



## Half-Year Report

*for Strike Resources Limited and its controlled entities  
for the period ended 31 December 2010*

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## Contents

### Directors' Report

Review of Operations	2
Directors in Office	12
Auditor's Independence Declaration	13

### Financial Report

Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in Equity	16
Statement of Cash Flows	17
Notes to the Financial Statements	18
Directors' Declaration	22
Independent Audit Report	23

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Ken Hellsten	Managing Director
William Johnson	Non-Executive Director
Matthew Hammond	Non-Executive Director

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# Directors' Report

## Review of Operations

### Operations Summary

The December 2010 half year (the **Reporting Period**) has been an exciting period for the Company, with the focus on progressing the Apurimac Ferrum S.A. (**AF**)<sup>1</sup> exploration and trade-off study programs and strengthening the AF management team.

After the Reporting Period, on 3 February, 2011, a Board restructure was undertaken to enable a majority of independent directors to be appointed, in line with leading practice corporate governance.

During the Reporting Period AF continued to work with the communities located within its concession holdings to build lasting relationships and provide a platform from which to commence negotiations on land access for future exploration and drilling programs. This work culminated in the first round of drilling commencing at Colcabamba during December 2010. Some promising iron ore intersections were obtained from the initial drill holes from this program, which are detailed further below.

With a strong cash balance and a robust exploration and development strategy now in place, the Company is well positioned to advance the Peru exploration program over the coming year.

During the Reporting Period the Company continued to devote considerable time and effort to negotiations with its Indonesian joint venture partner, PT Kaltim Jaya Bara (**PT KJB**) to restructure the Berau Coal Project Co-operation Agreement to address issues raised by changes to Indonesian mining law. Strike continued to carry out project development work in anticipation of a successful outcome to those negotiations.

Strike is in a sound financial position, holding cash and cash equivalents at 31 December 2010 of A\$40.7 million (30 June 2010: A\$41.4 million).

### Projects Overview

Strike Resources has two principal projects in the attractive bulk commodities market.

The Apurimac and Cuzco Iron Ore Projects in Peru are large-scale iron ore projects, with Apurimac in the Pre-feasibility Study stage. The Company is seeking to establish a 15 - 20 million tonne per annum (**Mtpa**) operation at Apurimac based on current Resources totalling 270Mt<sup>2</sup> with significant exploration upside.

The Berau Thermal Coal Project in Indonesia is an asset with near-term cash flow potential. With low capital expenditure and key government approvals in place, this asset has the potential to move to the development phase quickly if an agreement is reached with the local partner.

**Table 1 - Projects summary**

Project	Location	Strike's interest
Apurimac Iron Ore	Apurimac District, Peru	43.98% <sup>3</sup>
Cuzco Iron Ore	Cuzco District, Peru	43.98% <sup>4</sup>
Berau Thermal Coal	East Kalimantan, Indonesia	100% (subject to payment of a royalty to the concession owner).
Paulsens East Iron Ore	West Pilbara, Western Australia	Strike has farmed out iron ore rights in this project and will receive a royalty on any iron ore produced.

1 Strike holds its interest in the Apurimac and Cuzco projects in Peru via its 44% shareholding in AF, a Peruvian-registered company which holds the project tenements. Strike provides management and technical support to AF and Strike Managing Director, Mr Hellsten is the President of AF.

2 The JORC categories of this Resource and grades are specified on page 3. Strike originally reported these Mineral Resources on 11 February 2010.

3 The level of Strike's shareholding in Apurimac Ferrum S.A. (**AF**), the company which holds these tenements.

4 See footnote 3.

## Project Development

### Peruvian Projects – Apurimac and Cuzco

#### Project Overview

The locations of the Apurimac and Cuzco Iron Ore Projects are shown on the map below:



#### **Apurimac Iron Ore Project**

This Project comprises approximately 59,000 hectares in 72 concessions, most of which are located approximately 16 kilometres from Andahuaylas, the capital of the Apurimac Province in Peru's southern Andes. The Apurimac Project objective is the development of an iron-ore mine with products transported by slurry pipeline or rope conveyor to the coast.

#### **Cuzco Iron Ore Project**

This Project comprises 23 concessions totalling approximately 17,963 hectares, located approximately 130 kilometres south-east of the Apurimac Project area and 80 kilometres south of the city of Cuzco. The Cuzco Project objective is the development of a second operation mining up to 20 million tonnes per annum or long-term feed for the Apurimac Project.

## Project Development

AF continued to progress the exploration and study programs on the Apurimac and Cuzco projects during the Reporting Period and to the date of this Report. The Apurimac Project currently has iron ore Resources at the Opaban concessions of 269.4Mt at an average grade of 57.3% (comprised of an Indicated Resource of 142.2Mt at 57.84% Fe and an Inferred Resource of 127.2Mt at 56.7% Fe). The focus remains the Apurimac Project where the exploration program, with a budgeted cost of US\$25 million over the next 18 – 24 months, principally comprises a major drilling campaign with the objectives of:

- identifying total iron ore mineralisation of at least 500Mt at a similar grade to the Opaban deposit; and
- increasing the Measured and Indicated Resources within the total Resource to at least 250 Mt, at a similar grade.

In parallel with this work a technical and trade-off studies program is underway to identify the optimum combination of annual mine production, final products and product and ore transport methods, as well as providing data for project approvals. These studies and programs include:

- geotechnical and metallurgical core drilling and associated test work to facilitate mining studies and processing optimisation;
- additional water supply and baseline environmental studies;
- developing preferred configurations for the development of the Apurimac satellite deposits and Cuzco; and

- further strengthen community relationships and programs.

Subject to positive exploration results, AF then expects to undertake a detailed Pre-feasibility Study with an estimated cost of US\$10M.

### Exploration Target – Colcabamba

During the Reporting Period extensive field work continued within the satellite concessions to prioritise existing targets and identify additional prospective areas for more detailed evaluation.

The initial focus has been the Colcabamba area, where three large magnetic anomalies lie coincident with major structural zones and extensive areas of outcropping ironstones recording >60% Fe in rock chip samples. Mapping of the ironstone exposures and surface sampling indicates potential for between 50 – 80 million tonnes of iron ore at 45 – 60% Fe within the top 100 metres. A program comprising 10 diamond drill holes to test the three target areas commenced in December 2010 as planned.

*(The potential quantity and grade of the target iron ore mineralisation is conceptual in nature. There has been insufficient exploration to define an additional mineral Resource in relation to that target iron ore. It is uncertain whether further exploration will result in the determination of an additional mineral Resource in relation to that target iron ore.)*

#### Preparation of the first Colcabamba drilling platform



The three target areas are geologically associated with an intrusive complex of diorite to quartz monzonite dikes and sills with iron rich hydrothermal mineralisation occurring within, with breccias or skarns at the margins of these intrusions. These mineralised systems are generally tabular and steeply dipping, indicating reasonable depth continuity.

Drilling activities at Colcabamba commenced on 13 December 2010 and are progressing as planned, with the initial three of the 10 holes having been completed in the first target area, Area A, after the Reporting Period.

Analytical results from the first hole drilled, COL-003, have now been received and largely confirmed the geological logging. Key intercepts from this hole are:

- 6 metres @ 59.7% Fe, 1.7% Al<sub>2</sub>O<sub>3</sub>, 7.89% SiO<sub>2</sub>, 0.04% S and 0.02% P from 2.60 metres, and
- 6.9 metres @ 46.9% Fe, 3.4% Al<sub>2</sub>O<sub>3</sub>, 17.6% SiO<sub>2</sub>, 0.16% S and 0.03% P from 12.60 metres.

Interestingly, COL-003 also intersected some copper sulphide mineralisation in multiple locations, including within the massive magnetite body in the upper part of the system from 7.63 to 13.60 meters down hole, and in alteration zones and breccias at 19.50 metres and 35.10 metres down hole. An anomalous value for gold was also recorded in COL-003 of 1 metre at 0.12ppm from 43.1 metres down hole.

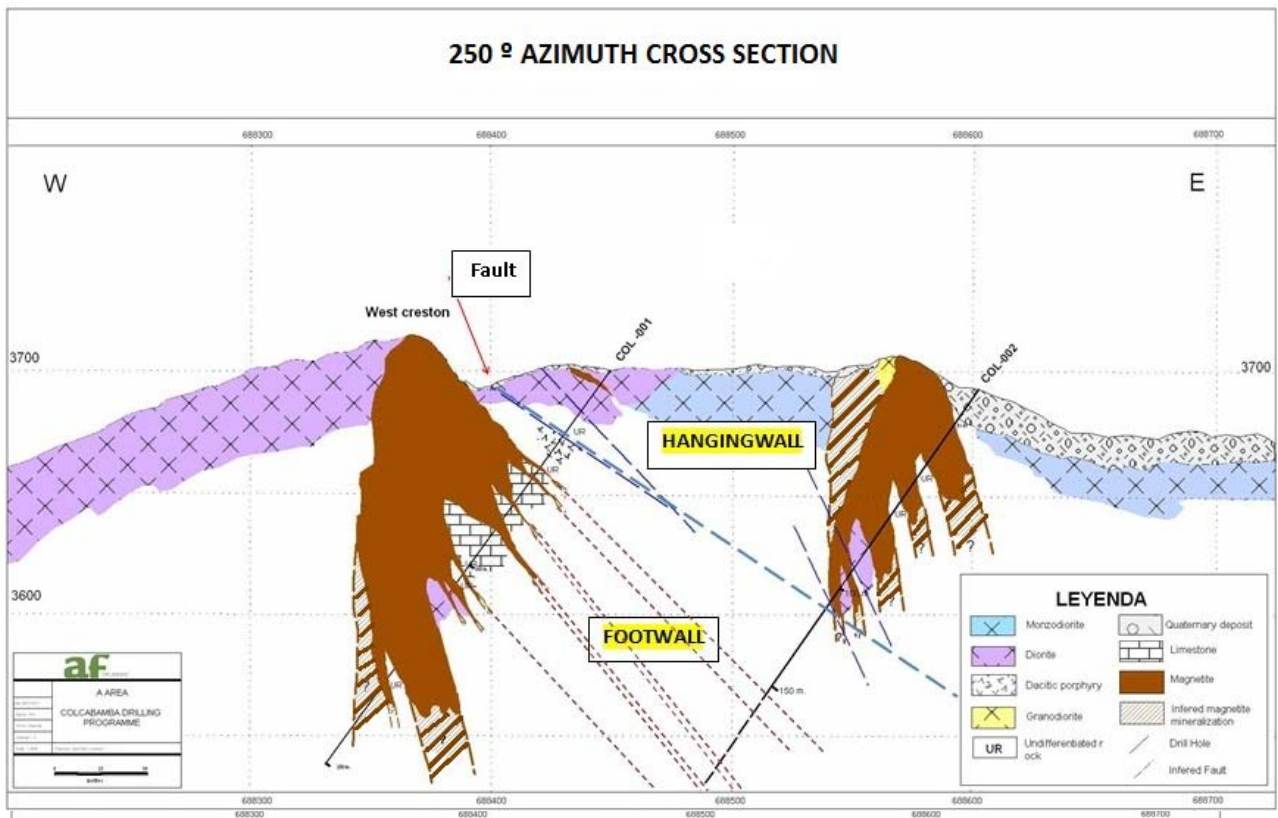
The results of COL-003 are described in more detail in the Company's 18 February 2011 ASX announcement entitled: *Apurimac Iron Ore Project - Exploration Update*.

The second hole (COL-001) intersected a series of subsidiary magnetite-rich zones and a massive magnetite mineralised zone of over 45 meters (down hole) thickness. Given the steep dip of the mineralised zones the down-hole lengths are expected to be reasonably close to the true thickness of the zone (see the diagram below). The total (cumulative) width of the magnetite rich zones in this hole is 102 metres, with the majority of this material described as massive to semi-massive magnetite.

The third hole (COL-002) intersected several zones of massive to semi-massive magnetite, up to 25 metres thick individually and with a composite thickness of 58 metres (see the diagram below).

Although no analytical results are available for COL-001 and COL-002 to date, the results from the drilling program at Colcabamba Area A (based on geological drill hole logging) have been in line with or better than expected from the surface mapping and sampling.

**Figure 2: Drill cross sections for COL-001 and COL-002 at Colcabamba**



### Cuzco Exploration Results

Re-logging of the initial drilling program at the Santa Tomas concessions within the Cuzco project has been completed and SRK Consulting<sup>5</sup> in Santiago has been engaged to prepare a resource estimate. SRK Consulting continues to work on the Cuzco resource estimate and the final report is expected during the first half of March 2011. Finalisation of this work has been impacted by SRK Consulting's heavy work commitments.

### Approvals Progress and Community Relations

The approval processes for exploration and drilling programs in Peru are extensive and highly structured. These processes are mandated by law and include both environmental and community approvals. As outlined in previous reports, while most government approvals have a mandated time frame, community approvals are largely in the hands of the community authorities and the General Assembly process, which involves a formal meeting of the entire community.

Accordingly, it is crucial for resource companies to establish strong community relations (CR) teams and leading practice CR policies and programs. AF has been fortunate to secure Mr Luis Orihuela, a very experienced and respected CR Manager, to lead its team. Mr Orihuela commenced work with AF in November, 2010.

The top priority for Mr Orihuela since his appointment has been to spend time in the field with the AF community relations team completing a detailed review and developing relationships. Outcomes from this review have led to additional resources being recruited for the AF CR field team and an improved definition of the approvals process and AF's CR systems. This review was completed as planned in the December 2010 quarter and the outcomes

<sup>5</sup> SRK Consulting is unrelated to Strike Resources Limited (ASX Code: SRK)

are now being incorporated into a revised project plan for AF. This revised schedule and the associated budget are nearing completion, with formal approval expected in the first quarter of 2011.

The conclusion of regional and local elections late in 2010 has seen the establishment of new authorities in many of the communities within the AF concessions. The process of formal hand-over of authority can take up to two months. Relationships must be established with the new leadership in some cases. This has been factored into the project plan and work in these areas has commenced.

At Colcabamba, all community and government approvals for drilling were received in the December quarter 2010 as planned with drilling commencing late in December, as reported above. The AF Community Relations Team is now focussing on implementing a number of development projects in the Colcabamba community which have been jointly determined with the community. These include:

- Construction of an access road to the community's eucalyptus plantation to assist with the logging of this plantation. This road provides shared drilling and plantation access.
- Development of the community's Elderly People's Association. This includes some renovations of the elderly people's home and other infrastructure improvements for the elderly in the community.
- Implementation of knitting workshops for women in the community to assist them to develop this into an economic activity.
- Animal husbandry training for local farmers to improve their ability to generate income from animal production in the community.

AF plans to integrate the above commitments into a development plan for the Colcabamba community. Some of the issues raised by the community which may form a part of this development plan are:

- Waste disposal and management.
- Food management standards, to allow the community to understand the requirements for preparing food for sale.
- Water preservation and use. This will include the completion of a water use survey in the village to identify potential methods of reducing water consumption.

AF expects the Colcabamba community projects to be used as a reference for other communities, to display its professionalism and commitment to developing and implementing jointly-agreed development programs and becoming a valued partner of the community.

The communities of Huinchos and Huancabamba lie adjacent to the Opaban 1 and 3 concessions. Good progress has been made with the Huinchos community during the reporting period, ending with a Christmas activity which included sharing activities for the children within the community.

As previously reported, the Huancabamba community issued a formal invitation to AF to commence discussions regarding drilling. Dialogue has been halted to allow problems associated with another mining company's approvals to be resolved. AF has investigated this issue and is implementing a strategy to mitigate further delays.

In January, 2011 AF received notice of a municipal ordinance from the outgoing Mayor of Andahuaylas protecting the local head waters from any development which may impact the biodiversity of these locations. AF is committed to sustainable practices and operations. AF is implementing a plan to mitigate the potential impact of this ordinance on its activities and to ensure mining projects and other industries continue to co-exist with and deliver sustainable results for both the communities and the region as a whole.

### Pre-Feasibility "Trade-off" Studies

The initial Apurimac pre-feasibility study (PFS) was based on a proposed mine output of 27 Mtpa, with ore being crushed and concentrated using magnetic separation to produce 20Mtpa of product, which would then be mixed with water and ground to create a slurry for transportation to the coast by pipeline<sup>6</sup>.

AF is conducting several trade-off studies to supplement the PFS as part of its exploration and study program. Details of these studies are set out below.

#### **Detailed water study**

Given the significant sensitivity to the use of large quantities of water in Peru, AF has commissioned Golder Associates Peru to complete a review of the water supply and discharge options for the project's slurry pipeline (base case) alternative. This study was awarded in December 2010 and will be completed in two phases. The first phase will be a desktop review of the current supply and discharge options, the development of potential alternatives and the recommendation of preferred options. The second phase will investigate in detail the preferred options recommended from the first study phase. Results from the first phase of the study are expected either late in the March quarter or early in the June quarter of 2011.

<sup>6</sup> Full details of AF's original PFS are contained in Strike's 23 July 2008 ASX announcement entitled "Pre-Feasibility Results Confirm World Class Prospects for Apurimac Project in Peru".

### **Rail option study**

AF commissioned Ausenco Sandwell to conduct a pre-feasibility level study to determine whether transporting an alternative product mix of lump and sinter feed by rail is preferable to transporting slurry via a pipeline. The rail study considered the options of transporting 20Mtpa, 15Mtpa and 10Mtpa<sup>7</sup>. This study was completed during the September 2010 Quarter. The key outcomes of the study were:

- The final aligned track distance is 574 kilometres (km).
- The rail option requires 120 tunnels with a combined length of approximately 77km.
- 18 major bridges are required with lengths ranging from 45m to 980m.
- The estimated time required to design and construct the rail line is 4 years.
- The total capital cost for a rail line with a 20Mtpa capacity is US\$3 billion +20%.
- The operating cost for the rail option is \$5.90 per tonne +/- 20% for 20Mtpa of product.

The transport option analysis confirmed that the high capital cost of the railway option cannot be supported by the AF Project alone. AF has no further work planned on the railway transport option at this stage.

### **Rope conveyor (Ropecon) concept study**

The AF Study on a Doppelmayr rope conveyor was completed in October. The key outcomes of this study were:

- A Ropecon option is suitable for the transport of 10 to 20Mtpa of crushed ore, lump and fines or concentrate products from the mine site to the port.
- The conveyor route length is approximately 288km, requiring 31 Ropecon sections.
- The total installed cost estimate for the Ropecon transport system is US\$2.1B +/-35%.
- The operating cost estimate for the Ropecon transport system is \$1.1/t +/-35%. This includes a credit associated with power generation on the downhill sections.

Importantly, the capital and operating costs for the Ropecon option are significantly lower than for the rail transport system, which has a capital cost of US\$3.0B and operating costs of US\$5.90/t. Accordingly, it is expected to deliver a material improvement in the project's economics compared to the rail transport option.

In addition, the Ropecon is capable of transporting both crushed ore and all of the product alternatives (lump, fines and coarse concentrate) to the port. This potentially provides operational flexibility as well as allowing alternative project configurations such as locating all of the processing facilities, or simply the more complex concentrator portion of the project, at the coast. In addition, this may enable the deferral of the capital costs for the concentrator until after the high-grade material is mined and processed. These options are expected to deliver capital and operating cost savings for the project.

The Ropecon alternative has the potential to significantly reduce the water requirements of the project when compared to the slurry pipeline option. As water is a key factor in community sentiments in Peru, this has the potential to simplify the community approvals process for the project.

In addition, the Ropecon is expected to provide the preferred ore transport option from satellite deposits to a processing facility at Opaban due to its suitability for traversing rugged terrain and its low operating cost. The Ropecon study is only at concept level at present and a large volume of additional work is necessary to confirm whether it is feasible from construction and operational perspectives. One key risk area for the Ropecon option is the fact that multiple unit Ropecon facilities are not yet operational on a commercial scale. While this risk is expected to be addressed during the remaining exploration and study phase of the project, AF believes it is prudent to retain the slurry option as the project base case at this time.

### **Preliminary metallurgical testwork program**

During the December 2010 quarter the Company completed planning for a program of "sighter" metallurgical testwork to determine if suitable DSO (lump and fines) products can be generated at Opaban through a simple screening process. Earlier screening testwork at -1mm indicated that the contaminants, especially silica and alumina, preferentially report to the finer portions, suggesting that higher-grade products may be produced by rejecting the finest fractions from a simple screening process.

A parallel program will explore methods to up-grade the remaining lower-grade magnetite resource. This program will utilise existing diamond core from historical drilling campaigns and will seek to leverage off earlier testwork, which suggested that suitable products could be produced by magnetic separation on products at sizes as coarse as -1mm.

Samples for this testwork program were defined and despatched to the Metallurgical Testwork Laboratory in Lima in December 2010. The sighter testwork has now commenced and initial results are expected late in the first quarter of 2011.

<sup>7</sup>

These are the same production options considered by the Alternative Mine Production Study detailed in the Company's June 2010 *Quarterly Activities Report*.

Should these testwork results prove positive, the option of developing an initial, simpler processing operation based on treatment of the higher-grade ore at Opaban will be added to the detailed PFS scope. It is expected that this option would provide reduced up-front capital costs and lower operating costs in the initial years of an operation as construction of the more complex magnetic concentrator could be deferred for several years. While these are only preliminary results, they are seen as a positive step for the Apurimac project.

### **Transport option analysis**

AF completed preliminary analysis of the potential transport options available for the Apurimac Project during the Reporting Period. This process compared project configurations available with each of the transport options, specifically the slurry pipeline, rope conveyor and railway, at a range of production rates. The following points summarise the outcomes from this review:

- A slurry pipeline remains the preferred base case, with the best financial and risk profile.
- A Ropecon system offers attractive project configurations if a lump and fines product is feasible for AF ores. This option carries an elevated risk profile due to the length of the rope conveyor and the high number of transfer points required.
- The high capital costs of the railway project configurations lead to these offering the poorest financial returns. A railway alternative cannot be supported by the AF project alone.
- A production rate of 15 to 20Mtpa is required to provide robust financial returns using current long-term iron ore price forecasts. To achieve a mine life of 20 years AF will require a resource base of at least 500Mt.

The option analysis will be up-dated as the results of the preliminary metallurgical testwork and detailed water study become available.

### **Strategic Direction and Project Timetable**

A strategic review of AF was undertaken by the management team following completion of the transport option study, production rate analyses and an appraisal of management performance. Key findings were:

- A production rate of at least 15Mtpa, and ideally 20Mtpa, is required to deliver robust financial returns based on current long-term price forecasts and the likely project configurations.
- An operational life of at least 15 years, and preferably 20 years or more, is necessary to support the capital expenditure for the project.
- Based on expected mass recoveries at Opaban a mining reserve of at least 500Mt is necessary to meet the project production rate and mine life targets.
- Current estimates for the likely iron ore at Opaban within the top 150 – 200 metres are 300 – 350Mt at 50 to 60% Fe\*.
- Accordingly, the Company should focus strongly on resource growth within 50 km of the Opaban deposit with the objective of locating the additional iron ore within a small number of satellite deposits.
- Management of the business should be “Peru-based” rather than conducted from Perth due to the time differences, logistics and need for strong on-site management.

*(\*The potential quantity and grade of the target iron ore is conceptual in nature. There has been insufficient exploration to define an additional mineral Resource in relation to that target iron ore. It is uncertain whether further exploration will result in the determination of an additional mineral Resource in relation to that target iron ore.)*

Accordingly, after an international executive search process, AF has appointed Mr Tom Kelly as CEO, commencing in March 2011. Mr Kelly holds a Masters Degree in Mining Engineering from the Colorado School of Mines and has 35 years' experience in mineral exploration, mine production, mineral industry consulting and corporate management. Further details of Mr Kelly's experience are contained in the Company's 11 February 2011 ASX announcement entitled: *Apurimac Ferrum Appoints CEO*.

In addition, revised project exploration and study plans have been prepared and are being finalised for presentation to the AF Board for formal approval, which is anticipated in the March quarter of 2011.

While the exploration and study programs for Opaban and the satellite concessions (including Colcabamba) are well understood and scoped in detail, the key uncertainty remains the timing of approvals for these programs, in particular the community approvals. As noted previously, AF now has in place an experienced CR team and has established positive relations with the majority of the communities in the areas in which it is operating. While AF anticipates it will ultimately achieve approvals for its programs, the timing of the community approvals lies largely in the hands of the community authorities and general assemblies. Accordingly, there is considerable uncertainty about the sequence and timing of community approvals going forward.

Experience in the resources industry in Peru has shown that incentives or other mechanisms aimed at accelerating approvals to a faster pace than the community is comfortable with are rarely successful and often prove counter-productive. Accordingly, AF intends to maintain its approach of fully resourcing its CR team and working cooperatively with communities to build trust and long-term, sustainable relationships in order to facilitate current and future approvals.

As a consequence of this uncertainty the project schedule is driven by the timing of approvals, especially for the Opaban and satellite concession drilling programs. Therefore absolute timing of milestones is not practical at this time, however some guidance can be provided by referencing key project milestones to the achievement of community approvals for these key programs.

The environmental approvals for the Opaban drilling (EIS level), exploration drilling, resource estimates, metallurgical testwork and detailed Pre-feasibility Study are expected to take 17 – 20 months following community approvals at Opaban. The timing range is due to the amount of drilling required to define the project's target Resource, timing for EIS approvals and the amount of parallel scheduling which is practically achievable.

AF is working to improve the current plan for approvals, however, this timing can be affected by a range of factors outside AF's control including the Presidential elections scheduled in April 2011, the behaviour of other resource companies in the region, changes in community attitudes and dynamics, as well as seasonal (weather) and cultural factors. Industry benchmarks suggest that best practice is 3 – 4 months for approvals once formal engagement has commenced but, depending on community attitudes, history, and approaches used etc this can extend to 12 months or more in some cases.

The commencement of the formal approvals negotiation process for Opaban will be determined by the local communities. As noted above, the resolution of the issues between an unrelated mining company and the Huancabamba community will be a factor, as will the fact that February is "festival month".

Based on this program and schedule, AF anticipates a budget in the order of US\$35 million will be spent on the Apurimac project over the next two to two and a half years (depending on the timing of approvals) to complete the detailed exploration and community programs and complete a detailed Pre-feasibility Study for the project. Further detail will be provided following formal review and approval of the program and budget by the AF board and on-going feedback from the communities.

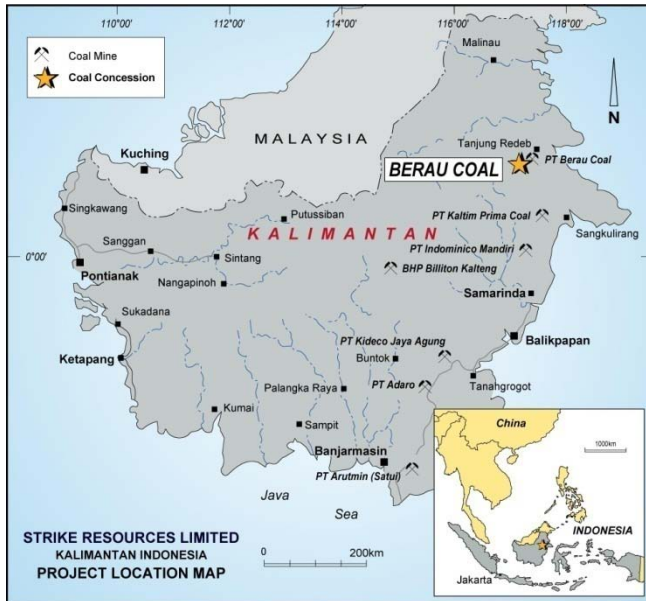
#### JORC Code Competent Person Statements

*Of the JORC Indicated Resource of 142.5Mt at the Apurimac Project, 133.7Mt is on the Opaban 1 concession and 8.8Mt is on the Opaban 3 concession. The entire Inferred Resource of 127.5Mt at this Project is located within the Opaban 1 concession. The information in this document which relates to mineral Resources at the Opaban 1 concession has been jointly compiled by Mr Bruce Sommerville, (BAppSc, BSc (Hons)) who is a member of the Australasian Institute of Mining and Metallurgy and is an employee of SRK Consulting Pty Ltd (which is unrelated to Strike Resources Limited) and Mr Hem Shanker Madan (M. Sc (Appl. Geol.) who is a Member of The Australasian Institute of Mining and Metallurgy and, at the time he did the relevant Resource estimation, was the Managing Director of Strike Resources, however he has since retired from the Company. Mr Madan is responsible for data collection and data quality in respect of the Opaban 1 concession and Mr Sommerville is responsible for mineral Resource estimation in respect of the Opaban 1 concession. The information in this document which relates to mineral Resources at the Opaban 3 concession has been solely compiled by Mr Hem Shanker Madan. Information which relates to exploration targets has been compiled by persons other than Mr Sommerville. Messrs Sommerville and Madan have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code)." Messrs Somerville and Madan consent to the inclusion in this document of the matters based on their information in the form and context in which it appears.*

*The information in this document which relates to exploration results at Colcabamba has been compiled by Mr Ian Cullen B.Sc. (Geology), who is a member of the Australasian Institute of Mining and Metallurgy and is an employee of Strike Resources Limited. Mr Cullen has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code)." Mr Cullen consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.*

# Indonesian Project – Berau Thermal Coal

## Project Overview



The location of Strike's Berau Thermal Coal Project in Indonesia is shown on the adjacent map.

The Berau Project is located in Kalimantan, 40 kilometres southwest of Tanjungredeb (Berau) and 350 kilometres north of Balikpapan, the capital of Kalimantan.

This project comprises a single concession (*Izin Usaha Pertambangan Operasi Produksi* or IUP Production Operations) with an area of approximately 5,000 Ha.

The objective of the Berau Project is to produce 3Mt of sub-bituminous thermal coal per annum.

The project is 30 km from the Segah River, which is suitable for the transport of coal by barge to a trans-shipment facility off the Borneo coast.

## Joint Venture Negotiations

During the Reporting Period Strike devoted considerable effort to negotiations with its joint venture partner, PT Kaltim Jaya Bara (**PT KJB**), to restructure the Berau Project co-operation agreement to address issues raised by Indonesia's 2009 Mining Law. Strike announced on 19 November 2010 that the position adopted by its partner raised uncertainty about whether negotiations would succeed, and that it was considering all options to secure its rights.

The parties have held two rounds of negotiations since that date, with the second round still underway as at the date of this Report. While discussions have been open and constructive, no settlement has been achieved as yet. Given the current strength of the thermal coal market and the advanced stage of the project, the Company is hopeful of a timely resolution to this matter and will keep shareholders informed of progress.

Strike remains committed to pursuing options for the joint development of this project or alternatives which would deliver value for its shareholders.

## Project Development

During the Reporting Period Strike made continued progress towards development of the Berau Thermal Coal Project, in anticipation of a successful conclusion to joint venture negotiations. Key development activities were:

- The budget and work plan submitted as a requirement under the Mining Production Operations Licence (*Izin Usaha Pertambangan Operasi Produksi* or IUP Production Operations) under Indonesia's new Mining Law received official written approval from the relevant authority in Berau.
- PT KJB advised that Central Forestry had given approval for the alignment of the proposed coal haul road from the proposed mine site to the barge port on the Segah River during the June 2010 quarter. Subsequently, however, another department within Central Forestry claimed jurisdiction over the matter and sought to reconsider the grant of the permit. PT KJB advises that the resolution of this matter is underway.
- Tender analysis and the review of key capital and operating costs was completed during the Reporting Period. From this analysis preferred contractors have been identified for the mining and haul road construction contracts. Key capital and operating cost components for the project determined by the feasibility study were generally confirmed, after allowing for expected cost escalation based on the time elapsed since the study. The slight increase in costs has been more than offset by a much higher prevailing coal price compared to the coal price used in the feasibility study. The next step in this process is to commence detailed negotiations with the preferred suppliers. This will commence if the joint venture negotiations are successfully completed.
- Cataloguing of tree species and quantities to be affected by proposed clearing works was completed in August 2010 and lodged by PT KJB with Regional Forestry in Berau. As at the date of this report PT KJB has not been advised of the formal acceptance of this report.

## Pilbara Project – Paulsens East

In November 2009 Strike farmed out the iron ore rights in this project to Process Minerals International Pty Ltd (**PMI**), a subsidiary of ASX-listed Mineral Resources Limited (ASX Code: MIN). Strike retains the rights to other minerals. If PMI mines iron ore at this project it will pay Strike a royalty of A\$3.20 per tonne, subject to variations in line with movements in an iron ore benchmark price.

PMI has reported to Strike that it is undertaking a work program to determine whether iron ore mining on the tenements is feasible.

## Corporate

### Sale of Listed Securities

In November 2010 Strike completed the sale of its investment in listed securities, which resulted from a strategic review of asset holdings. As a result of these sales, Strike received cash totalling \$3.2 million in that month.

## Events Subsequent to Balance Date

Other than the following, and matters in the Project Development section which are stated to have occurred after the Reporting Period, there are no events requiring separate disclosure.

### Board Restructure

On 3 February 2011 Chairman H. Shanker Madan retired from Strike's Board to focus on his role as Managing Director of Alara Resources Limited, which is undergoing a significant expansion.

As part of a strategic review of its structure and operations, Strike commenced a restructure of its Board of Directors to coincide with Mr Madan's retirement. The restructure, when complete, will align the Board with current leading practice in corporate governance.

Under the restructure Non-Executive Directors Farooq Khan and Farhad Moshiri (together with his alternate director Mark Horn) retired from the Board on 3 February 2011. Professor Malcolm Richmond was appointed Acting Chairman until a new independent Chairman is appointed.

Strike has commenced an international search for a new Chairman and at least one additional independent, Non-Executive Director. On the appointment of the new Chairman, Professor Richmond will resume his role as a Non-Executive Director.

### Managing Director's Options

At the Company's Annual General Meeting on 25 November, 2010 shareholders approved the issue of the following options to Managing Director, Ken Hellsten:

- 333,334 options exercisable at \$1.30 each;
- 333,333 options exercisable at \$1.50 each; and
- 333,333 options exercisable at \$1.75 each.

All options expire on 23 March 2013, 3 years from the date Mr Hellsten commenced as Managing Director.

### Other Matters

There were no other significant changes in the state of affairs of the Consolidated Entity during the Reporting Period not otherwise disclosed in the Directors' Report or the Financial Statements.

## Directors Holding Office

The names of the Directors who held office during or since the end of the Reporting Period are set out below.

Directors holding office at the date of this Report:

Name	Position	Date Appointed
Prof. Malcolm Richmond	Acting Chairman	Non-Executive Director on 25 October 2006; Acting Chairman on 3 February 2011
Mr Ken Hellsten	Managing Director	24 March 2010
Mr Matthew Hammond	Non-Executive Director	29 July 2008
Mr William Johnson	Non-Executive Director	Executive Director on 14 July 2006. Status changed to Non-Executive Director 30 April 2010

Directors who retired on 3 February 2011:

Name	Position	Date Appointed
Mr H. Shanker Madan	Chairman	Managing Director on 26 September 2005; Non-Executive Chairman on 24 March 2010
Mr Farooq Khan	Non-Executive Director	Executive Director on 9 September 1999. Status changed to Non-Executive Director on 30 April 2010
Mr A. Farhad Moshiri	Non-Executive Director	29 July 2008
Mr Mark Horn	Alternate Director for Mr Farhad Moshiri	29 July 2008

## Auditor's Independence Declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 (and as referred to in the Auditor's Independent Review Report) on the following page forms part of this Directors' Report.

Signed for and on behalf of the Directors in accordance with a resolution of the Board.

**Ken Hellsten**  
Managing Director

25 February 2011

25<sup>th</sup> February 2011

The Directors  
Strike Resources Limited  
Level 8, 221 St Georges Terrace  
PERTH WA 6000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF  
STRIKE RESOURCES LIMITED

As lead auditor for the review of Strike Resources Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Strike Resources Limited and the entities it controlled during the period.



Brad McVeigh  
Director



BDO Audit (WA) Pty Ltd  
Perth, Western Australian

# Consolidated Statement of Comprehensive Income

## for the half-year ended 31 December 2010

	Note	Consolidated	
		31 December 2010 \$	31 December 2009 \$
Revenue from continuing operations		1,331,247	1,053,925
Other income		992,801	2,367,594
		<u>2,324,048</u>	<u>3,421,519</u>
Personnel costs			
Cash remuneration		(1,167,532)	(1,444,171)
Director's and employee's options	3	(76,824)	(238,485)
Provision for employee benefits		(18,290)	(23,225)
Occupancy costs		(140,174)	(141,387)
Finance costs		(8,815)	(34,098)
Borrowing costs		-	(141)
Corporate costs			
Professional fees		(130,153)	(258,118)
Other corporate expenses		(638,572)	(2,114,682)
Foreign exchange loss		(2,611,988)	-
Impairment loss			
Exploration and evaluation costs		(190,051)	-
Associate loans	7	(1,459,177)	(3,920,116)
Financial instruments held at fair value through profit and loss		2,268,015	1,619,582
Loss on disposal of fixed assets		(72,245)	-
Loss on disposal of financial instruments held at fair value through profit and loss		(482,395)	-
Gain on loss of control of subsidiaries	9	-	28,678,346
<b>Profit/(loss) before income tax</b>		<u>(2,404,153)</u>	<u>25,545,024</u>
Income tax expense		(653)	-
<b>Profit/(loss) for the half year</b>		<u>(2,404,806)</u>	<u>25,545,024</u>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		(1,004,193)	(4,969,516)
<b>Other comprehensive loss for the half year</b>		<u>(1,004,193)</u>	<u>(4,969,516)</u>
<b>Total comprehensive loss for the period, net of income tax attributable to the owners</b>		<u>(3,408,999)</u>	<u>20,575,508</u>
Basic earnings/(loss) per share from profit/(loss) from continuing operations attributable to the ordinary equity holders of the company		(0.02)	0.20
Diluted earnings per share from profit/(loss) from continuing operations attributable to the ordinary equity holders of the company		n/a	0.20

The accompanying notes form part of this financial report

# Consolidated Balance Sheet

as at 31 December 2010

	Consolidated	
	31 December 2010 \$	30 June 2010 \$
<b>Current assets</b>		
Cash and cash equivalents	40,706,055	41,445,175
Trade and other receivables	535,652	890,338
Financial assets at fair value through profit and loss	-	327,190
Other	14,350	-
<b>Total current assets</b>	<u>41,256,057</u>	<u>42,662,703</u>
<b>Non-current assets</b>		
Other receivables	349	539
Property, plant and equipment	888,925	1,237,714
Available-for-sale investments	-	1,096,500
Exploration and evaluation	20,740,734	21,129,916
<b>Total non-current assets</b>	<u>21,630,008</u>	<u>23,464,669</u>
<b>Total assets</b>	<u>62,886,065</u>	<u>66,127,372</u>
<b>Current liabilities</b>		
Trade and other payables	310,588	564,586
Provisions	138,848	118,335
<b>Total current liabilities</b>	<u>449,436</u>	<u>682,921</u>
<b>Non-current liabilities</b>		
Trade and other payables	138,619	14,631
<b>Total non-current liabilities</b>	<u>138,619</u>	<u>14,631</u>
<b>Total liabilities</b>	<u>588,055</u>	<u>697,552</u>
<b>Net assets</b>	<u>62,298,010</u>	<u>65,429,820</u>
<b>Equity</b>		
Issued capital	144,846,669	144,846,669
Reserves	11,905,004	12,632,008
Accumulated losses	(94,453,663)	(92,048,857)
<b>Total equity</b>	<u>62,298,010</u>	<u>65,429,820</u>

The accompanying notes form part of this financial report

# Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2010

	Issued capital	Foreign currency translation reserve	Share-based payments reserve	Accumulated losses	Total	Non - controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Consolidated entity</b>							
<b>At 1 July 2009</b>							
<i>Total comprehensive income for the period</i>	144,846,669	4,310,336	12,561,834	(112,010,483)	49,708,356	439,850	50,148,206
Profit for the year	-	-	-	25,545,023	25,545,023	-	25,545,023
<i>Other comprehensive income</i>							
Exchange differences on translation of foreign operations	-	(4,969,516)	-	-	(4,969,516)	-	(4,969,516)
<b>Total comprehensive income for the half year</b>	-	(4,969,516)	-	25,545,023	20,575,507	-	20,575,507
<b>Transactions with owners in their capacity as owners:</b>							
Option reserve	-	-	238,485	-	238,485	-	238,485
Movement in non controlling interest	-	-	-	-	-	(439,850)	(439,850)
<b>At 31 December 2009</b>	<b>144,846,669</b>	<b>(659,180)</b>	<b>12,800,319</b>	<b>(86,465,460)</b>	<b>70,522,348</b>	<b>-</b>	<b>70,522,348</b>
<b>At 1 July 2010</b>							
<i>Total comprehensive income for the period</i>	144,846,669	(359,274)	12,991,282	(92,048,857)	65,429,820	-	65,429,820
Loss for the year	-	-	-	(2,404,806)	(2,404,806)	-	(2,404,806)
<i>Other comprehensive income</i>							
Exchange differences on translation of foreign operations	-	(803,828)	-	-	(803,828)	-	(803,828)
<b>Total comprehensive income for the half year</b>	-	(803,828)	-	(2,404,806)	(3,208,634)	-	(3,208,634)
<b>Transactions with owners in their capacity as owners:</b>							
Option reserve	-	-	76,824	-	76,824	-	76,824
<b>At 31 December 2010</b>	<b>144,846,669</b>	<b>(1,163,102)</b>	<b>13,068,106</b>	<b>(94,453,663)</b>	<b>62,298,010</b>	<b>-</b>	<b>62,298,010</b>

The accompanying notes form part of this financial report

# Consolidated Statement of Cash Flows

for the half-year ended 31 December 2010

	31 December 2010 \$	31 December 2009 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(1,344,230)	(5,794,199)
Receipts from customers	102,723	-
Income tax payments	(653)	-
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(1,242,160)</b>	<b>(5,794,199)</b>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation expenditure	(624,023)	(1,615,846)
Payments for plant and equipment	(111,762)	(19,216)
Acquisition of investment in associate	-	(1,138,786)
Interest received	923,779	770,594
Proceeds from sale of investment	3,203,444	-
Proceeds from disposal of fixed assets	19,082	-
Loans to associate entities	(2,927,666)	-
	<hr/>	<hr/>
<b>Net cash inflow (outflow) from investing activities</b>	<b>482,854</b>	<b>(2,003,254)</b>
Net decrease in cash and cash equivalents held	(759,306)	(7,797,453)
Cash and cash equivalents at the beginning of the financial year	41,445,175	55,726,752
Effect of exchange rate changes on cash held	20,186	(1,155,617)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>	<b>40,706,055</b>	<b>46,773,682</b>

The accompanying notes form part of this financial report

# Notes to the Financial Accounts

for the half-year ended 31 December 2010

## 1. Significant Accounting Policies

### Statement of Compliance

These half-year financial statements (comprising the financial statements and notes thereto) are a general-purpose financial report that has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

These interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2010 and any public announcements made by Strike Resources Limited ("**Consolidated Entity**", "**Group**" or "**Strike**") during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

### Basis of Preparation

The interim financial statements have been prepared on the going-concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Consolidated Entity is dependent upon it maintaining sufficient funds for its operations and commitments. The directors continue to monitor the ongoing funding requirements of the Consolidated Entity. The directors are confident that sufficient funding is available for the Consolidated Entity to continue as a going concern and as such are of the opinion that the financial statements have been appropriately prepared on a going concern basis.

The interim financial statements have also been prepared on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. Cost is based on fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

## 2. Estimates

The preparation of interim financial statements 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 these consolidated interim financial statements, 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 statements as at and for the year ended 30 June 2010.

The Board continues to monitor the progress of the negotiations on the development of the Berau Project with PT Kaltim Jaya Bara, the owner of the coal concession on which the Berau project is situated. At the date of this report the directors have determined that no adjustment to the carrying value of the Berau Project is required.

## 3. Share-Based Payments

On 25 November 2010, at the Annual General Meeting of the Company, it was resolved to grant 1,000,000 options to the Managing Director, Ken Hellsten. These options had exercise prices ranging from \$1.30 per share to \$1.75 per share, all with an expiry date of 23 March 2013.

Grant date	Expiry date	Exercise price (per share)	Fair value (per option)	No. of options	Vesting conditions
25 Nov 2010	23 Mar 2013	\$1.30	\$0.087	333,334	Fully vested on grant date
25 Nov 2010	23 Mar 2013	\$1.50	\$0.077	333,333	Fully vested on grant date
25 Nov 2010	23 Mar 2013	\$1.75	\$0.067	333,333	Fully vested on grant date

The fair value of options granted during the six months ended 31 December 2010 have been determined using the following assumptions:

Share price	\$0.365
Exercise price	\$1.30 - \$1.75
Expected volatility	90%
Option life	3 1/3 Years
Expected dividends	Nil
Risk-free interest rate	5.145%

Total expenses arising from share-based payment transactions during the half-year ended 31 December 2010 were \$76,824 (2009: \$238,485).

#### 4. Contingent Liabilities and Contingent Assets

##### (a) Strike Resources Peru S.A.C. option

Apurimac Ferrum S.A. ("AF") has an option to purchase the mining concessions of Strike Resources Peru S.A.C. (the Company's Peruvian subsidiary), exercisable for US\$1.75 million. Exercise of this option is at the discretion of the option holder Apurimac Ferrum. The term of the option is governed by the definition of the "Capitalisation Period" in the AF Settlement Agreement.

##### (b) Cristoforo Agreement

On 18 May 2007, Strike Resources Peru S.A.C. entered into an assignment and option agreement with a Peruvian vendor in respect of three mineral concessions in the Apurimac District totalling 1,900 hectares, being the Cristoforo 14, Cristoforo 28 and Ferroso 29 concessions. The consideration paid for the assignment of mining rights to Strike Resources Peru S.A.C. (or assignees) for a two year period was US\$200,000. The option to acquire these three mineral concessions had an exercise period of two years and an exercise price of US\$3 million. Under the AF Settlement Agreement, the rights were required to be assigned to AF at cost. The Cristoforo Agreement was not assigned to AF due to the disputes with D&C. The May 2007 agreement expired in May 2009. A fresh option agreement was entered into on 15 June 2010, pursuant to which US\$31,250 was paid by Strike Resources Peru S.A.C. on execution, US\$50,000 is payable within 12 months and 15 business days from execution, US\$50,000 is payable within 6 months thereafter and a further US\$1.05 million is payable if Strike Resources Peru S.A.C. wishes to exercise the option, at any time within 2 years from execution.

##### (c) Native Title

The Consolidated Entity's tenements in Australia may be subject to native title applications in the future. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Consolidated Entity.

##### (d) Government Royalties

The Consolidated Entity is liable to pay royalties on production obtained from its mineral tenements/concessions. For example, the applicable Government royalties in Peru is between 1 to 3% based on the value of production. At this stage it is not possible to quantify the potential financial obligation of the Consolidated Entity under Government royalties.

##### (e) Berau Coal Project Royalties

The Consolidated Entity is party to a Co-operation Agreement under which it is required to pay royalties to PT Kaltim Jaya Bara ("KJB"), the owner of the mining concession which the Consolidated Entity proposes to undertake coal mining operations (Berau Coal Project, Indonesia). At this stage it is not possible to quantify the potential financial obligation of the Consolidated Entity to pay these royalties to KJB.

##### (f) Directors' Deeds

The Consolidated Entity has entered into deeds of indemnity with certain Strike Resources Limited directors, indemnifying them against liability incurred in discharging their duties as directors/officers of the Consolidated Entity. As at balance date, no claims have been made under any such indemnities and accordingly, it is not possible to quantify the potential financial obligation of the Consolidated Entity under these indemnities.

##### (g) Paulsens East Royalty

The Consolidated Entity entered into a farm out agreement with Process Minerals International Pty Ltd ("PMI"), a subsidiary of ASX listed Mineral Resources Limited for the potential mining of iron ore from Strike's Paulsens East project (EL47/1328 and PL47/1170) located in the Pilbara. Under this agreement PMI will pay Strike A\$3.20 per dry tonne of ore mined, as this royalty is contingent on the successful development of a mine and due to the uncertain nature of mine production it is not possible to quantify the potential financial benefit to the Consolidated Entity of this royalty.

##### (h) IAC Royalty

The Consolidated Entity has entered into an agreement with IAC to pay US\$7 million to IAC once the cumulative sales from the Apurimac and/or Cuzco Project reach 10 million tonnes. As this royalty is contingent on the successful development of a mine and due to the uncertain nature of mine production it is not possible to quantify the potential financial obligation to the Consolidated Entity of this royalty.

#### 5. Commitments

Other than those listed below, there have been no changes to the Consolidated Entity's commitments reported in the 30 June 2010 Financial Statements.

##### (a) Apurimac Ferrum Loan

As part of the settlement between the shareholders of Apurimac Ferrum S.A. ("AF"), Strike, D&C and MAPSA, Strike has agreed to loan AF US\$3 million during the period ending 3 years from 20 July 2009, with the right to advance a further US\$17 million to fund AF board-approved operating budgets over that period. All such loans are secured by a first-ranking mortgage over AF's mineral concessions. As at the 31<sup>st</sup> of December 2010, Strike had loaned US\$8,783,836 of the US\$20,000,000 to Apurimac Ferrum.

#### 6. Dividends

No dividends were paid or provided for during the half-year ended 31 December 2010.

#### 7. Related Party Disclosures

##### (a) Associates

Apurimac Ferrum S.A. is an associate of Strike Resources Ltd.

On 21 July 2009, through the AF Settlement Agreement, Strike Resources entered into a replacement loan agreement with Apurimac Ferrum S.A., in which US\$20 million is able to be advanced in respect to the Apurimac and Cuzco Iron Ore projects. This loan is interest bearing (USD LIBOR rate + 2% per annum), as provided for under the AF Settlement Agreement.

#### Loans to associate – Apurimac Ferrum

	31 December 2010	31 December 2009
	\$	\$
Balance on recognition of investment in associate	8,615,492	8,615,492
Loans advanced	10,372,005	3,902,623
Interest charged	291,840	112,869
Loan revalued due to foreign currency movements	(2,908,894)	(36,854)
Balance at 31 December	16,370,443	12,594,130
Less provision for impairment	(16,370,443)	(12,594,130)
Closing carrying value	-	-

#### 8. Segment Information

Strike Resources Limited operates in the mineral exploration sector and conducts exploration activities in Peru and Indonesia. Management has determined the operating segments based on the reports reviewed by senior management that are used to make strategic decisions about the allocation of resources. As the Group's operating segments relate to exploration projects, no revenues have been derived by any of the reported segments.

	Indonesia (Coal) \$	Peru (Iron Ore) \$	Total \$
<b>Half-year 2010</b>			
Reportable segment loss before income tax expense	(165,274)	(200,873)	(366,147)
Reportable segment assets	21,343,811	114,193	21,458,004
<b>Half-year 2009</b>			
Reportable segment profit/(loss) before income tax expense	(191,296)	(137,451)	(328,747)
Reportable segment assets	20,911,642	1,223,941	22,135,583

	31 December 2010	31 December 2009
	\$	\$
Total loss from reportable segments	(366,147)	(328,747)
Gain on loss of control of subsidiary	-	28,678,346
Interest revenue	1,331,247	1,053,925
Unrealised foreign exchange gain/(loss)	(2,611,988)	2,367,594
Share based payments expense	(76,824)	(238,485)
Impairment expense	(1,459,177)	(3,920,116)
Fair value adjustment – investments	2,268,015	1,619,582
Other corporate costs	(1,489,932)	(3,687,075)
Profit/(loss) from continuing operations	(2,404,806)	25,545,024

#### 9. Gain on Deconsolidation of Subsidiaries

During the 6 month period to 31 December 2009 Strike Resources Limited's shareholding in Apurimac Ferrum S.A. ("AF") and Iron Associates Corporation ("IAC") decreased to 43.98% and 0% respectively. The decrease in Strike's shareholdings in these entities was the result of various settlement agreements executed between the shareholders of AF (details of which can be found in Strike's 2009 Annual Report). As Strike lost control of AF and IAC as a result of these agreements it was required to de-consolidate the financial statements of AF.

In the 31 December 2009 Half-Year Financial Statements a gain on de-consolidation was recognised on the loss of control of AF and IAC, a summary of the gain is listed below.

	31 December 2010	31 December 2009
		\$
Consideration <sup>1</sup>	-	Nil
Gain on deconsolidation of accumulated losses	-	7,261,530
Gain on deconsolidation of subsidiary impairments on loss of control	-	65,973,147
Loss on initial recognition of associate impairments	-	(44,556,331)
Gain on loss of control of subsidiaries		28,678,346

1. There was no deemed consideration on loss of control as shares were exchanged in the relevant companies.



## **10. Events after the Reporting Period**

Other than the following, there are no events requiring separate disclosure.

As part of a strategic review of its structure and operations, Strike Resources Ltd commenced the restructure of its Board of Directors to align it with current leading practice in corporate governance.

On 3 February 2011, Farooq Khan, Farhad Moshiri (together with his alternate director Mark Horn) and Chairman H. Shanker Madan retired from the Board. Professor Malcolm Richmond was appointed Acting Chairman until a new independent Chairman takes office. On the appointment of the new Chairman, Professor Richmond will resume his role as a non-executive director.

Strike has commenced an international search for a new Chairman and at least one additional independent, non-executive director.

## Directors' Declaration

The Directors of the Company declare that:

1. The attached consolidated financial statements and notes as set out on pages 14 to 21 are in accordance with the *Corporations Act 2001* and:
  - a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and or its performance for the half year ended on that date; and
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



**William Johnson**  
Director

Perth  
25 February 2011

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF STRIKE RESOURCES LIMITED

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Strike Resources Limited, which comprises the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year 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 half-year 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 half-year 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 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 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Strike Resources 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.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Strike Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## 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 Strike Resources 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 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink. The word 'BDO' is written in a simple, blocky font. Below it, the name 'Brad McVeigh' is written in a cursive, handwritten style.

Brad McVeigh  
Director

Perth, Western Australia  
Dated this 25<sup>th</sup> day of February 2011