(164)	(91)	(1)	-
	1,609	926	12	-
Lease liabilities provided for in the financial statements:				
<i>Current</i>	817	190	7	-
<i>Non-current</i>	792	736	5	-
Total lease liability	1,609	926	12	-

The consolidated entities lease liabilities are secured by leased assets with a carrying value of \$1,445,000 (2004: \$1,053,000).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 19. CONTROLLED ENTITIES

(a) Particulars in relation to controlled entities:

*Parent Entity*

The Company

*Controlled entities:*

Blair Nickel Mine Proprietary Limited.

	2005	2004
Ownership %	100	100

(b) No entities were acquired or disposed of during the current financial year.

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>20. NOTES TO STATEMENT OF CASH FLOWS</b>				
<b>(a) Reconciliation of loss after income tax to net cash provided by operating activities:</b>				
Net loss	(7,461)	(6,843)	(7,574)	(6,843)
<i>Add/(less) items classified as investing/financing activities:</i>				
Unrealised gain / loss on hedge	73	(987)	-	-
Profit / loss on sales of assets	7	-	-	-
Add back non cash expenses:				
Depreciation and amortisation	5,296	3,645	59	19
Write downs to recoverable amount	3,382	1,300	-	-
Exploration expenditure written off	1,234	3,027	1,234	3,022
Provision for intercompany receivables	-	-	2,000	1,748
Diminution investment in controlled entity	-	-	4,184	1,300
<i>Movement in operating assets and liabilities:</i>				
(Increase)/decrease in receivables	(1,293)	(1,812)	20	20
(Increase)/decrease in inventories	64	(222)	-	-
Increase/(decrease) in payables	695	2,131	(168)	(73)
Increase/(decrease) in provisions	299	34	15	25
Net cash used in/by operating activities	2,296	273	(230)	(782)

### (b) Non-cash financing and investing activities

(ii) Leased Equipment During the year the Company leased plant and equipment of \$1,378,000. Lease payments of \$696,000 were made during the year and have been included in the statement of cash flows.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 21. EMPLOYEE BENEFITS

	Consolidated		The Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Aggregate liability for employee benefits, Including on costs</b>				
Current				
Employee benefits provision	193	34	35	25
	193	34	35	25
Number of employees at year end	34	10	5	4

#### **Executive and employee share option plan**

The Company has an executive share option issue that was approved at the annual general meeting on 24 November 2005. The approval provided for B J Cahill to receive a total of 500,000 options over ordinary shares expiring 31 December 2008 at an exercise price of \$0.20 during the year.

Each option is convertible to one ordinary share. The exercise price of the options is determined in accordance with the rules of the plan as set out in the option plan rules.

All options expire on the earlier of their expiry date or termination of the employee's employment.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

#### **Summary of options over unissued ordinary shares**

Details of options over unissued ordinary shares as at the beginning and ending of the reporting date and movements during the year are set out in Note 22.

The fair value of shares issued as a result of exercising the options during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading.

There were no executive share options exercised during the financial year.

### 22. DIRECTOR AND EXECUTIVE DISCLOSURES

#### **Remuneration of specified directors and specified executives of the consolidated entity**

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The following table provides the details of all

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

directors of the Company ("specified directors") and the executive of the consolidated entity with the greatest authority ("specified executive") and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

The Company's remuneration policy requires that a remuneration committee has responsibility for establishing competitive remuneration levels. This committee is chaired by the non-executive Chairman. The remuneration committee ensures that the level of remuneration for executives is fair and reasonable and its relationship to corporate and individual performance is defined.

### **Fixed Remuneration**

Fixed remuneration consists of base remuneration as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually through a process that considers individual and overall performance of the Consolidated Entity.

### **Performance Linked Remuneration**

The long-term incentive is in the form of options that are able to be issued under the Employee Option Scheme. During the financial year options were only issued to the Managing Director under this scheme.

### **Executive Directors**

The Consolidated Entity's had a service agreement contract for Executive Director, Mr. Barry Cahill. The contract was varied during the year and to make it extendable by mutual consent for additional periods. If the Company does not intend to extend the contract, at least three months written notice will be provided.

Contracts may be terminated by the Company forthwith if the Executive Director (amongst others items) breaches duties connected with the performance of services; commits an act of bankruptcy; engages in misconduct; is of ill health or of unsound mind. If an Executive Director elects to terminate the contract, three months written notice will be provided to the Company. Under such circumstances the Company will pay an amount equal to the aggregate of unpaid salary, annual leave and long service leave accrued to the date of termination.

The Company provides insurance for Executive Directors for any liability arising from statute or common law and public indemnity insurance in respect of shareholder or third party actions.

The Remuneration Committee undertakes to review Directors' remuneration on an annual basis to take into account changes to the cost of living and changes in the scope of the Directors' roles and responsibilities. If warranted the Remuneration Committee may approve bonus payments up to a reasonable limit for exceptional performance.

### **Executive Officers**

The Company has entered into employment contracts with Executive Officers, Mr Brett Young and Mr Cullum Winn. The contracts are for an unlimited term and may be terminated with four weeks written notice.

### **Non-Executive Directors**

Total remuneration for all Non-Executive Directors, is not to exceed \$200,000 per annum and are set with reference to fees paid to other Non-Executive Directors of comparable companies. Directors' base fees are presently \$32,500 per annum.

The Chairperson and Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of committees.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

**22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)**

		Primary			Post-employment		Equity compensation (iii)		Other compensation			Total
		Salary & fees	Bonus	Long-term incentive	Non monetary	Super annuation	Prescribed benefits	Value of options	Termination benefits	Insurance premiums		
<b>Non-executive</b>												
Mr K S Liddell, Chairman	2005 2004	26,250 33,000	- -	- -	- -	- -	- -	- -	- -	4,500 4,000	- -	30,750 37,000
Mr A W Fairweather (resigned 28 April 2005)	2005 2004	18,750 25,000	- -	- -	- -	- 4,000	- -	- -	- -	4,500 4,000	- -	23,250 33,000
Mr N Warburton	2005 2004	18,750 25,000	- -	- -	- -	- 4,000	- -	- -	- -	4,500 4,000	- -	23,250 33,000
Dr J L Daniels (retired 13 November 2003)	2005 2004	- 19,000	- -	- -	- -	- -	- -	- -	- -	- -	- -	- 19,000
<b>Executive</b>												
Mr B Cahill, Managing Director (appointed 31 May 2004) (i),(ii)	2005 2004	225,469 -	- -	- -	- -	18,277 -	- -	20,750 -	- -	4,500 4,000	- -	268,996 4,000
Mr D D Boyer, Managing Director (resigned 30 June 2004)	2005 2004	- 250,000	- -	- -	- -	- 5,000	- -	- -	- 100,000	- 4,000	- -	- 359,000
Total, all specified directors	2005 2004	289,219 352,000	- -	- -	- -	18,277 13,000	- -	20,750 -	- 100,000	18,000 20,000	- -	346,246 485,000

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

<b>NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005</b>											
<b>22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)</b>											
		<b>Primary</b>			<b>Post-employment</b>		<b>Equity compensation (iii)</b>		<b>Other compensation</b>		
		Salary & fees	Bonus	Long-term incentive	Non monetary	Super annuation	Prescribed benefits	Value of options	Termination benefits	Insurance premiums	Total
Specified executive Mr B Young Chief Operating Officer Company Secretary (appointed 1 September 2004)	2005	109,345	-	-	-	9,841	-	-	-	4,500	123,686
Mr C Winn Mine Manager (appointed 13 December 2004)	2005	71,777	-	-	-	6,975	-	-	-	4,500	83,252
Mr M Campbell Chief Financial Officer (Resigned 1 September 2004)	2005 2004	-	-	-	-	-	-	-	-	-	-
Total all specified executive	2005 2004	181,122 174,000	-	-	-	16,816	-	-	-	9,000 4,000	206,938 200,000
<p>(i) Payment for Mr Cahill's services as Managing Director commenced in July 2004, and he resigned on July 15 2005</p> <p>(ii) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model. Further details of options granted during the year are set out under "Options" above. This value has been ascertained using the following inputs and assumptions:</p> <ul style="list-style-type: none"> <li>• a share price of 13 cents being the sale price of ordinary shares on 8 September 2004 being the date of valuation;</li> <li>• option exercise prices of 20 cents;</li> <li>• a risk free rate of 5.495%;</li> <li>• a volatility factor of 50% which has been determined with reference to the historical trading of the Company's shares on ASX; and</li> <li>• Expiry of date 31 December 2008.</li> </ul>											

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *Option holdings*

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	Granted as remuneration	Exercised	Other changes*	Held at resignation	Held at 30 June 2005
<b>Specified directors</b>						
Mr K S Liddell	7,750,000	-	-	-	-	7,750,000
Mr N Warburton	11,333,333	-	-	-	-	11,333,333
Mr B J Cahill		500,000				500,000
<b>Specified Executives</b>						
Mr M Campbell	400,000	-	-	(400,000)	-	-
Mr B Young	-	-	-	-	-	-
Mr C Winn	-	-	-	-	-	-

No options held by specified directors or specified executives are vested but not exercisable.

\*Other changes represent options that were forfeited during the year.

### *Equity holdings and transactions*

The movement during the reporting period in the number of ordinary shares of the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2004	Purchases	Received on exercise of options	Sales	Held at resignation	Held at 30 June 2005
<b>Specified directors</b>						
Mr K S Liddell	13,100,500	-	-	-	-	13,100,500
Mr N Warburton	11,400,000	-	-	-	-	11,400,000
Mr B Cahill	385,000					385,000
<b>Specified executives</b>						
Mr M Campbell	60,000	-	-	-	(60,000)	-
Mr B Young	-	-	-	-	-	-
Mr C Winn	-	-	-	-	-	-

### ***Other director related transactions with the Company or its controlled entities***

The Company has paid Fairweather & Lemonis, a firm associated with Mr T Fairweather, \$23,227 (2004: \$22,069) for legal services in relation to the Company's business operations in the reporting period.

Mr K Liddell and Mr Warburton have made unsecured loans totalling \$277,000 to the Company. The loans were made in advance of the entitlements issue made in July 2005 and were Mr Liddell's and Mr Warburton's commitments to take up their entitlements. The loans were repaid through proceeds from the entitlement issue (Note 29).

### ***Director & Officer Protection Deeds***

Australian Mines Limited has entered into Director and Officer Protection Deeds with each of the Directors and the company secretary wherein the Directors and officers are indemnified against certain liabilities incurred as a Director or officer and requires the Company to maintain Directors' and officers' liability insurance.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### 23. FINANCIAL INSTRUMENTS

#### (a) Interest rate risk exposures

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted average interest rate	Floating interest rate \$000	1 year or less \$000	1 to 5 years \$000	Non-interest bearing \$000	Total \$000
<b>2005</b>							
<i>Financial assets</i>							
Cash assets	6	5.30%	882	-	-	-	882
Receivables	7		-	-	-	3,146	3,146
			882	-	-	3,146	4,028
<i>Financial liabilities</i>							
Payables	12	-	-	-	-	3,707	3,707
Loan Secured	13	4.16%	1,184	-	-	-	1,184
Loan unsecured	13		-	-	-	277	277
Lease liabilities (current)	13	8.70%	-	817	-	-	817
Lease liabilities (non-current)	13	8.77%	-	-	792	-	792
Employee benefit	14		-	-	-	193	193
Other Provisions	14	-	-	-	-	140	140
			1,184	817	792	4,317	7,110
<b>2004</b>							
<i>Financial assets</i>							
Cash assets	6	5.36%	1,753	-	-	-	1,753
Receivables	7		-	-	-	1,854	1,854
			1,753	-	-	1,854	3,607
<i>Financial liabilities</i>							
Payables	12		-	-	-	3,012	3,012
Lease liabilities (current)	13	8.15%	-	190	-	-	190
Lease liabilities (non-current)	13	8.31%	-	-	736	-	736
Employee benefit	14		-	-	-	34	34
				-190	736	3,046	3,972

#### (b) Foreign exchange risk

The consolidated entity enters into forward foreign exchange contracts to hedge a proportion of anticipated sales commitments denominated in US dollars expected in each month, subject to Board approval limits. The amount of anticipated future sales is forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales from the first of each month are designated as being hedged until all hedge contracts are fully utilised. The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *Australian dollar forward exchange contracts:*

	CONSOLIDATED			
	2005 Weighted	2004 average rate	2005 \$000	2004 \$000
<i>Sell US Dollars</i>				
Not later than one year	.7735	0.6955	2,559	3,905

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and sales are recognised in the statement of financial position and the timing of their anticipated recognition as part of sales or purchases are:

	CONSOLIDATED Net gains/(losses)	
	2005 \$000	2004 \$000
Not later than one year	(62)	(66)

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

### (c) **Commodity price risk**

#### ***Forward Nickel Sales***

The consolidated entity enters into commodity contracts to hedge commodity prices on anticipated specific sale commitments of nickel. The terms of these contracts are rarely more than two years. The contracts outstanding at year end are:

	CONSOLIDATED Net gains/(losses)	
	2005 \$000	2004 \$000
<i>Hedging purchases</i>		
Not later than one year	2,952	6,701

The net deferred gains and losses on hedges of anticipated future commodity purchase contracts are not recognised in the statement of financial position and the timing of their anticipated recognition as part of purchases are:

	CONSOLIDATED Net gains/(losses)	
	2005 \$000	2004 \$000
Not later than one year	4	(193)

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *Australian dollar nickel call options:*

	CONSOLIDATED	
	2005	2004
	\$'000	\$'000
<i>Sell 100 Nickel tonnes</i>		
Not later than one year	1,900	-

The net deferred gains and losses on hedges of nickel call options are recognised in the statement of financial position and the timing of their anticipated recognition as part of purchases are:

	CONSOLIDATED	
	Net gains/(losses)	
	2005	2004
	\$000	\$000
Not later than one year	(73)	51

#### 24. **SEGMENT INFORMATION**

The Company operates predominantly in one industry segment, being mining and exploration and in one geographical segment being Western Australia.

#### 25. **CONTINGENT LIABILITIES**

The Company's mining tenements are subject to native title applications. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Company

#### 26. **EARNINGS PER SHARE**

The consolidated entity only has ordinary shares on issue. Options on issue are potential ordinary shares but are not considered to be 'dilutive potential ordinary shares' at balance date, therefore diluted EPS has not been calculated or disclosed. The weighted average number of shares used in the calculation of basic earnings per share is 144,842,799 (2004: 125,533,739).

#### 27. **INTEREST IN JOINT VENTURES**

The Company holds a 51% interest in a joint venture interest in respect of the Viper tenements including the Cavenagh Range E69/1389 and E69/1391 and the Blackstone Range E69/1390 tenements, and is currently funding exploration expenditure to increase this interest to 80%.

Included in the assets of the consolidated and parent entity are the following items, which represent the consolidated and parent entities' interest in the assets, employed in the joint venture recorded in accordance with the accounting policies described in Note 1(b).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
Non-current assets				
Exploration expenditure carried forward in respect of the following areas of interest	30	885	30	885

### 28. **ECONOMIC DEPENDENCY**

The Consolidated entity has a sale contract whereby 100% of life of mine nickel ore is contracted for sale to BHP Billiton - WMC Resources Limited.

### 29. **EVENTS SUBSEQUENT TO REPORTING DATE**

In July 2005, the company completed an entitlements Issue on the basis of two shares for one in the Company at one cent per share. The issue raised \$2.8m and resulted in the issue of 289,852,264 new ordinary shares in the Company.

In September 2005 the Company settled an outstanding debt of \$1.2 million with a cash payment of \$820,630 and the issue of 17.5 million ordinary shares in the Company.

### 30. **IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS.**

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

#### **Transition management**

The board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### ***Assessment and planning phase***

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS
- assessment of new information requirements.
- evaluation of the implications for staff, for example training requirements.

The assessment and planning phase is completed as at 30 June 2005.

### ***Design phase***

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

The design phase incorporated:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements
- identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS
- development of revised AIFRS disclosures

The design phase is completed as at 30 June 2005.

### ***Implementation phase***

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards.

This phase is in the process of being completed.

### ***Impact of transition to AIFRS***

The impact of transition to AIFRS, including the transitional adjustments disclosed are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

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, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

### *(a) Restoration provision*

Under current Australian GAAP, provisions are made for mine rehabilitation and restoration on an incremental basis during the course of the mine life. The provision is determined on an undiscounted basis based on current costs, current legal requirements and current technology.

Under AIFRS, the present value of restoration obligations is recognised at commencement of the mining project where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset recognised in relation to the mine site. At each reporting date the rehabilitation liability is remeasured in line with changes in discount rates, and timing or amount of the costs to be incurred. As the assets are not revalued any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as interest in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in profit or loss. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable an impairment test is performed (refer (f)).

No adjustments are expected to arise in the consolidated entity or as a result of the above.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### *(b) Financial instruments / insurance contracts*

The Company expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1 Statement of significant accounting policies.

As at 1 July 2005 the expected adjustments are:

- Under current Australian GAAP not all derivatives were recognised on the balance sheet. On adoption of AASB 139 all derivatives will be recognised at fair value on the balance sheet. The effect on the consolidated entity is increase fair value derivatives and the hedging reserve by \$58,000. No adjustment is expected for the Company.

### *(c) Share Based Payments*

Under current Australian GAAP no expense is recognized for options issued to employees.

Under AIFRS the fair value of options granted must be recognized as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options. The fair value of options granted will be measured using the binomial method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002 which have vested before 1 January 2004. Options granted after 7 November 2002 remaining unvested at 1 July 2004 will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

For the financial year ended 30 June 2005, employee benefits expense and retained earnings are expected to be increased by \$21,000 in the company and consolidated entity \$42,000 representing the options expense for the period.

## DIRECTORS' DECLARATION

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- 1 In the opinion of the Directors of Australian Mines Limited:
  - (a) the financial statements and notes, set out on pages 34 to 74, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  
- 2 The directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Chief Operating Officer for the year ended 30 June 2005.

Signed for and on behalf of the Board:



Keith Liddell  
Chairman

Dated: 30 September 2005



## Independent audit report to members of Australian Mines Limited

### **Scope**

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

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Australian Mines Limited (the "Company") and the Consolidated Entity, for the year ended 30 June 2005. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report 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.

#### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



## INDEPENDENT AUDIT REPORT

### **Audit opinion**

In our opinion, the financial report of Australian Mines Limited is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

T R HART  
Partner

Perth  
30 September 2005

# CORPORATE GOVERNANCE STATEMENT

## CORPORATE GOVERNANCE STATEMENT 2004 - 2005

### INTRODUCTION

#### Corporate Governance

The Australian Stock Exchange ("**ASX**") Listing Rules ("**Listing Rules**") require a listed entity to include in its annual report a statement on corporate governance practices disclosing the extent to which it has followed the "best practice" corporate governance recommendations set by the ASX Corporate Governance Council. If the entity has not followed any of the recommendations, it must identify them and give reasons why. It must state the period during which the recommendations were followed. For this purpose, Listing Rules Guidance Note 9A sets out the 10 essential corporate governance principles and the applicable "best practice recommendations".

The concept of "corporate governance" is the systems, policies and procedures under which an entity is directed and managed. The benefits of good corporate governance are accountability, systems of control and the encouragement to create value.

There is no single model of good corporate governance. Corporate governance will evolve as an entity's circumstances change and must be tailored to its circumstances.

#### Compliance with ASX Listing Rule 4.10.3

Listing Rule 4.10.3 and Guidance Note 9A reflect ASX policy that it is "appropriate to focus on disclosure of corporate governance practices rather than prescribe adoption of a particular practice". Therefore, an entity's obligation is to highlight areas of departure from the recommendations: the "if not, why not?" approach.

#### The Company's Approach

The Board and senior management of Australian Mines Limited (the "**Company**") are committed to acting responsibly, ethically and with high standards of integrity as the Company works to create shareholder value. To achieve this goal, the Board has developed and adopted corporate governance practices and policies that have been implemented throughout management and governance. This Corporate Governance Statement summarises these practices as they have been adopted by the Company.

#### Adoption by the Board

The Board of the Company has reviewed and considered this Corporate Governance Statement and has adopted it. A Board resolution to this effect has been passed.

This Statement and some specific corporate governance policies are available on the Company's website.

#### Summary of Compliance

The Company has complied with 22 of the 28 corporate governance recommendations. The non-compliance with 6 of the recommendations relates to the Board considering it appropriate for the Company to not separately constitute an audit committee and nomination committee and the Company further not having a majority of independent directors. The full Board deals with matters that would otherwise be dealt with by audit and nomination committees. The Board considers the make-up of the Board is appropriate given the Company's size and operations. The effectiveness of the Board is achieved through knowledge and experience specific to the business and the industry in which it operates.

## ESSENTIAL PRINCIPLES OF GOOD CORPORATE GOVERNANCE

### Principle 1: Lay Solid Foundations for Management and Oversight

#### ***"Recognise and publish the respective roles and responsibilities of the board and management"***

**Recommendation 1.1:** Formalise and disclose the functions reserved to the board and those delegated to management.

The Board has adopted a formal statement of its roles, functions and responsibilities.

The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Its functions and responsibilities include:

- setting policy and strategic direction and adopting a corporate strategy;
- monitoring Company and management's performance against this strategy;
- overseeing control and accountability systems;
- identifying the principal risks and opportunities of the Company's business;
- ensuring appropriate risk management systems are established and reviewed;
- ensuring there are sufficient resources to meet objectives and strategies;
- approving and monitoring financial reporting, capital management and compliance;
- appointing senior management, monitoring senior management's conduct and performance and overseeing remuneration, development and succession;
- adopting procedures to ensure the business of the Company is conducted in an honest, open and ethical manner consistent with Company values;
- approving all significant business transactions;
- ensuring the Company meets its continuous disclosure obligations and that its shareholders have available all information reasonably required to make informed assessments of the Company's prospects;
- overseeing the Company's commitment to sustainable development, the environment, health and safety of employees, contractors, customers and the community;
- ensuring that the Board remains appropriately skilled to meet Company needs;
- reviewing and approving corporate governance systems; and
- delegating authority to management where appropriate.

This statement is included on the Company's website, and is to be reviewed annually to ensure it remains appropriate to the needs of the Company given its size, complexity and ownership structure and the skills of directors and managers.

The Board is also governed by the Company's Constitution and its various policies, as described elsewhere in this Statement.

A strategic balance is maintained between the responsibilities of the Board, chief executive officer, the Company's chief operating officer ("**COO**").

The chief executive officer/Chief Operating Officer is accountable to the Board for management of the Company and its subsidiaries within authority levels reviewed and approved by the Board each year, has authority to approve capital expenditure within predetermined limits set out by the Board and is subject to the supervision of the Board. Material strategic and policy decisions are made by the Board.

The chief executive officer/chief operating officer (who is also Company Secretary) is responsible for maintaining financial control across the Company and its subsidiaries. This includes management reporting to the Board, statutory accounting, auditing, taxation and insurance. Financial performance is monitored against financial control guidelines.

The Board adopted its formal statement and its various policies in June 2005.

## **Principle 2: Structure the Board to Add Value**

***"Have a board of an effective composition size and commitment to adequately discharge its responsibilities and duties"***

***Recommendation 2.1:*** A majority of the board should be independent directors.

The Company currently has three directors, Keith Liddell, Neil Warburton, Mick Elias. Mr B Cahill and Mr T Fairweather resigned as directors of the Company during the 2004 – 2005 year. Details of these directors, including their skills, experience and terms of office are set out in the Company's annual report.

Mr Liddell and Mr Warburton although non-executive directors are officers of or otherwise associated with substantial shareholders (more than 5%) of the Company. Thereby in accordance with guidelines adopted by the Board they are not considered independent.

Mr Elias is considered to be independent.

Of the 2 past directors Mr Cahill former Managing Director was not independent whilst Mr Fairweather was independent.

The Board has adopted a materiality threshold relating to a director's current or former association with a supplier, professional adviser or consultant to the Company. From the Company's viewpoint, material is more than 5% of the Company's total consolidated expenses for the relevant financial year. From the director's viewpoint when assessing an association, material is more than 5% of the total revenue of the supplier, adviser or consultant as the case may be.

The substantial shareholders associated with Mr Liddell and Mr Warburton each own between 5% and 10% of the shares of the Company. The Board does not consider that this will hinder their independent decision making.

The Board considers the make-up of the Board is appropriate given the Company's size and operations. The effectiveness of the Board is achieved through knowledge and experience specific to the business and the industry in which it operates.

The Board has also adopted procedures intended to ensure that independent decision making occurs. All directors are entitled to seek independent professional advice, at the Company's cost, in carrying out their duties, subject to the chairperson's prior approval of the expenditure, which will not be unreasonably withheld. Further, in accordance with the Corporations Act 2001 (Cth) and policies adopted by each member of the Board is required to keep the Board advised on an ongoing basis of any potential conflict of interest which may exist with the Company. If a conflict does exist, the director concerned must absent themselves from any Board discussion in relation to the relevant item and not vote upon such an item. Non-executive directors are also encouraged to confer on a needs basis without management in attendance.

***Recommendation 2.2:*** *The chairperson should be an independent director.*

The Company's chairperson, Keith Liddell, is not an independent director, as set out above in relation to best practice recommendation 2.1. However, due to his experience and expertise in the areas in which the Company operates and as a company director, the Board considers that Mr Liddell is highly appropriate to

## CORPORATE GOVERNANCE STATEMENT

perform the role of chairperson. This includes the leadership of the Board, organisation and conduct of its function and the briefing of directors on board matters. The Board is confident that he is able to facilitate effective contributions from other directors. The Board does not consider that Mr Liddell's other directorships or chairmanships affect his ability to effectively perform these functions for the Company.

**Recommendation 2.3:** *The roles of the chairperson and chief executive officer should not be exercised by the same individual.*

The role of the Company's chairperson has been fulfilled by Keith Liddell, and the role of chief executive officer was fulfilled by Barry Cahill until his resignation on 15th July 2005. His position has not been replaced at this stage however Mr Young holds the position of chief operating officer as well Company Secretary. The division of responsibility between the Company's chairperson and its chief executive officer is set out in the Statement of Board's Role, Functions and Responsibilities referred to in relation to best practice recommendation 1.

**Recommendation 2.4:** *The board should establish a nomination committee.*

The Board has not established a nomination committee as, due to the Company's size and its operations, the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. The Board assesses the experience, knowledge and expertise of potential directors before any appointment is made and adheres to the principle of establishing a board comprising directors with a blend of skills, experience and attributes appropriate to the Company and its business. The main criterion for the appointment of directors is an ability to add value to the Company and its business. All directors appointed by the Board are subject to election by shareholders at the following annual general meeting of the Company.

**Recommendation 2.5:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 2.*

The Company has complied with providing the relevant information in this Statement including the procedure for the selection and appointment of new directors to the Board.

### **Principle 3: Promote Ethical and Responsible Decision- Making** **"Actively promote ethical and responsible decision making"**

**Recommendation 3.1:** *Establish a code of conduct to guide directors, the chief executive office (or equivalent), the chief operating officer (or equivalent) and any other key executives as to:*

*3.1.1 - the practices necessary to maintain confidence in the company's integrity*

*3.1.2 – the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Company adopted, in 2002, the Australian Institute of Company Director's Code of Conduct ("**AICD Code**") to set appropriate standards of ethical and professional behaviour for its directors. In June 2005, the Company adopted a "Code of Conduct for Directors and Key Executives", which affirmed the Company's adoption of the AICD Code as appropriately setting the standards of ethical behaviour for directors. The Board will review compliance with this Code of Conduct every 12 months.

The Company's Code of Conduct for Directors and Key Executives prescribes standards including acting honestly and in good faith, exercising powers for a proper purpose, using due care and diligence, exercising independent judgment and avoiding a conflict of interest.

## CORPORATE GOVERNANCE STATEMENT

The Company has also adopted a "General Corporate Code of Conduct" ("**General Code**") which details the Company's commitment to appropriate corporate practices to its legitimate stakeholders and sets the standards expected of officers and employees in carrying out their duties.

**Recommendation 3.2:** *Disclose the policy concerning trading in company securities by directors, officers and employees.*

The Company has in place a trading policy concerning trading in Company securities, a copy of which is provided to all officers and employees of the Company.

The trading policy imposes certain restrictions on the Company's officers and employees trading in the Company's securities to prevent breaches of the insider trading provisions of the Corporations Act 2001 (Cth). The key aspects of the policy are that:

- trading in Company securities and other tradeable financial products is only permitted upon notification, in the case of employees, to the Company's chief executive officer, chief operating officer or, in the case of officers, to the Company's Chairman. If the Chairman wishes to trade he must notify the Company's Managing Director. Trading is only permitted for 2 weeks following notification and confirmation of trading must be provided to the chief executive officer or Chairman (as the case may be);
- no trading is permitted at any time where an officer or employee is in possession of information which, if it was generally available, a reasonable person would expect to have a material effect on the price or value of the security or product, or for a period of 2 days following a public announcement by the Company in relation to the matter the subject of that information; and
- active dealing, being trading in a manner which involves frequent and regular trading, in the Company's securities is not permitted.

The trading policy is provided to all the Company officers and employees and compliance with it is reviewed at least annually. The Company's current trading policy was adopted in June 2005 but reflects the position adopted under its previous trading policies.

The implementation of and compliance with the Company's trading policy is dealt with in the procedures and mechanisms set out in the Company's risk oversight and management policy, set out below in relation to best practice recommendation 7.1.

**Recommendation 3.3:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 3.*

The Company has complied with providing the relevant information including a summary of the Company's "Code of Conduct for Directors and Key Executives" and its current trading policy.

### **Principle 4: Safeguard Integrity in Financial Reporting**

**"Have a structure to independently verify and safeguard the integrity of the company's financial reporting"****Recommendation 4.1:** *Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.*

The Company's chief executive officer/chief operating officer//chief financial officer report in writing to the Board that the Company's financial statements for each half and full year present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with accounting standards.

# CORPORATE GOVERNANCE STATEMENT

**Recommendation 4.2:** *The board should establish an audit committee.*

The Board has not established an audit committee as, due to the Company's size and its operations, the Board considers an audit committee's functions and responsibilities can be adequately and efficiently discharged by the Board as a whole, operating in accordance with the Company's codes of conduct and other mechanisms designed to ensure independent judgment in decision making, as set out in relation to best practice recommendation 2.

**Recommendation 4.3:** *Structure the audit committee so that it consists of:*

- *only non-executive directors*
- *a majority of independent directors*
- *an independent chairperson, who is not chairperson of the board*
- *at least three members.*

As the Board as a whole fulfils the functions and responsibilities of an audit committee, the structure of the audit committee is not met.

**Recommendation 4.4:** *The audit committee should have a formal charter.*

Although there is no separate audit committee and hence no formal charter, in fulfilling the functions and responsibilities of an audit committee, the Board considers and deals with matters which would ordinarily be attended to by an audit committee, including:

- to recommend engagement and monitor performance of the external auditor;
- to review the effectiveness of management information and internal control;
- to review all areas of significant financial risk and risk management;
- to review significant transactions not a normal part of the Company's business;
- to review financial information and ASX reporting statements; and
- to monitor internal controls and accounting compliance.

**Recommendation 4.5:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 4.*

As the Board as a whole fulfils the functions and responsibilities of an audit committee, the names and qualifications of each of the members of the Board, and details of attendance at Board meetings, are set out in the Company's annual report.

The Board has not formalised any procedures for the selection and appointment of the Company's external auditor or rotation of external audit engagement partners, but reviews these matters on an ongoing basis and implements changes as required.

The Board has so far as it is applicable provided relevant information in this statement.

## **Principle 5: Make Timely and Balanced Disclosure**

**"Promote timely and balanced disclosure of all material matters concerning the company"**

**Recommendation 5.1:** *Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.*

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company

## CORPORATE GOVERNANCE STATEMENT

officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

In addition, at each of its meetings, the Board discusses continuous disclosure issues as a standing item and a list of all recent Company announcements is presented.

The continuous disclosure policy aims to ensure compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and Listing Rules. The aim of the policy is to:

- assess information and co-ordinate the timely disclosure to the ASX or the seeking of advice on the information;
- provide an audit trail of decisions regarding disclosure; and
- ensure officers and employees of the Company understand the obligation to bring relevant information to the attention of the chairperson.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who in consultation with the Board (where practicable) and any other appropriate personnel will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary. This continuous disclosure policy was adopted in June 2005 and reflects the position adopted under its previous continuous disclosure policies.

**Recommendation 5.2:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 5.*

The Company has provided relevant information in this Statement upon the continuous disclosure policy.

### **Principle 6: Respect the Rights of Shareholders**

"Respect the rights of shareholders and facilitate the effective exercise of those rights"

**Recommendation 6.1:** *Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

The Company has in place a communications policy, which reflects the Company's commitment to dealing fairly, transparently and promptly with shareholders, encouraging and facilitating active participation at shareholder meetings and dealing promptly with their enquiries. The policy focuses on the disclosure of information.

The key aspects of the policy are:

- diligent compliance with the Company's continuous disclosure and trading policies to keep shareholders informed of all relevant information;
- prompt, transparent compliance with statutory reporting and meeting obligations, including sending reports and notices to shareholders by email;
- effective use of the Company's website, electronic communication and its share registry to keep shareholders up to date and to deal with their enquiries, including the posting of Company announcements, company reports, notices of meeting and explanatory statements on the Company's website; and
- compliance with applicable privacy requirements.

# CORPORATE GOVERNANCE STATEMENT

The communications policy was adopted in June 2005 and is to be reviewed annually.

**Recommendation 6.2:** *Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*

The Company's external auditor attends the Company's annual general meeting, and other meetings where it is appropriate to do so.

## **Principle 7: Recognise and Manage Risk**

### **"Establish a sound system of risk oversight and management and internal control"**

**Recommendation 7.1:** *The board or appropriate committee should establish policies on risk oversight and management.*

The Company has in place a risk oversight and management policy, which sets out the Company's systems for risk oversight, management and internal control. The key aspects of the policy are that:

- the Board oversees the establishment and implementation of risk management systems and control frameworks, and in the absence of a separate audit committee as set out in relation to best practice recommendation 4.2, has the responsibility to establish, implement and maintain these systems and frameworks; and
- the Company's senior management are delegated the tasks of management of operational risk and the implementation of risk management strategies with the chief executive officer (unfilled at present) and Chief Operating Officer/Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

The Board reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation, annually. The Board also considers the management of risk at its regular meetings. The Company's risk profile, which is assessed and determined on the basis of the Company's business in commercial mining and mineral exploration, is reviewed annually upon advice from management including, where appropriate, as a result of regular interaction with management and relevant staff from across the Company's business.

The Board or the Company's senior management may consult with the Company's external accountants on external risk matters as required.

The Company's risk management systems and control frameworks for identifying, assessing, monitoring and managing its material risks, as established by the Board in conjunction with management, include:

- the Board's ongoing monitoring of management and operational performance;
- a comprehensive system of budgeting, forecasting and reporting to the Board;
- approval procedures for significant capital expenditure above threshold levels;
- regular Board review of all areas of significant financial risk and all significant transactions not part of the Company's normal business activities;
- regular presentations to the Board by management on the management of risk;
- comprehensive written policies in relation to specific business activities;
- comprehensive written policies in relation to corporate governance issues;
- regular communication between directors on compliance and risk matters; and
- consultation and review processes between the Board and external accountants.

The Company's risk oversight and management policy was adopted in June 2005.

**Recommendation 7.2:** *The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:*

*7.2.1 – the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board*

*7.2.2 – the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects*

The Company's chief executive officer (unfilled at present) and chief operating officer/chief financial officer together report in writing to the Board that the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

**Recommendation 7.3:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 7.*

The Company has provided relevant information in this Statement upon recognising and managing risk.

## **Principle 8: Encourage Enhanced Performance**

**"Fairly review and actively encourage enhanced board and management effectiveness"**

**Recommendation 8.1:** *Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.*

The Company has adopted self-evaluation processes to measure Board performance. The performance of all directors is assessed through analysis, review and specific discussion by the Board of issues relating to individual directors' attendance at and involvement in Board meetings, interaction with management, performance of allocated tasks and any other matters identified by the Board or other directors. Any significant issues identified are actioned by the Board on an ongoing basis. Evaluation of the Board's Committees is conducted on a similar basis. Due to the Board's assessment of the effectiveness of these processes, the Board has not formalised qualitative performance indicators to measure director's performance.

The evaluation of key executives is carried out by the Board via ongoing monitoring of management performance, based on management's reporting, interaction and involvement with and to the Board and Company performance, and the functioning of the Company's Remuneration Committee and its reporting processes.

## **Principle 9: Remunerate Fairly and Responsibly**

**"Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined"**

**Recommendation 9.1:** *Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.*

The Company's remuneration policies are value driven and reflected in the Charter of the Remuneration Committee. The essence of the Company's current remuneration policy is to competitively set remuneration including incentives to executive directors and senior management, to motivate key executives to pursue the long term growth and success of the Company within an appropriate control framework and to

## CORPORATE GOVERNANCE STATEMENT

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demonstrate a clear relationship between corporate (and key executive) performance and remuneration.

The Company's current policies are as follows:

- the fixed remuneration of key executives will be reasonable and fair taking into account level of responsibility, the Company's legal and industrial obligations and scale of the Company's business;
- to ensure performance and remuneration are appropriately linked, key executives will be entitled to appropriate equity based remuneration, including options linked to performance hurdles such as corporate performance (measured by matters such as the Company share price or other performance or production hurdles) and/or a minimum period of service;
- except in exceptional circumstances, no termination payments will be agreed with key executives other than a reasonable period of notice of termination as detailed in the executive's employment contract;
- non-executive directors will be remunerated by cash benefits alone, will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently \$200,000); and
- all remuneration packages be reviewed by the Board annually or on an ongoing basis if required in accordance with relevant remuneration packages.

Further details of directors' remuneration during the 2004 – 2005 year are set out in the Company's financial report.

**Recommendation 9.2:** *The board should establish a remuneration committee.*

A Remuneration Committee was established by the Board prior to the 2004 – 2005 year. A majority of the members of the Committee are required to be non-executive directors and the Committee is required to be chaired by the non-executive Chairman.

The names of the members of the Remuneration Committee are Keith Liddell, Neil Warburton and Mick Elias. Their attendance at Remuneration Committee meetings during the 2004 – 2005 year is set out in the Company's annual report.

During the 2004 – 2005 year the Committee was chaired by Keith Liddell, the non-executive Chairman due to his experience and expertise in the areas in which the Company operates and his non-executive status, the Board considers that he is suitably skilled to perform the role of chair of the Remuneration Committee. The Committee did not consist of a majority of independent directors as there is only one independent director in the Board, as set out in relation to best practice recommendation 2.1.

The Remuneration Committee's Charter sets out its duties, which include:

- reviewing and recommending remuneration packages and incentive policies for executive directors and senior management;
- reviewing and recommending the remuneration of non-executive directors within the aggregate limit set by shareholders;
- assisting the Board in evaluating the performance of the executive directors;
- reviewing succession and career development plans for key executives;

## CORPORATE GOVERNANCE STATEMENT

- assisting the executive directors to develop effective and innovative remuneration arrangements;
- administer and be responsible for the Company's share option scheme, incentive performance packages, superannuation entitlements and retirement and termination entitlements; and
- supervise employment and human resources management policies.

**Recommendation 9.3:** *Clearly distinguish the structure of non-executive directors' remuneration from that of executives.*

Non-executive directors will be remunerated by cash benefits alone, will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently \$200,000). Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration.

**Recommendation 9.4:** *Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*

The Company ensures that payment of equity-based executive remuneration is made in accordance with the share option scheme approved by shareholders on 24 November 2004.

**Recommendation 9.5:** *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 9.*

The Remuneration Committee's Charter is included on the Company's website. The Company has provided relevant information in this Statement upon its remuneration policies.

### **Principle 10: Recognise the Legitimate Interests of Stakeholders**

#### **"Recognise legal and other obligations to all legitimate stakeholders"**

**Recommendation 10.1:** *Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

As set out in relation to best practice recommendation 3.1, the Company has adopted a "General Corporate Code of Conduct" setting the standards expected of officers, employees and contractors in carrying out their duties. Under the "General Corporate Code of Conduct", officers and employees must, in all aspects of Company operations:

- act honestly, in good faith and in the best interests of the Company as a whole;
- seek to understand and comply with all applicable laws and Company policies (the Company has comprehensive written policies covering environmental principles, resource development on or near Aboriginal land, health safety and the environment and environmental management and monitoring);
- endeavour to avoid all forms of conflict of interest or divided loyalties;
- be professional, responsible and accountable;
- protect the Company's assets and ensure their efficient use;
- maintain confidentiality of non-public information except where disclosure is authorised or legally mandated; and
- deal responsibly with the community and specifically in all dealings with traditional landowners.

The Board and management monitor implementation of the "General Corporate Code of Conduct", and any breaches of it are reported by employees or contractors to their supervisor and by management or directors to the Board or the Company's Chairman.

## ADDITIONAL ASX INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. Information regarding share and option holdings is current as at 18 October 2005.

### a) Substantial Shareholders

The number of shares and options held by substantial shareholders and there associated interests.

	Ordinary Shares	Options
Neil Warburton	34,200,000	11,333,333

### b) Ordinary Shareholders

Twenty largest holders of ordinary shares.

	Number of Shares	% Held
Michlange Pty Ltd * <sup>1</sup>	31,999,998	7.04
Barmenco Limited	17,500,000	3.85
Citigroup Nominees Pty Ltd	12,962,000	2.85
Kingslane Pty Ltd	11,000,000	2.42
Mr Wayne Ihaka	10,000,000	2.20
R Aoukar & Sons Pty Ltd	9,862,100	2.17
TPIC Limited	9,809,294	2.16
Palazzo Hospitality Pty Ltd	9,668,000	2.17
Thoughtful Nominees Pty Ltd	9,500,000	2.09
ANZ Nominees Limited	8,610,000	1.89
Fogbell Nominees Pty Ltd	7,600,000	1.67
David Quinlivan	6,666,666	1.47
Goldman Sachs JB Were Nominees Pty Ltd	5,100,000	1.12
Mr Keith Stuart Liddell	4,980,000	1.10
Borden Holdings Pty Ltd	4,333,334	0.95
Berne No 132 Nominees Pty Ltd	4,300,000	0.95
M B Young & T S Young <B Young Superfund>	4,184,294	0.92
Cyrtha Corporation N V	4,000,000	0.88
Comsec Nominees Pty Ltd	3,991,162	0.88
Forty Traders Limited	3,750,000	0.83

\*<sup>1</sup> denotes substantial shareholders.

Each fully paid ordinary share entitles the holder to one vote at general meetings of shareholders, and is entitled to dividends when declared.

The total number of shares on issue is 454,558,396 and there is no current on market buy back.

Distribution of ordinary shareholders

Category of shareholding	Number of shareholders
1 – 1,000	10
1,001 – 5,000	62
5,001 – 10,000	121
10,001 – 100,000	789
100,001 and over	534
Total	1,517

### c) Unquoted Securities

The Company has the following unquoted securities on issue:

15,400,001 unlisted options expiring 31 December 2005 exercisable at \$0.20 each.

37,500,000 unlisted options expiring 1 February 2006 exercisable at \$0.20 each.

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Australian Mines Limited