

Australian Mines Limited

ABN 68 073 914 191



AUSTRALIAN MINES LIMITED
ABN 680 73 914 191

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2010

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AUSTRALIAN MINES LIMITED

DIRECTORS' REPORT

The Directors present their report together with the Condensed Consolidated Interim Financial Report of Australian Mines Limited ("the Company") and its controlled entity ("the Group" or "AUZ") for the six months ended 31 December 2010 and the review report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the interim period are:

Neil Warburton – Non-Executive Chairman (October 2005), appointed Director 22 April 2003. Resigned as chairman 9 March 2011.

Mick Elias – Non-Executive Director, appointed 1 July 2005.

Brett Young – Executive Director, appointed 17 October 2005.

Michael Ramsden – Non-Executive, appointed 9 March 2011. Appointed as Chairman 9 March 2011.

Dominic Marinelli – Non-Executive, appointed 9 March 2011

REVIEW OF EVENTS

GOLD EXPLORATION

Nigeria

At a shareholders' meeting held on 9 March 2011 the acquisition of Nigeria Gold Pty Ltd ("NGL") was approved. At that meeting Michael Ramsden and Dominic Marinelli, both representing NGL, were elected to the Board. The acquisition of NGL is reported as a subsequent event at Note 11 of this Condensed Consolidated Interim Financial Report.

NGL, through its Nigerian subsidiary Mines Geotechniques Limited, owns 46 granted exploration licences covering 2,170km² and a further 18 exploration licence applications over 1,931km² for a total of 4,101km² in three main areas in north-western Nigeria.

West Africa is a re-emerging gold province of international significance as new discoveries are made and mines brought on stream in countries including Guinea, Cote d'Ivoire, Burkina Faso and Ghana. Nigeria has historically produced gold but has been more focussed on its oil production. The north-west schist belt has similarities with the Birimian area of Ghana. The region has been underexplored especially using modern exploration techniques.

The due diligence process with regard to acquiring NGL was completed in January 2011 and the binding Share Sale Agreement was signed 31 January 2011.

NGL is conducting low level exploration work while waiting for the granting of high priority Exploration License Applications.

Eastern Goldfields, Western Australia.

The Group's gold interests include the Golden Ridge tenements in close proximity to the Golden Ridge mine which historically produced approximately 250,000 ounces of gold and East Location 45 which contains the Mt Martin gold mine.

Mt Martin has historically produced approximately 200,000 ounces of gold and has a reported Indicated and Inferred Mineral Resource containing 4.0m tonnes at 2.0 g/t for 264,500 ounces of gold.

Mt Martin has been the focus for the Group during the period and it finalised an evaluation and design for an open pit cutback that could produce 50,000 – 60,000 ounces of gold under various treatment options. At the conclusion of the cutback there may be potential to extend mining underground. The Group is continuing discussions with parties in relation to commercial options for Mt Martin.

AUSTRALIAN MINES LIMITED

DIRECTORS' REPORT

REVIEW OF EVENTS (Continued)

Nickel

The Group has also retained all its nickel assets containing some 28,400 tonnes of nickel metal and, as the nickel price recovers, the Group will review its options with regard to these assets in order to maximise the return to shareholders.

REVIEW OF OPERATIONS

The Group made a loss for the six months ended 31 December 2010 of \$1,317,000 primarily due to exploration asset impairment compared with a loss of \$193,000 for the six months ended 31 December 2009.

A comparison of the consolidated financial performance is included in the table below.

Financials	Six months ended Dec-10	Six months ended Dec-09
	\$'000 s	\$'000 s
Revenue from operating activities	-	-
EBITDA	(279)	(183)
Depreciation, amortisation & impairments	(1,038)	(10)
Net Profit (loss)	(1,317)	(193)

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration requested under Section 307C of the Corporation's Act 2001 is set out on page 4 and forms part of the director's report for the six months ended 31 December 2010.

ROUNDING OFF

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

Signed in accordance with a resolution of Directors



.....
Brett Young
Director
Perth: 14 March, 2011



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

To: the directors of Australian Mines Limited

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

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

KPMG
KPMG

Kevin Smout
Partner

Perth

14 March 2011

AUSTRALIAN MINES LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	Note	31 December 2010 \$'000	31 December 2009 \$'000
Other income profit on sale of plant & property		21	231
Corporate overheads and indirect expenses		(398)	(411)
Exploration expenditure impairment		(1,028)	-
Depreciation		(10)	(10)
Results from operating activities		(1,415)	(190)
Finance income	6	22	17
Finance expense	6	76	(20)
Net finance income/(costs)		98	(3)
Loss before income tax		(1,317)	(193)
Income tax benefit		-	-
Loss from continuing operations		(1,317)	(193)
Total comprehensive loss for the period		(1,317)	(193)
Basic loss per share (cent per share)		(0.3772)	(0.0796)

The Group's potential ordinary shares are not considered dilutive. Accordingly, diluted earnings per share is the same as basic earnings per share and is not separately disclosed.

The condensed notes on pages 9 to 13 are an integral part of the condensed consolidated interim financial statements.

AUSTRALIAN MINES LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

\$'000s	Issued capital	Accumulated losses	Share option reserve	Share based payment reserve	Total equity
Opening balance at 1 July 2010	26,479	(16,139)	169	882	11,391
Total comprehensive income	-	(1,317)	-	-	(1,317)
Employee option expense	-	-	-	46	46
Closing balance at 31 Dec 2010	26,479	(17,456)	169	928	10,120

\$'000s	Issued capital	Accumulated losses	Share option reserve	Share based payment reserve	Total equity
Opening balance at 1 July 2009	21,119	(16,010)	-	223	5,332
Total comprehensive income	-	(193)	-	-	(193)
Shares issued during the year	6,525	-	-	-	6,525
Transaction costs re issue of shares	(446)	-	-	-	(446)
Employee option expense	-	-	-	67	67
Closing balance at 31 Dec 2009	27,198	(16,203)	-	290	11,285

The condensed notes on pages 9 to 13 are an integral part of the condensed consolidated interim financial statements.

AUSTRALIAN MINES LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	31 December 2010 \$'000	30 June 2010 \$'000
CURRENT ASSETS			
Cash and cash equivalents		583	1,578
Total Current Assets		583	1,578
NON CURRENT ASSETS			
Exploration and evaluation expenditure	7	10,024	10,408
Property, plant and equipment – at WDV		42	60
Total Non Current Assets		10,066	10,468
Total Assets		10,649	12,046
CURRENT LIABILITIES			
Trade and other payables		194	327
Interest bearing liabilities		1	3
Employee benefits		55	46
Total Current Liabilities		250	376
NON CURRENT LIABILITIES			
Interest bearing liabilities		4	4
Provisions		275	275
Total Non Current Liabilities		279	279
Total Liabilities		529	655
NET ASSETS		10,120	11,391
EQUITY			
Issued capital	9	26,479	26,479
Reserve		1,097	1,051
Accumulated losses		(17,456)	(16,139)
TOTAL EQUITY		10,120	11,391

The condensed notes on pages 9 to 13 are an integral part of the condensed consolidated interim financial statements.

AUSTRALIAN MINES LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

	31 December 2010 \$'000	31 December 2009 \$'000
	Note	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from operations	-	-
Cash payments in course of operations	(238)	(4,419)
Interest received	22	16
Net cash used in operating activities	<u>(216)</u>	<u>(4,403)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation	(806)	(334)
Payments for property, plant and equipment	(32)	-
Proceeds from sale of property, plant and equipment	60	1,105
Net cash (used in)/provided by investing activities	<u>(778)</u>	<u>771</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from exercise of options	-	6,079
Net proceeds from/(payments of) borrowings	10	(150)
Hire purchase & finance lease liability payments	10	(713)
Net cash (used in)/provided by financing activities	<u>(1)</u>	<u>5,216</u>
Net (decrease)/increase in cash held	(995)	1,584
Cash at the beginning of the financial period	1,578	488
Cash at the end of the financial period	<u><u>583</u></u>	<u><u>2,072</u></u>

The condensed notes on pages 9 to 13 are an integral part of the condensed consolidated interim financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

1. Reporting entity

Australian Mines Limited (the "Company", "AUZ") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group")

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at: Level 1, 681 Murray Street, West Perth WA 6005 or at www.australianmines.com.au

2. Statement of Compliance

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

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

This consolidated interim financial report was approved by the Board of Directors on 14 March 2011.

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

3. Significant accounting policies

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

4. Going concern

This report has been prepared on the going concern basis which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. For the half year ended 31 December 2010 the Group incurred a loss of \$1,317,000 and experienced a net cash outflow of \$995,000. At 31 December 2010 the Group has net assets of \$10,120,000 which includes cash and cash equivalents of \$322,000 and restricted cash of \$261,000. The Company raised a further \$1,100,000 in February 2011 with a placement to sophisticated investors. The cash flow forecast prepared by Directors indicates that in addition to the above capital raising, within the next 12 months a minimum of \$2 million will be required to meet operational and tenement expenditure commitments. Of this \$1 million in the Directors' view is discretionary

The Directors are confident that the required funds will be raised through current plans to commercially exploit the Mt Martin gold mine or from raising further equity for which it has a successful track record. The Directors are considering their options with regard to the Group developing and mining the resource or alternatively selling the mine.

The ability of the Group to continue as a going concern is dependent on the successful exploitation of the Mt Martin mine, successful completion of a capital raising or securing alternative funding by the time the Group has utilised its existing cash resources. For the reasons set out above the Directors are confident this can be achieved.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

5. Estimates

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

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

6. Finance income and finance expenses

	31 Dec 2010	31 Dec 2009
	\$000	\$000
Finance income		
Interest income	22	17
Finance expenses		
Refund (payments) of GIC by/to ATO	79	(20)
Guarantee fee	(3)	-
	98	(3)

7. Exploration and evaluation assets

Reconciliations of the carrying amounts for each class of exploration and evaluation expenditure are set out below:

	31 Dec 2010	30 June 2010
	\$000	\$000
Exploration and evaluation		
Opening balance July	10,408	9,134
Expenditure incurred	644	1,274
Exploration expenditure impairment	(1,028)	-
Exploration costs carried forward	10,024	10,408

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.

8. Segment Reporting

The Group presently operates predominantly in one industry segment (refer to subsequent events) being mining and exploration and in one geographical segment being Western Australia. Its exploration is predominately focussed on gold and nickel exploration. However the exploration expenditure is allocated based on the exploration activity performed on each individual tenement. Accordingly chief operating decision-maker assessments are based upon mineral results from exploration activities by tenement. As such, internal reporting to key decision makers is consistent with that disclosed in the financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

9. Share Capital

Reconciliation of issued capital	31 Dec 2010 No.	30 June 2010 No.
Balance at beginning of half year	6,981,662,168	456,806,396
Post consolidation 1:20 ¹	349,083,353	-
Shares issued	-	6,524,855,651
Options exercised	-	121
Balance at end of half year	349,083,353	6,981,662,168

¹ During the period 6,981,662,168 ordinary shares were consolidated on a 1:20 basis.

Listed Options

During the period 1,191,349,839 listed options exercisable at 0.2 cents expiring 30 June 2013 were consolidated on a 1: 20 basis.

Closing balance 31 December 2010

Options post consolidation exercisable at 4 cents expiring 30 June 2013. 59,564,629

Unlisted Options

During the period the 272,000,000 unlisted options previously issued to executives of the Company under the Employees Option Plan were consolidated on a 1: 20 basis.

Post consolidation unlisted options	Grant date	Expiry date	Exercise Price	No Granted
Specified executive share options	29 Nov 2006	31 Dec 2011	Various	587,500
Specified executive share options	31 Dec 2007	31 Dec 2012	Various	12,500
Specified executive share options	27 Nov 2009	31 Dec 2014	Various	<u>13,000,000</u>
Closing balance 31 December 2010				<u>13,600,000</u>

10. Interest bearing liabilities

The following loans and borrowings (non-current and current) were repaid during the six months ended 31 December 2010:

	31 Dec 2010 \$000	31 Dec 2009 \$000
Lease liabilities	1	713
Loan related party	-	150

11. Subsequent events

(i) Acquisition of Nigeria Gold Pty Ltd

On 31 January 2011, the Group entered into a binding Share Sale agreement for the purchase of 100% of the issued capital of Nigeria Gold Pty Ltd ("NGL"). NGL owns Mines Geotechniques Ltd, a Nigerian registered company which owns mining leases in Nigeria and has a number of exploration license applications awaiting grant.

On 9 March 2011, the Group gained shareholder approval for the acquisition of NGL. The Group issued 180 million fully paid ordinary AUZ shares in the first instalment for consideration payment for 81% of the NGL issued capital from the existing NGL shareholders (Tranche 1 in the table below). As at that date, the Group was committed to pay for the remaining 19% of NGL by 31 July 2011.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

Note 11 Subsequent event (cont)

The consideration payable by the Group for the remaining 19% of issued capital in NGL through the issue of AUZ ordinary shares is dependant on reaching specific milestones as set out in the table below (Tranche 2).

As shown in the table below, the 2nd Tranche will be adjusted dependant on the award of at least 2 of NGL's 5 high priority Exploration Licence Applications being awarded. The number of shares issued will also be adjusted dependant on the Group reaching commercial milestones with its Australian gold assets. At minimum the Group will be liable to issue at least 15 million shares.

A third instalment (Tranche 3) will be issued to the NGL shareholders upon successfully identifying a JORC Indicated Resource of 500,000 ozs of gold from the NGL Licences, or from joint ventures formed on ELs 9800 and 9801 within 2 years of acquisition.

Under the terms of the share sale agreement, AUZ advanced NGL a 1 year \$100,000 loan in February 2011.

NGL representatives were appointed to the board after the shareholder meeting held on 9 March 2011.

The Nigerian project will be funded by AUZ achieving a commercial return on its Australian assets by 31 July 2011. If AUZ does not achieve this milestone by the deadline, other funding alternatives will be undertaken by AUZ.

Summary of Nigeria Gold Pty Ltd Acquisition

AUZ Shares issued to NGL shareholders on acquisition Issued shares are stated on a post consolidation basis.		
Condition for issue of securities	NGL secures approval for at least 2 high priority ELA's	NGL if approval for at least 2 high priority ELA's is not secured.
Tranche 1. Issued on 9 March 2011 Unconditional	180,000,000 fully paid ordinary AUZ shares	180,000,000 fully paid ordinary AUZ shares
Tranche 2. To be issued on 1 August 2011 - If AUZ achieves certain milestones from its Australian gold assets:	Issue 30,000,000 fully paid ordinary AUZ shares	Issue 15,000,000 fully paid ordinary AUZ shares
- If AUZ fails to achieve certain milestones from its Australian gold assets:	Issue 120,000,000 fully paid ordinary AUZ shares	Issue 60,000,000 fully paid ordinary shares
Tranche 3. To be issued on or before 9 March 2013 if exploration results identify a JORC Indicated Resource of 500,000 ozs of gold within 2 years of acquisition	Issue 36,000,000 fully paid ordinary AUZ shares.	Issue 36,000,000 fully paid ordinary AUZ shares.

(ii) Issue of Securities

Since the end of the six month period ended 31 December 2010, The Group raised \$1.1m before costs in February 2011 by placing 47,826,087 shares at 2.3 cents per share with sophisticated investors. The funds will be used for exploration purposes.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2010**

12. Contingent Liabilities

The Group'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 Group.

The Group has entered into discussions regarding an instalment payment of \$250,000 due on one of its mining tenements. Management are of the view there is no present ultimate obligation to pay this amount and, if payable, the instalment payment is due in September 2011. No provision has been recorded because of the uncertainty of the outcome of the discussions around whether any payment is due. Uncertainty also exists as to whether the Group will make alternate arrangements for the tenement prior to the due date of the payment. Any potential obligations have not been quantified given the inherent uncertainty around the tenement and potential payment.

13. Related Parties

Key management personnel receive compensation in the form of short term employee benefits, post employment benefits and share based payments awards. Key management personnel received a total compensation of \$258,687 for the six months ended 31 December 2010. (Prior period six months ended 31 December 2009 \$268,678).

AUSTRALIAN MINES LIMITED

DIRECTORS' DECLARATION

In the opinion of the Directors of Australian Mines Limited ("the Company"):

- (a) the financial statements and notes disclosed on pages 5 to 13 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance, for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) as set out in Note 4, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors

On behalf of the Directors



.....
Brett Young
Director

Perth
Dated: 14 March, 2011



Independent auditor's review report to the members of Australian Mines Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Australian Mines Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

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

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

Independence

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



Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'K Smout', written over the printed name 'Kevin Smout'.

Kevin Smout
Partner

Perth

14 March 2011