

Australian Mines Limited

ABN 68 073 914 191



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

**INTERIM FINANCIAL REPORT
31 DECEMBER 2005**

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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 Consolidated entity" or "AUZ") for the half year ended 31 December 2005 and the auditor's independent review report thereon. The Consolidated entity comprises Australian Mines Limited ("the Company") and its controlled entity.

DIRECTORS

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

Keith Liddell – Non-Executive Chairman (resigned 13 October 2005).

Barry Cahill – Managing Director (resigned 15 July 2005).

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 Nickel Mine continued to perform in line with forecasts with nickel production for the half year of 756 contained Ni tonnes.
- A total of 21,512 dry tonnes of ore was treated at an average grade of 3.51% Ni for 756 tonnes of dry contained nickel.
- The "In-Ore Decline" continued during the half year accessing high grade ore below the previous lowest level. At half year end the decline had accessed ore on the CO1 shoot on the 460 level shoot and also had reached the high grade EO3 shoot on the 457 level.
- Operating cash costs were A\$6.85/lb Ni payable and cash costs including capital development were A\$7.99/lb Ni payable. The average nickel price received was A\$9.09/lb Ni payable for the half year and A\$7.87/lb Ni payable after 90 day averaging adjustments received from Nickel West.
- Metallurgical test work continued during the half year on the nickel oxide resources at Anomaly 11 and Blair South.
- Diamond drilling of Area 57 vertical extensions confirmed nickel mineralisation with best intersection of 0.45m at 5.28% Ni.
- The Area 57 and Blair Deeps nickel ore bodies continued to exceed ore reserve estimates.
- Due to the lower spot nickel prices in the half year, the consolidated entity revenue was negatively affected by the 90 day final nickel price settlement for 6 months production of approx A\$500,000. The consolidated entity's October to December production has now been totally hedged for final settlement at prices equal to or better than provisional prices received. The 90 day average adjustments will result in a net positive adjustment.
- The Company had 126 ni tonnes hedged as at 31 December 2005.

DUPLEX HILL PROJECT

- In September, strike extension drilling at Duplex Hill South along the 1km gold anomaly confirmed significant high grade gold mineralisation on the East Reef with best intersections of 10m at 7.08g/t, 14m at 2.96g/t, 9m at 2.98g/t and 6m at 3.41g/t.
- Following the encouraging results from the previous RC drilling program in September quarter 2005, a follow up program was drilled to determine the extent of the Woodline 1 mineralisation along strike to the north and south.
- Further strong gold mineralisation was encountered in six of the twelve holes, with best results including 2m @ 4.22 g/t Au, 7m @ 3.23 g/t Au, 1m @ 16.5 g/t Au, 2m @ 9.99 g/t Au, 12m @ 2.47 g/t Au, and 11m @ 3.27 g/t Au. Further drilling is being planned in February and March 2006 to follow up these encouraging results.

RESULT OF OPERATIONS

Blair Mine Operating Statistics		Half year ended Dec-05
Ore Mined	Tonnes	22,187
Contained Ni Mined	Tonnes	764
Ore Treated	Tonnes	21,512
Grade	% Ni	3.51%
Contained Ni	Tonnes	756
Recovered Ni	Tonnes	678
Nickel (Spot) price (received)	A\$/lb	9.09
Final price received after 90 day adjustment	A\$/lb	7.87
Operating cash cost	A\$/lb	6.85
Total cost with capital development	A\$/lb	7.99

The Consolidated entity generated earnings before exploration write downs, amortisation, depreciation and tax expense for the half year of \$1,284,782 (2004: \$1,840,202). A loss was incurred for the half year of \$2,343,621 (2004: \$2,526,017). See Note 1 (C) regarding going concern.

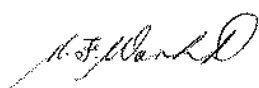
SUBSEQUENT EVENTS

Subsequent to the quarter end, Australian Mines has entered into a nickel JV with Pioneer Nickel on tenements surrounding the Blair mine. Pioneer can earn a 51% interest in metals other than gold with initial expenditure of \$2.25m on nickel exploration over 3 years.

Australian Mines can then elect to either fund 49%, or within a further period of 3 years, dilute to 30% by Pioneer spending another \$3m. The JV excludes the Blair mine and its extensions. Australian Mines retains the gold rights on all tenements within the JV area.

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 2005.



.....
Neil Warburton
Chairman
Perth

Dated: 14 March, 2006



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 review for the half-year ended 31 December 2005 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.

A handwritten signature in dark ink, appearing to read 'T R Hart', written over the printed name.

KPMG

T R HART
Partner

Perth

14 March 2006

AUSTRALIAN MINES LIMITED

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Consolidated	
	31 December	31 December
	2005	2004
	\$	\$
Revenue	7,655,794	8,603,486
Costs of product sold		
Site operating costs	(5,678,604)	(5,803,764)
Changes in inventories of ore stocks	160,730	162,673
Royalties	(359,178)	(547,895)
Amortisation and depreciation	(3,606,038)	(3,105,245)
Total cost of product sold	<u>(9,483,090)</u>	<u>(9,294,231)</u>
Gross loss from sale of product	(1,827,296)	(690,745)
Other income	43,149	38,905
Expenses		
Corporate overheads and indirect expenses	(439,723)	(613,780)
Interest expense	(97,386)	(41,423)
Depreciation	(22,365)	(26,809)
Exploration expenditure written off	-	(1,234,165)
Loss before income tax	<u>(2,343,621)</u>	<u>(2,568,017)</u>
Income tax benefit	-	-
Loss for the period	<u>(2,343,621)</u>	<u>(2,568,017)</u>
Basic loss per share (cents per share)	(0.51)	(1.74)

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

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF RECOGNISED INCOME AND
EXPENSE**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Consolidated	
	31 December 2005	31 December 2004
	\$	\$
Loss for the period	(2,343,621)	(2,568,017)
Income tax benefit	-	-
Total recognised income and expense for the period	<u>(2,343,621)</u>	<u>(2,568,017)</u>

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

AUSTRALIAN MINES LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	31 December 2005 \$	Consolidated 30 June 2005 \$
CURRENT ASSETS			
Cash and cash equivalents		1,291,261	881,602
Trade and other receivables		2,911,031	3,145,586
Inventories		318,788	158,058
Total Current Assets		4,521,080	4,185,246
NON CURRENT ASSETS			
Property, plant and equipment		1,932,655	3,396,182
Exploration and evaluation expenditure		3,468,389	2,991,302
Total Non Current Assets		5,401,044	6,387,484
Total Assets		9,922,124	10,572,730
CURRENT LIABILITIES			
Trade and other payables		2,358,471	3,706,790
Interest bearing liabilities		2,234,915	2,278,406
Provisions		279,440	265,787
Total Current Liabilities		4,872,826	6,250,983
NON CURRENT LIABILITIES			
Interest bearing liabilities		711,329	791,707
Provisions		140,000	140,000
Total Non Current Liabilities		851,329	931,707
Total Liabilities		5,724,155	7,182,690
NET ASSETS		4,197,969	3,390,040
EQUITY			
Issued capital	3	21,021,587	17,870,037
Reserve		1,245,901	1,245,901
Accumulated losses	4	(18,069,519)	(15,725,898)
Total Equity		4,197,969	3,390,040

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

AUSTRALIAN MINES LIMITED

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Note	31 December 2005 \$	Consolidated 31 December 2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations		7,890,348	8,939,924
Cash payments in course of operations		(7,474,801)	(6,735,975)
Payments for capital development		(1,073,756)	(1,666,565)
Interest received		43,149	38,905
Sundry revenue		-	29,388
Net cash (used) provided by operating activities		(615,060)	605,677
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation		(477,087)	(751,403)
Payments for property, plant and equipment		(200,619)	(293,078)
Payment for leased asset deposit		(100,000)	-
Net cash used in investing activities		(777,706)	(1,044,481)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		2,716,794	-
Repayment of borrowings		(158,163)	(240,234)
Repayment of related party loan		(277,000)	-
Hire purchase & finance lease liability payments		(479,206)	-
Net cash used in financing activities		1,802,425	(240,234)
Net increase/(decrease) in cash held		409,659	(679,038)
Cash at the beginning of the financial period		881,602	1,752,922
Cash at the end of the financial period		1,291,261	1,073,884

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

AUSTRALIAN MINES LIMITED

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Mines Limited ("the company") is a company domiciled in Australia. The condensed interim financial report was authorised for issue by the directors on 10th March 2006.

(a) Statement of Compliance

This condensed interim financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The Interim financial report of the consolidated entity also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS interim financial report to be prepared in accordance with AIFRS. AASB 1 First time Adoption of Australian Equivalents to International Reporting Standards has been applied in preparing these financial statements. The interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. The report is also to be read in conjunction with any public announcements made by Australian Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

This financial report has been prepared on the basis of historical cost except that certain assets and liabilities are stated at fair value such as derivative financial instruments.

This condensed interim financial report has been prepared on the basis of AIFRS on issue that is effective at the consolidated entity's first AIFRS annual reporting date 30 June 2006. Based on these AIFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ended 30 June 2006.

The preparation of the interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies below have also been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to AIFRS as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in note 6.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

(c) Going concern

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 six months ended 31 December 2005, the consolidated entity recorded a loss of \$2,343,621 and had a working capital deficiency as at 31 December 2005 of \$352,000. The result of the Consolidated Entity was adversely affected during the period by lower nickel prices. The Company has received the benefit of higher Ni prices from December to the date of this report and has hedged production at higher prices. This will result in positive revenue adjustments in the March quarter.

The Company successfully completed an entitlements issue in July 2005, raising \$2.8 million. In addition to assist the consolidated entity with working capital requirements, it has 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 31 December 2005 a total of A\$1,027,000 was drawn down.

The Consolidated Entity is presently assessing the operating alternatives of its sole operating asset, the Blair Nickel Mine as follows: -

- Based on known reserves, production at the Blair Nickel Mine is expected to continue until at least May 2006 taking the mine to the 445 production level. Currently the Directors' cash flow forecast (after capital development) for mining those reserves anticipates a net cash flow surplus sufficient for the settlement of liabilities in the normal course of business. The cash flow forecast is heavily dependent upon the ability to achieve its targets for nickel production and price.
- At present, a drilling campaign is underway to confirm mineable reserves below the 445 level. The next 3 levels below 445 level will be modelled in due course including mine design, revenue and cost estimates. The Directors are confident that the orebody will continue to these levels and that mining those reserves will be cashflow positive. If the drilling campaign is not successful and mine modelling does not indicate cash flow positive operations then the mine will be placed on care and maintenance from June 2006. Should that occur, the Directors are confident that plant and equipment can be sold at a value sufficient to recover its carrying value and to settle outstanding lease liabilities totalling \$1,919,520. In addition the Company will seek opportunities to either sell the mine or look for parties to undertake further exploration in joint venture. In addition to the Blair Mine the Company has other exploration projects that require funding. It is likely that the funding of these projects will require further capital raising in the near future.

The Directors believe it is appropriate to prepare the financial report on a going concern basis for the following reasons:

- the Directors are confident the Blair Nickel Mine at its existing levels can achieve its nickel price, costs and production output forecasts to settle liabilities in the normal course of business;
- the extension of mine life will only proceed should the drilling results and cashflow forecasts demonstrate positive cash flow;
- the Directors are also confident of raising additional funds for future projects that require exploration.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

Should future nickel prices or production not achieve the Board's budgeted levels and the consolidated entity be unable to raise additional capital by issuing equity, then there exists significant uncertainty as to whether the consolidated entity will be able to continue as a going concern. If the consolidated entity is unable to continue as a going concern it will be required to realise its assets and extinguish liabilities other than in the normal course of business and at amounts that may be different to those stated in the financial report.

(d) Principles of Consolidation

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

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

(e) Revenue recognition

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 the risks and rewards of the goods passes to the customer.

Interest revenue

Interest is recognised as it is accrued using the effective interest rate method.

(f) 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 balance sheet. 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.

(g) 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 income statement in the financial year in which the exchange rates change.

Exchange rates used

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Average Dec 2005	Average June 2005	As at 31 Dec 2005	As at 30 June 2005
US Dollar	0.75	0.75	0.74	0.76

(h) Derivative financial instruments

Current period policy

The consolidated entity is exposed to changes in 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.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The fair value of forward exchange contracts is their quoted market prices at the balance sheet date, being the present value of the quoted forward price.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, plant and equipment purchases) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a hedged forecast transaction is no longer expected to occur, the cumulative hedge gain or loss that was reported in equity is immediately transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

Prior period policy

The value of derivative transactions were reflected in the income statement when the underlying payments took place.

(i) Financing Costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, finance charges in respect of finance leases, interest receivable on funds invested and dividend income.

Interest charges are expensed as incurred.

(j) Taxation

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

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 tax 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.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 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.

(k) 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 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 dilative potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilative potential ordinary shares, by the weighted average number of ordinary shares and dilative potential ordinary shares.

(l) Trade and other receivables

Trade and other receivables are stated at cost less any impairment losses.

(m) Inventories

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 by allocating costs incurred in bringing them to their present location or condition, or the net realisable value of metal content.

(n) 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

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.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

(o) Exploration and evaluation expenditure

In accordance with AASB 6 Exploration for and Evaluation of Minerals Resources, exploration costs are accumulated in respect of each separate area of interest. Exploration costs are carried forward at cost where the rights of tenure are current and:

- (i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- (ii) Exploration activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable resources.

Exploration and evaluation assets will be assessed annually for impairment in accordance with AASB6 and where impairment indicators exist, recoverable amounts of these assets will be estimated based on discounted cash flows from their associated cash generating units. The income statement will recognise expenses arising from excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the period in which that assessment is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

(p) Impairment

The carrying amounts of the consolidated entity's assets, other than exploration and evaluation expenditure inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Recoverable amount

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairments of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

Reversal of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Property plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (o)). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

Sale of non-current assets

A net gain / (loss) on disposal of non-current assets is recognised as revenue / (expense) 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).

Depreciation

Depreciation is charged to the income statement on a straight-line basis except mine property and development over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows.

	Dec 31 2005	Dec 31 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)	617	1,943

(r) Trade and other payables

Trade and other payables are stated at amortised cost

(s) Interest bearing liabilities

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

(f) 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.

(u) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risk specific to the liability.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

2. SEGMENT INFORMATION

The consolidated entity operates in one industry segment, being mining and exploration and in one country, Australia.

3. ISSUED CAPITAL

Reconciliation of issued capital

	31 December 2005 No.	Consolidated 31 December 2005 \$
Balance at beginning of half year	144,926,132	17,870,037
2 for 1 entitlements issue of shares at one cent per share	289,852,264	2,898,542
Issue costs		(204,550)
Allotted additional to prospectus	2,280,000	22,800
Debt settlement to mining contractor by issue of ordinary shares at 2.48 cents per share	17,500,000	434,758
Balance at end of half year	<u>454,558,396</u>	<u>21,021,587</u>

4. ACCUMULATED LOSSES

	31 December 2005 \$	Consolidated 31 December 2004 \$
Balance at beginning of half year	15,725,898	8,450,316
Net loss for the half year	2,343,621	2,568,017
Accumulated losses at end of half year	<u>18,069,519</u>	<u>11,018,333</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

5. 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 other than as disclosed below:

In January 2006, the Company entered into an agreement with Pioneer Nickel where Pioneer has the right to earn a 51% interest in the sulphide nickel rights on the Blair leases by spending \$2.25m on exploration within three years. If Australian Mines does not elect to fund its 49%, Pioneer can earn up to 70% interest by spending \$3.0m within a further 3 year term. At this point Australian Mines can elect to fund 30% or convert to a 1.5% net smelter royalty.

6. EXPLANATION OF TRANSITION TO 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.

The rules for the 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 significant changes in accounting policies adopted in transitioning to AIFRS are provided in note 1. The financial impacts to the consolidated entity of the transition to AIFRS have been outlined in the preceding schedules. Further information in relation to the adjustments outlined in these reconciliations are provided 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.

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.

The transitional adjustments made at 1 July 2004 and 31 December 2004 in the consolidated entity as a result of the above is an increase by \$140,000 to the provision

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

for rehabilitation. The corresponding adjustment has been made against opening retained earnings on the basis that the corresponding rehabilitation asset is impaired. The effects of discounting have been excluded given the short mine life of the Blair nickel mine.

(b) Financial instruments / change in accounting policy

The Company has elected to take advantage to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement.

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.

The impact of this change has had no material impact as at 1 July 2005, being the date of transition for AASB 132 and AASB 139

(c) Share Based Payments

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

Under AIFRS the fair value of options granted must be recognised 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 has been 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 have been 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 increased by \$42,000 representing the options expense for the period. The adoption of AASB 2 "Share based payments" is equity neutral for equity-settled transactions.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

1. Reconciliation of balance sheet reported under AGAAP to AIFRS

(a) At the date of transition to AIFRS 1 July 2004

	Note	Previous AGAAP \$	Transition to AIFRS \$	AIFRS \$
CURRENT ASSETS				
Cash assets		1,753,000		1,753,000
Receivables		1,854,000		1,854,000
Inventories		222,000		222,000
Total Current Assets		3,829,000		3,829,000
NON CURRENT ASSETS				
Property, plant and equipment		7,802,000		7,802,000
Exploration and evaluation expenditure		3,188,000		3,188,000
Total Non Current Assets		10,990,000		10,990,000
Total Assets		14,819,000		14,819,000
CURRENT LIABILITIES				
Payables		3,012,000		3,012,000
Interest bearing liabilities		190,000		190,000
Provisions		34,000		34,000
Total Current Liabilities		3,236,000		3,236,000
NON CURRENT LIABILITIES				
Interest bearing liabilities		736,000		736,000
Provisions	(a)		140,000	140,000
Total Non Current Liabilities		736,000		876,000
Total Liabilities		3,972,000		4,112,000
NET ASSETS		10,847,000		10,707,000
EQUITY				
Contributed equity		17,866,000		17,866,000
Reserve		1,246,000		1,246,000
Accumulated losses	(a)	(8,265,000)	(140,000)	(8,405,000)
Total Equity		10,847,000		10,707,000

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

(b) At 31 December 2004, AGAAP to AIFRS

	Note	Previous AGAAP \$	Transition to AIFRS \$	AIFRS \$
CURRENT ASSETS				
Cash assets		1,073,884		1,073,884
Receivables		1,561,082		1,561,082
Inventories		385,145		385,145
Total Current Assets		3,020,111		3,020,111
NON CURRENT ASSETS				
Property, plant and equipment		7,080,429		7,080,429
Exploration and evaluation expenditure		2,743,176		2,743,176
Total Non Current Assets		9,823,605		9,823,605
Total Assets		12,843,716		12,843,716
CURRENT LIABILITIES				
Payables		3,287,511		3,287,511
Interest bearing liabilities		591,597		591,597
Provisions		61,674		61,674
Total Current Liabilities		3,940,782		3,940,782
NON CURRENT LIABILITIES				
Interest bearing liabilities		544,606		544,606
Provisions	(a)		140,000	140,000
Total Non Current Liabilities		544,606		684,606
Total Liabilities		4,485,388		4,625,388
NET ASSETS		8,358,328		8,218,328
EQUITY				
Contributed equity		17,903,760		17,903,760
Reserve		1,245,901		1,245,901
Accumulated losses	(a)	(10,791,333)	(140,000)	(10,931,333)
Total Equity		8,358,328		8,218,328

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

(c) At 30 June 2005, AGAAP to AIFRS

	Note	Previous AGAAP \$	Transition to AIFRS \$	AIFRS \$
CURRENT ASSETS				
Cash assets		881,602		881,602
Receivables		3,145,586		3,145,586
Inventories		158,058		158,058
Total Current Assets		4,185,246		4,185,246
NON CURRENT ASSETS				
Property, plant and equipment		3,396,182		3,396,182
Exploration and evaluation expenditure		2,991,302		2,991,302
Total Non Current Assets		6,387,484		6,387,484
Total Assets		10,572,730		10,572,730
CURRENT LIABILITIES				
Payables		3,706,790		3,706,790
Interest bearing liabilities		2,278,406		2,278,406
Provisions		265,787		265,787
Total Current Liabilities		6,250,983		6,250,983
NON CURRENT LIABILITIES				
Interest bearing liabilities		791,707		791,707
Provisions		140,000		140,000
Total Non Current Liabilities		931,707		931,707
Total Liabilities		7,182,690		7,182,690
NET ASSETS		3,390,040		3,390,040
EQUITY				
Contributed equity		17,870,037		17,870,037
Reserve		1,245,901		1,245,901
Accumulated losses		(15,725,898)		(15,725,898)
Total Equity		3,390,040		3,390,040

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

2. Reconciliation of income statement reported under AGAAP to AIFRS.

(a) For the half year ended 31 December 2004, AGAAP to AIFRS

	Note	Previous AGAAP \$	Transition To IFRS \$	AIFRS \$
Loss before income tax		<u>(2,526,017)</u>	(42,000)	<u>(2,568,017)</u>
Income tax benefit		<u>-</u>		<u>-</u>
Loss for the period		<u>(2,526,017)</u>		<u>(2,568,017)</u>

(b) For the last year ended 30 June 2005 under AGAAP to AIFRS

	Note	Previous AGAAP \$	Transition To IFRS \$	AIFRS \$
Loss before income tax		<u>(7,460,582)</u>	(42,000)	<u>(7,502,582)</u>
Income tax benefit		<u>-</u>		<u>-</u>
Loss for the period		<u>(7,460,582)</u>		<u>(7,502,582)</u>

3. Reconciliation of cash-flow under AGAAP to cash-flow under AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash-flow statements for the period ended 31 December 2004 or the year ended 30 June 2005.

9. NON-CASH INVESTING AND FINANCING ACTIVITIES

The Company issued 17,500,000 fully paid ordinary shares at \$0.025 cents per ordinary share on 13 September 2005 as settlement to the mining contractor of a debt owing of \$436,083.

Also during the period the Company acquired additional mining equipment on financial leases totalling \$790,500 which did not involve the outlay of cash.

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 25 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 2005 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



.....
Neil Warburton
Chairman

Perth
Dated: 14 March, 2006



Independent review report to the members of Australian Mines Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim income statement, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Australian Mines Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Australian Mines Limited ("the Company") and the entities it controlled during that half-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. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Australian Mines Limited is not in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance 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) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(c), there is significant uncertainty whether the entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

T R HART
Partner

Perth

Dated: 14 March 2006