

Australian Mines Limited

ABN 68 073 914 191



**AUSTRALIAN MINES LIMITED
ABN 680 73 914 191**

**INTERIM FINANCIAL REPORT
31 DECEMBER 2006**

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AUSTRALIAN MINES LIMITED

DIRECTORS' REPORT

The Directors present their report together with the interim financial report of Australian Mines Limited ("the Company") and its Controlled entity ("the Consolidated entity" or "AUZ") for the half year ended 31 December 2006 and the auditor's independent review report thereon.

DIRECTORS

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

Neil Warburton – Non-Executive Chairman (since 13 October 2005), appointed 22 April 2003.

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

Brett Young – Executive Director, appointed 17 October 2005.

REVIEW OF OPERATIONS

The Consolidated entity's operations in the period under review have included:

Blair Mine Production

Blair Nickel Mine continued to perform in line with forecasts with nickel production for the half year.

- A total of 20,346 dry tonnes of ore was treated at an average grade of 3.13% Ni for 638 tonnes of contained nickel.
- The Consolidated entity generated earnings before exploration write downs, amortisation, depreciation and tax expense for the half year of \$8.1m (2005: \$1.3m). The net profit after tax for the half year was \$5.8m (2005: Loss \$(2.3m)).
- Operating cash costs were A\$9.28/lb Ni payable and cash costs including capital development were A\$12.14/lb Ni payable. The average nickel price received was A\$19.13/lb Ni payable for the half year and A\$19.83/lb Ni payable after 90 day averaging adjustments.
- The full size Decline was recommenced during the half year by stripping the In Ore Decline down to the 415m RL. This would allow high grade ore below 415m RL down to the 380mRL to be accessed. At half year end the mine had accessed ore on the EO1 shoot on the 415m RL
- The Area 57 and Blair Deep's nickel ore bodies continued to exceed ore reserve estimates. High grade nickel mineralisation was intersected on the "L" shoot 140m below current working areas.
- The Company had 234 tonnes of Nickel metal hedged as at 31 December 2006 at an average price of A\$43,050/tonne.

Exploration - Marriott's Nickel Project

- Drilling commenced in December at the Marriott's nickel project to test the up-dip potential of the ore body and confirm the known Inferred Resource of 550,000 tonnes at 1.4% Ni for 7,500 contained nickel tonnes. At the date of this report, five (5) holes have been drilled with assay results returned from two (2).

Best intersections include;

- 4 metres @ 1.3% Ni from 88m
- 2 metres @ 2.05% Ni from 72m
- 17metres @ 0.91% Ni from 81m
- 6 metres @ 1.79% Ni from 101m

RESULT OF OPERATIONS

Blair Mine Operating Statistics		Half year ended Dec-06	Half year ended Dec-05
Ore Mined	Tonnes	20,346	22,187
Contained Ni Mined	Tonnes	638	764
Ore Treated	Tonnes	20,346	21,512
Grade	% Ni	3.13%	3.51%
Contained Ni	Tonnes	638	756
Recovered Ni	Tonnes	566	678
Payable Ni Metal	Tonnes	362	434
Nickel (Spot) price (received)	A\$/lb	19.13	9.09
Final price received after 90 day adjustment	A\$/lb	19.83	7.87
Operating cash cost	A\$/lb	9.28	6.85
Total cost with capital development	A\$/lb	12.14	7.99

SUBSEQUENT EVENTS

There were no subsequent events of a material nature.

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 half year ended 31st December 2006.

ROUNDING OFF

The Company 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.



.....
Brett Young
Chief Operating Officer
Perth

Dated: 15 March, 2007



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 financial half-year ended 31 December 2006 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

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

T R Hart
Partner

Perth
15 March 2007

AUSTRALIAN MINES LIMITED
CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

		Consolidated	
		31 December 2006 \$'000	31 December 2005 \$'000
Revenue	5	15,432	7,656
Costs of product sold			
Site operating costs		(5,646)	(5,679)
Changes in inventories of ore stocks		(10)	161
Royalties		(850)	(359)
Amortisation and depreciation		(2,364)	(3,606)
Total cost of product sold		<u>(8,870)</u>	<u>(9,483)</u>
Gross Profit (loss) from sale of product		6,562	(1,827)
Corporate overheads and indirect expenses		(798)	(440)
Depreciation		(16)	(22)
Results from Operating activities		<u>5,748</u>	<u>(2,289)</u>
Net Finance Income (Costs)			
Interest income		80	42
Interest expense		(75)	(97)
Profit (Loss) before income tax		<u>5,753</u>	<u>(2,344)</u>
Income tax benefit		-	-
Profit (loss) for the period		<u><u>5,753</u></u>	<u><u>(2,344)</u></u>
Basic profit (loss) per share (cents per share)		1.27	(0.51)

The Consolidated entity'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.

This income statement is to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Consolidated			
Reconciliation of movements in equity Consolidated	Issued capital \$000	Retained earnings \$000	Employee option reserve \$000	Total equity \$000
Opening balance at 1 July 2006	21,022	(15,301)	5	5,726
Employee Option Reserve	-	-	104	104
Profit for the 6 months	-	5,753	-	5,753
Closing balance at 31 December 2006	21,022	(9,548)	109	11,583

	Issued capital \$000	Retained earnings \$000	Employee option reserve \$000	Total equity \$000
Opening balance at 1 July 2005	17,870	(15,726)	1,246	3,390
Loss for the 6 months	-	(2,344)	-	(2,344)
Shares issued during the year	3,358	-	-	3,358
Transaction costs from issue of shares	(206)	-	-	(206)
Closing balance at 31 December 2005	21,022	(18,070)	1,246	4,198

This income statement is to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED
CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Consolidated 31 December 2006 \$'000	Consolidated 30 June 2006 \$'000
CURRENT ASSETS			
Cash and cash equivalents		4,953	1,907
Trade and other receivables		5,789	6,150
Inventories		183	193
Total Current Assets		10,925	8,250
NON CURRENT ASSETS			
Property, plant and equipment		1,856	1,344
Exploration and evaluation expenditure		4,261	3,911
Total Non Current Assets		6,117	5,255
Total Assets		17,042	13,505
CURRENT LIABILITIES			
Trade and other payables		3,081	2,888
Interest bearing liabilities	7	845	2,222
Derivative financial instruments	8	586	1,823
Employee Benefits		319	330
Total Current Liabilities		4,831	7,263
NON CURRENT LIABILITIES			
Interest bearing liabilities	7	415	303
Provisions		213	213
Total Non Current Liabilities		628	516
Total Liabilities		5,459	7,779
NET ASSETS		11,583	5,726
EQUITY			
Issued capital		21,022	21,022
Reserve		109	5
Accumulated losses		(9,548)	(15,301)
Total Equity		11,583	5,726

This balance sheet is to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED
CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Note	31 December 2006 \$'000	Consolidated 31 December 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations		15,802	7,890
Cash payments in course of operations		(8,320)	(7,475)
Payments for short term capital development		(2,221)	(1,074)
Interest received		71	43
Net cash (used) provided by operating activities		5,332	(616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation		(350)	(477)
Payments for property, plant and equipment		(97)	(201)
Payment for leased asset deposit		-	(100)
Net cash used in investing activities		(447)	(778)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		-	2,717
Repayment of borrowings		(1,252)	(158)
Repayment of related party loan		-	(277)
Hire purchase & finance lease liability payments		(587)	(479)
Net cash used in financing activities		(1,839)	1,803
Net increase/(decrease) in cash held		3,046	409
Cash at the beginning of the financial period		1,907	882
Cash at the end of the financial period		4,953	1,291

This statement of cash flows is to be read in conjunction with the accompanying notes.

AUSTRALIAN MINES LIMITED

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

1. Reporting entity

Australian Mines Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interests in associates and jointly controlled entities.

The consolidated annual financial report of the Consolidated entity as at and for the year ended 30 June 2006 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 Accounting Standard AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 15 March 2007.

The Consolidated entity 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 financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Consolidated entity in this consolidated interim financial report are the same as those applied by the Consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. The adoption of AASB 132 and 139 has not resulted in a material adjustment to the opening balance of retained earnings and reserves at 1 July 2005.

4. 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 consolidated entity'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 2006.

5. Revenue

	31 Dec 2006	31 Dec 2005
	\$000	\$000
Revenue from nickel sales	14,740	8,718
Revenue from copper sales	153	109
Realised "settled" Profit (loss)	1,739	(1,178)
Unrealised fair value movements	(1,333)	82
Exchange (loss)/gain	133	(75)
Revenue from operating activities	<u>15,432</u>	<u>7,656</u>

6. Capital

	Consolidated	
Reconciliation of issued capital	31 Dec 2006	31 Dec 2005
	No.	No.
Balance at beginning of half year	454,558,396	144,926,132
2 for 1 entitlements issue of shares at one cent per share	-	289,852,264
Allotted additional to prospectus	-	2,280,000
Debt settlement to mining contractor by issue of ordinary shares at 2.48 cents per share	-	17,500,000
Balance at end of half year	<u>454,558,396</u>	<u>454,558,396</u>

7. Interest Bearing Loans and borrowings

The following loans and borrowings (non-current and current) were repaid during the six months ended 31 December 2006:

	Dec 2006	June 2006
	\$000	\$000
Current liabilities		
Bank loans secured (i)	-	1,253
Lease liabilities	845	969
	<u>845</u>	<u>2,222</u>
Non current		
Lease liabilities	415	303
	<u>415</u>	<u>303</u>

(i) Investec draw down facility was repaid during the 6 month period.

8. Derivative financial instruments

(a) 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.

Australian dollar forward exchange contracts:

	CONSOLIDATED			
	Dec 2006	June 2006	Dec 2006	June 2006
	Weighted average rate		\$'000	\$'000
<i>Sell US Dollars</i>				
Not later than one yec	0.7692	.7470	10,073	6,576

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

	CONSOLIDATED	
	Dec 2006	June 2006
	\$'000	\$'000
Not later than one year	151	42

(b) 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 contracts outstanding at year end are:

	CONSOLIDATED	
	Dec 2006	June 2006
	\$'000	\$'000
<i>Hedging purchases</i>		
Not later than one year	10,073	6,576

The net deferred gains and losses on hedges of anticipated future commodity purchase contracts are recognised in income statements and the timing of their anticipated recognition as part of sales are:

	CONSOLIDATED	
	2006	2006
	\$'000	\$'000
Not later than one year	(737)	(1,865)

9. Share-based payments

The Board introduced the Australian Mines Limited Directors, Executive and Employee Option Plan in 2003, an equity-based employee option scheme, to promote continuity of employment and to provide additional incentive to increase shareholder wealth. Equity-based employee option schemes are provided as options over ordinary shares of the Company and may be issued to directors, executives and employees. The terms and conditions of the share option programme are disclosed in the consolidated financial report as at and for the year ended 30 June 2006. In December 2006 a further grant on similar terms was made to Directors of the Company and also key management personnel. The Directors' grant was approved at the Company's AGM on the 29th November 2006.

Fair value of share options and assumptions for the six months ended 31 December 2006:

	Directors	Executives
Fair value at grant date:	\$0.0224	\$0.0215
Share price at valuation date:	\$0.052	\$0.075
Exercise price:	\$0.05	\$0.075
Expected volatility (expressed as weighted average)	75%	75%
Volatility (used in the modelling under binomial lattice model)	75%	75%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	5 years	4 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on government bonds)	5.8%	5.8%

10. Capital Commitments

At 31 December 2006 the Consolidated entity has committed to the purchase of an underground haul truck for a consideration of \$1,500k. The truck purchase was financed by commercial hire purchase in January 2007

11. Subsequent Events

There has not arisen in the interval between the end of the half 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 Consolidated entity, to affect significantly the operations of the Consolidated entity, the results of those operations, or the state of affairs of the Consolidated entity in future financial years.

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 12 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standard "AASB 134 Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors

On behalf of the Directors



.....
Brett Young
Chief Operating Officer/Director

Perth
Dated: 15 March, 2007



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

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Australian Mines Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the consolidated entity 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 Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 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 a half-year 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year 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 consolidated entity's financial position as at 31 December 2006 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

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A handwritten signature in black ink, appearing to read 'T R Hart', written over a faint, larger version of the signature.

T R Hart
Partner

Perth
15 March 2007