

Australian Mines Limited

ABN 68 073 914 191



Annual Report 2010



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Neil Warburton



Mick Elias



Brett Young

CORPORATE DIRECTORY

Directors

Neil Warburton	Chairman
Mick Elias	Non-executive Director
Brett Young	Executive Director

Chief Operating Officer/ Company Secretary

Brett Young

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CHAIRMAN'S LETTER

Dear Shareholder

I have pleasure in presenting the Annual Report for the year ended 30 June 2010.

During this financial year the Directors made a decision that the Company's tenement and project assets had significant gold potential. We proceeded with an entitlements issue to shareholders and placement to investors to raise funds on the strength of these gold assets.

Current Financial Position

After the successful entitlements issue and placement were completed with shareholders and investors, the Company repaid all debts and has been able to conduct exploration on the company's gold tenements as detailed in the following operations summary.

Future Direction

The company is now exploring and developing its gold interests which were overlooked during the period when nickel was considered more important.

The gold interests include the Golden Ridge tenements in near proximity to the Golden Ridge Mine which historically produced 250,000 ounces of gold, East Location 45 which contains the Mt Martin Gold Mine which was returned to the Company by Dioro Exploration on 25 January 2010 when the sublease expired.

Mt Martin has historically produced 210,000 ounces of gold and has a reported Indicated and Inferred Mineral Resource containing 4.7m tonnes at 2.19 g/t for 328,000 ounces of gold.

Mt Martin will be the immediate focus for the future where the Company is currently evaluating an open pit cutback that could produce 50,000 – 60,000 ounces of gold under various treatment options. At the conclusion of the cutback there may be potential to extend mining underground. We have high expectations of generating a commercial return for shareholders by developing Mt Martin.

The Company has also retained all its nickel assets containing some 28,500 tonnes of Nickel and, as the nickel price recovers, the Company will review the options of these assets to maximise the return to shareholders.

I would like to thank my fellow directors for their efforts throughout the year, for guiding the Company in its new direction. Certainly the timing could not have been better to be focussing on gold with a record gold price.

Also I wish to thank our shareholders for your continued support and I am confident we can have commercial success with Mt Martin gold project and the gold tenement package.

Yours sincerely

Neil Warburton
Chairman



REPORT ON EXPLORATION PROJECTS

Australian Mines ("AUZ") ("the Company") explores for gold and nickel within the Golden Ridge tenement block near Kalgoorlie as well as the Marriott's nickel project near Leinster.

THE GOLDEN RIDGE PROJECT

The Golden Ridge exploration project area is ideally located between the world class nickel and gold mining centres of Kambalda and Kalgoorlie, and is within easy trucking distance of both nickel and gold toll treatment facilities.

The project tenements are actively explored for both mesothermal gold deposits and Kambalda style Archean nickel sulphide deposits.

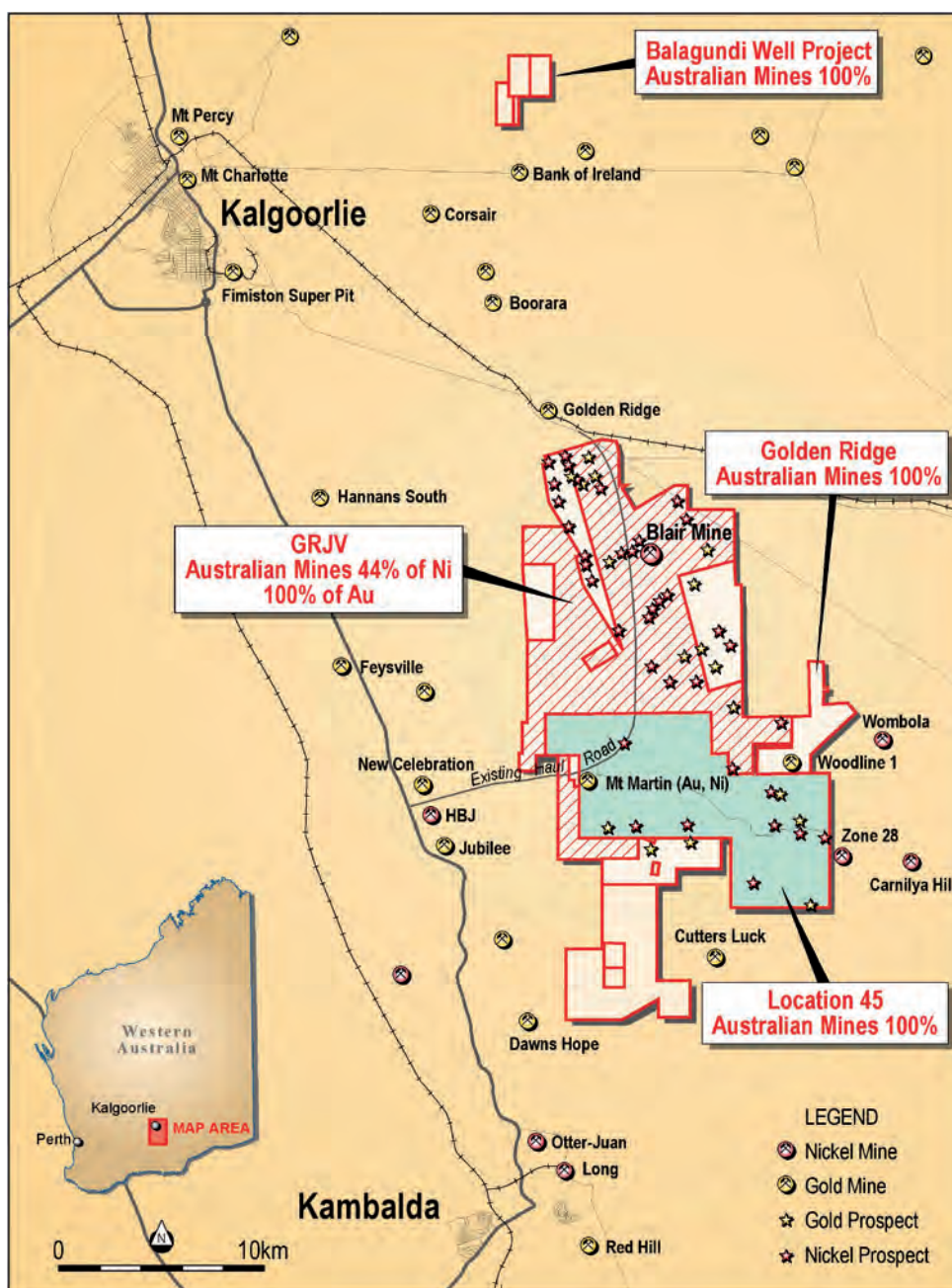


Figure 1: Golden Ridge tenement plan.



REPORT ON EXPLORATION PROJECTS (cont.)

GOLD EXPLORATION

Introduction

AUZ interests include 100% gold interest in a total 251 km² of tenements at Golden Ridge (178 km² granted and 73 km² in applications).

The gold tenements contain suitable host rocks and favourable structural settings similar to that of the nearby gold orebodies at the Golden Ridge mine (250,000 ounces), the Mt Martin mine (210,000 ozs) and the Wombola gold mine, and the Company has identified 5 priority target areas as illustrated in the diagram below:

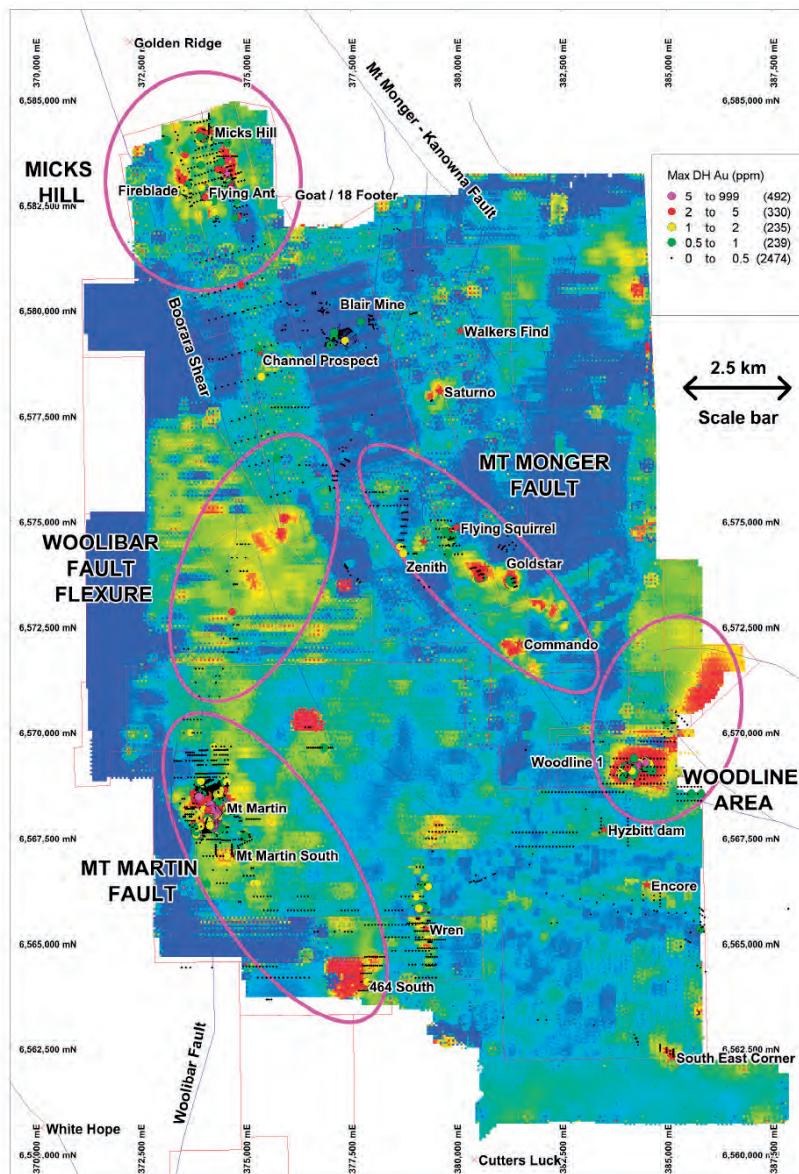


Figure 2: Gold exploration targets over gold in soils, regional faults, and drillholes

REPORT ON EXPLORATION PROJECTS (cont.)

The Company completed 9,897 metres of gold exploration drilling during the year on a number of gold targets as tabled below:

Project Name	Diamond (m)	RC (m)	RAB (m)	Auger (m)
Goldstar			373	
Commando			877	
Micks Hill			502	
M26/464			662	
Mt Martin	2,312	1,881		
Woodline North				225
Woolibar Fault Flexure				2875
Woodline		189		
Totals	2,312	2,070	2,414	3,100

Table 3: AUZ Drill metres 2009-2010

Presented below is a summary of the main exploration activities completed during the year at each of the priority target areas:

(a) Mt Martin Area

Background

Mt Martin is an historic gold mine with previous production of approximately 210,000 oz Au. The most recent mining was via an 800 metre long open pit (Figure 5). A set of 4 shafts operated, the deepest being at the 6 level, some 165 m below the surface.

The Company gained control of the Mt Martin area from Dioro Exploration NL in January 2010, and immediately commenced to explore the system for additional resources. Dioro treated 743,223 tonnes of ore grading 1.5g/t Au to recover 31,200 oz of fine gold after digging ore from the floor of the pit and treating low grade stockpiles.

Mineralisation is hosted by a series of stacked, northwest plunging sulphide rich, quartz carbonate lodes. The lodes are hosted within a package of variably sheared and altered ultramafic units.



REPORT ON EXPLORATION PROJECTS (cont.)

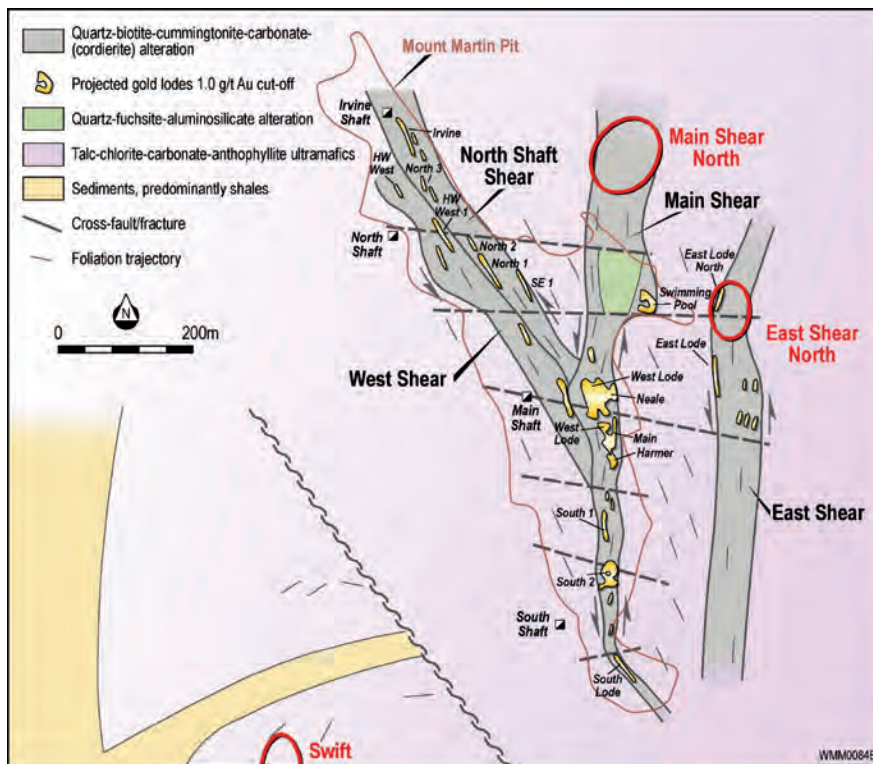


Figure 3: Mt Martin geology plan with current pit outline, projected gold lodes and local prospects highlighted in red.

Exploration

By July 2010, the Company had drilled from the surface a series of 12 deep diamond holes to discover addition resources below the historic East Lode workings, with significant results from the drilling including:

- AUZD3 - 320.6m – 330.6m, 10.0 m true width @ 7.6 g/t Au,
- AUZD2 - 332.75m – 343.1m, 10.35 m true width @ 2.6 g/t Au, (including 4.6 m @ 3.6 g/t).

As well RC drilling during the year has established new shallow resources at East Lode North, with significant results from the drilling including:

- AUZRC20- 10m – 14m, 4 m @ 7.47 g/t Au,
- 20m – 23m, 3 m @ 5.6 g/t Au.



REPORT ON EXPLORATION PROJECTS (cont.)

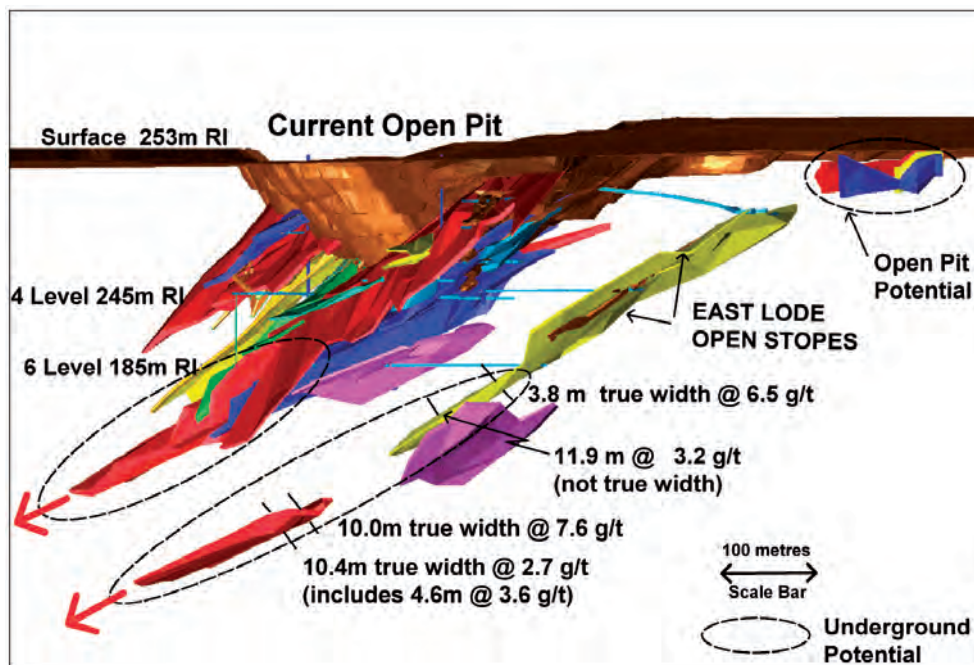


Figure 4: Mt Martin oblique section – current workings, ore surfaces and selected diamond drill intercepts on the East lode.

Resource

The June 2010 Mt Martin combined Indicated and Inferred Mineral Resource (see end of this section) was estimated at 4,670,000 tonnes at 2.19 g/t for 328,000 ounces of gold.

The resource model wireframes were constructed by the Company's geologist from RC and diamond drill intercepts, combined with interpretation of underground mapping and underground workings. The block model was constructed by consultants with Au grades in the blocks being estimated by ordinary kriging from 1 metre composited diamond and RC drill intercepts.

Mining Optimisation Studies

Mt Martin open pit mining optimisation studies indicate that a cutback on the open pit would make a significant profit with various treatment options producing 50,000 – 60,000 ounces of gold at a gold price of A\$1,300/ounce.

The Company is currently reviewing the various options for mining and treatment of Mt Martin.



REPORT ON EXPLORATION PROJECTS (cont.)

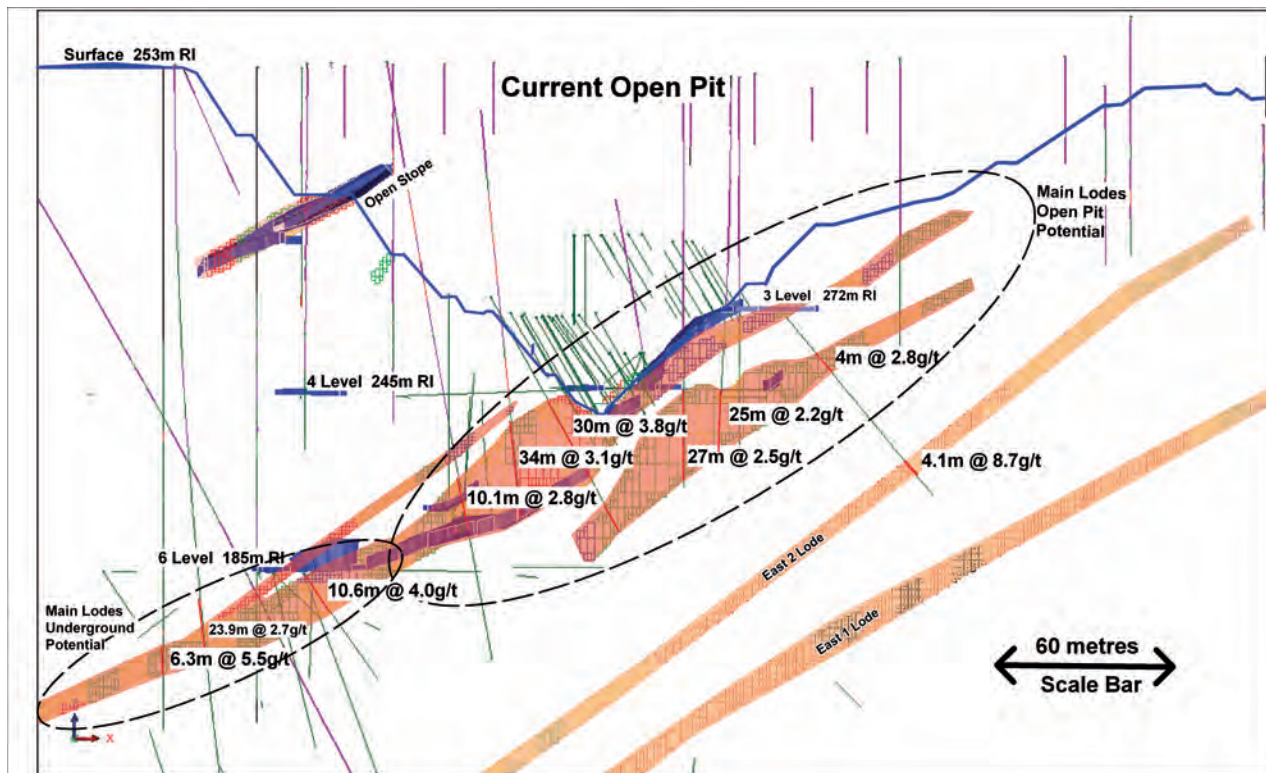


Figure 5: Mt Martin cross-section 6,568,140mN +/- 10m, with current workings and selected diamond drill intercepts on the Main Lodes.

Future Developments

Future drilling at Mt Martin will involve the following:

- Surface RC drilling to establish open pit reserves on the East Lode;
- Surface diamond drilling to establish open pit and underground mining reserves on the Main Lodes;
- Surface diamond drilling to establish underground mining reserves on the Main Lode and the East Lode.

A graded block model is currently being constructed around the gold mineralisation at the satellite Main Lode North prospect, which on completion will be subject to an open pit optimisation study to gauge its commercial potential.

(b) Mt Monger Fault

The regional scale Mt Monger to Kanowna fault system is believed to be the feeder fault to the world class gold camp at Kanowna, and on the Company's tenements it presents as a high ranking target box where it changes direction into a more east-west orientation, with associated strong gold-in-soils anomalism, and a number of encouraging intercepts in the wide spaced reconnaissance RAB drilling. During the year RAB programmes were completed at Goldstar and Commando as detailed below:

Goldstar

Background

Previous RAB drilling of the 3 km by 0.7km linear soil anomaly, with peak Au value of +260 ppb, has identified an area with a number of significant gold intercepts and this area was the focus of exploration at Goldstar during the year.

The most significant intercept from the Company's previous RAB programmes at Goldstar was AMBR0332, 70m – 85m, 15m @ 1.6 g/t Au as supergene mineralisation at the base of the clay zone derived from a gabbro host rock (see figure 6).



REPORT ON EXPLORATION PROJECTS (cont.)

Exploration

The Company completed surface mapping at Goldstar and sub-cropping quartz and quartz floaters were noted approximately 100 metres to the north of the intercept in AMBR0332, and consequently two lines of angled RAB holes were drilled across this area, with the most significant intercept being **ABR0465, 60m – 76m, 16 m @ 0.44 g/t Au** as supergene mineralisation at the base of the clay zone derived from a gabbro host rock.

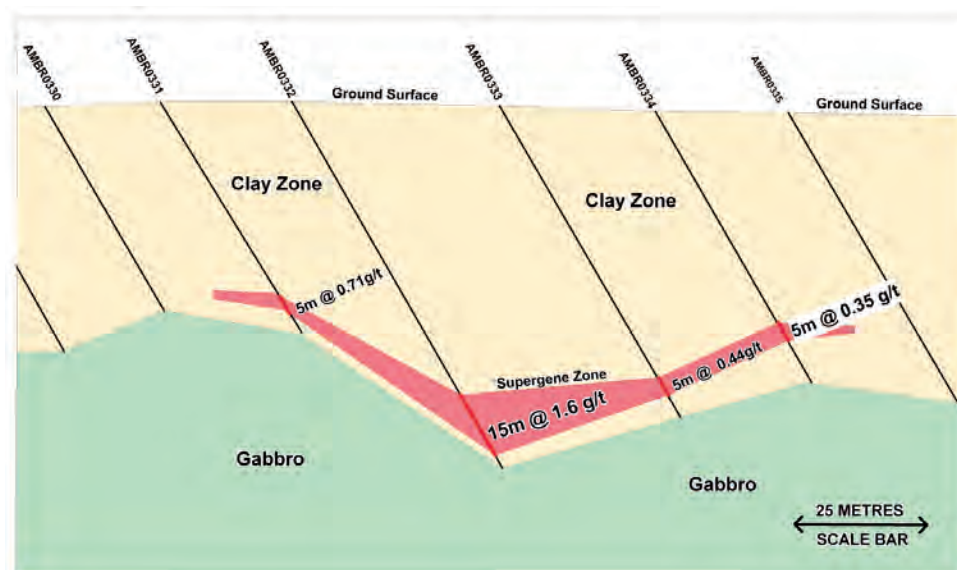


Figure 6: Goldstar oblique RAB section showing previous drilling with interpreted geology and downhole intercepts.

Commando

Background

The Commando prospect is a discrete 900 metre by 500 metre soil anomaly with a peak Au value of +186 ppb gold, and a subtle magnetic high. The prospect is underlain by weathered archean mafic rocks which have been transected by a 200 metre wide and 12 metre deep tertiary palaeochannel.

Exploration

A programme of three lines of vertical RAB holes was drilled to bedrock and sampled for low level gold. The most northern line of RAB drilling is interpreted from the assay results to have a broad supergene zone of elevated gold mineralisation some 28 metres below the surface with the most significant intersection being:

ABR0457, 28m - 36m, 8 metres @ 0.3 g/t Au.

(c) Woodline

Background

The Woodline 1 orebody was discovered by the Company in 2006, and during 2009 the resource down to a depth of 35 metres was sold to a local syndicate for A\$900,000 cash. The syndicate mined an open pit to the depth of 35 metres and on-sold the ore to a local mill.

In 2008 the Company was granted a group of prospecting licences to the north east of Woodline 1; the newly acquired tenements have no history of modern gold exploration, despite having a strong linear NW trending gold in soils anomaly at the boundary.

Exploration

During the year the Company drilled 2 RC holes to test the down plunge of the Woodline 1 orebody with the following results:

AMRC131, 53m – 65m, 12m @ 6.5g/t Au

AMRC132, 72m – 75m, 3m @ 7.7g/t Au

(see Figure 7)

A programme of auger holes which was drilled at Woodline North has established that a linear NW trending gold-in-soils anomaly continues onto the Company's ground as a large +83 ppb Au anomaly.



REPORT ON EXPLORATION PROJECTS (cont.)

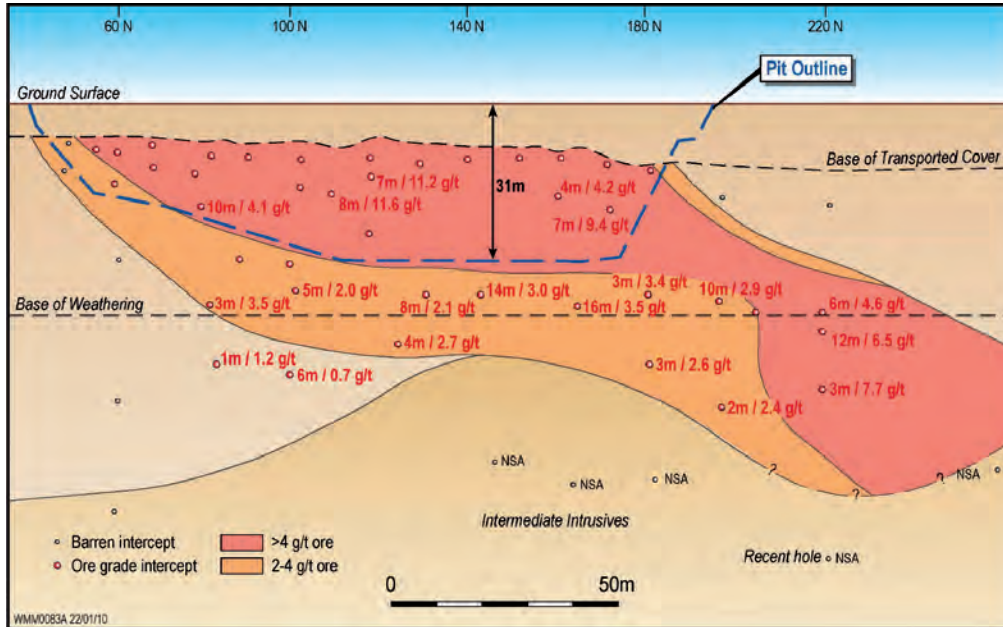


Figure 7: Woodline 1 - interpreted longsection with current pit outline and drill intercepts.

(d) Woolibar Fault Flexure

The Woolibar to Boorara shear is widely recognised as the regional feeder fault for a number of major gold orebodies such as the Mt Martin and Golden Ridge orebodies, which both appear to be located on first or second order fault splays off the Woolibar to Boorara shear.

The Woolibar fault flexure target is a high ranking conceptual target with suitable host rocks and a very favourable structural setting which involves a flexure (bend) in the Woolibar fault, and a number of interpreted second order splays.

The Company has applied for a large exploration licence over the target area, which has no record of modern exploration.

Exploration

The majority of the target area is still under application, but the Company has to date mapped the area and subsequently completed a soil sampling programme on a 200m by 40m grid spacing, which has defined a large 3 km by 700m gold-in-soils anomaly with peak values up to 152 ppb Au.

(e) Mick's Hill

Background

The Mick's Hill area is located at the northern edge of the Company's tenements some 2 kms south of the 250,000 ounce Golden Ridge orebody, which was mined as an open pit by Harmony Gold Australia during the 1990's.

Exploration

Mick's Hill has been successfully prospected in the modern era by metal detecting and dry blowing, and two lines of shallow shafts and RC drilling have defined a small but potentially economic resource along the eastern side of Mick's Hill at 'Goat 18 Footer'.

Mapping and surface geochemistry suggested that there may be additional mineralised N-S structures on the western flank of Mick's Hill, and this theory was tested during the year with two parallel lines of 30 metre spaced RAB holes, which returned subtle gold anomalism in the weathered regolith.



REPORT ON EXPLORATION PROJECTS (cont.)

NICKEL SULPHIDE EXPLORATION

With the increase of the nickel price, nickel exploration was recommenced at Golden Ridge on favourable ultramafic sequences to the south of the Blair nickel mine.

AUZ has retained all of its nickel projects for the future, namely the Golden Ridge Joint Venture, and the East Location 45 freehold lease near Kalgoorlie, and the Marriott's project near Leinster.

The Golden Ridge Joint Venture (GRJV - PIO 56% and manager, AUZ 44%)

Background

The stratigraphy on the Blair tenements has been folded and faulted such that there is at least 45 kms of prospective basal contact under alluvial cover, including known concentrations of nickel sulphides at Blair Mine, Area 57, Blair South, Anomaly 11, Area 20SW, Marshall, and Duplex Hill.

The GRJV was formed between AUZ and Pioneer Resources Limited in 2006 to accelerate nickel exploration of a large area of folded ultramafic stratigraphy around the Blair mine exclusion zone. Pioneer Resources have spent a total of A\$2.4 million to earn a 56% equity in the GRJV and Australian Mines is contributing on a pro-rata basis to maintain its 44% equity stake.

The GRJV utilises the latest geochemical and geophysical technology to explore for 'blind' Kambalda style nickel sulphide orebodies.

Exploration

During the last quarter the GRJV expended a total of A\$210,000 on high power SQUID EM surveys so as to expand the coverage along basal ultramafic contacts with coincident Ni and Cu anomalism in the regolith. The Company is pleased to report that the SQUID EM surveys have outlined a series of new conductive bodies which are virtually untested by drilling.

Future developments

Further work is required to analyse the SQUID EM data to produce detailed conductive models and rank the targets in preparation for drill testing. However, a preliminary assessment shows an attractive EM anomaly located south of the Blair nickel mine in a similar geological setting.



REPORT ON EXPLORATION PROJECTS (cont.)

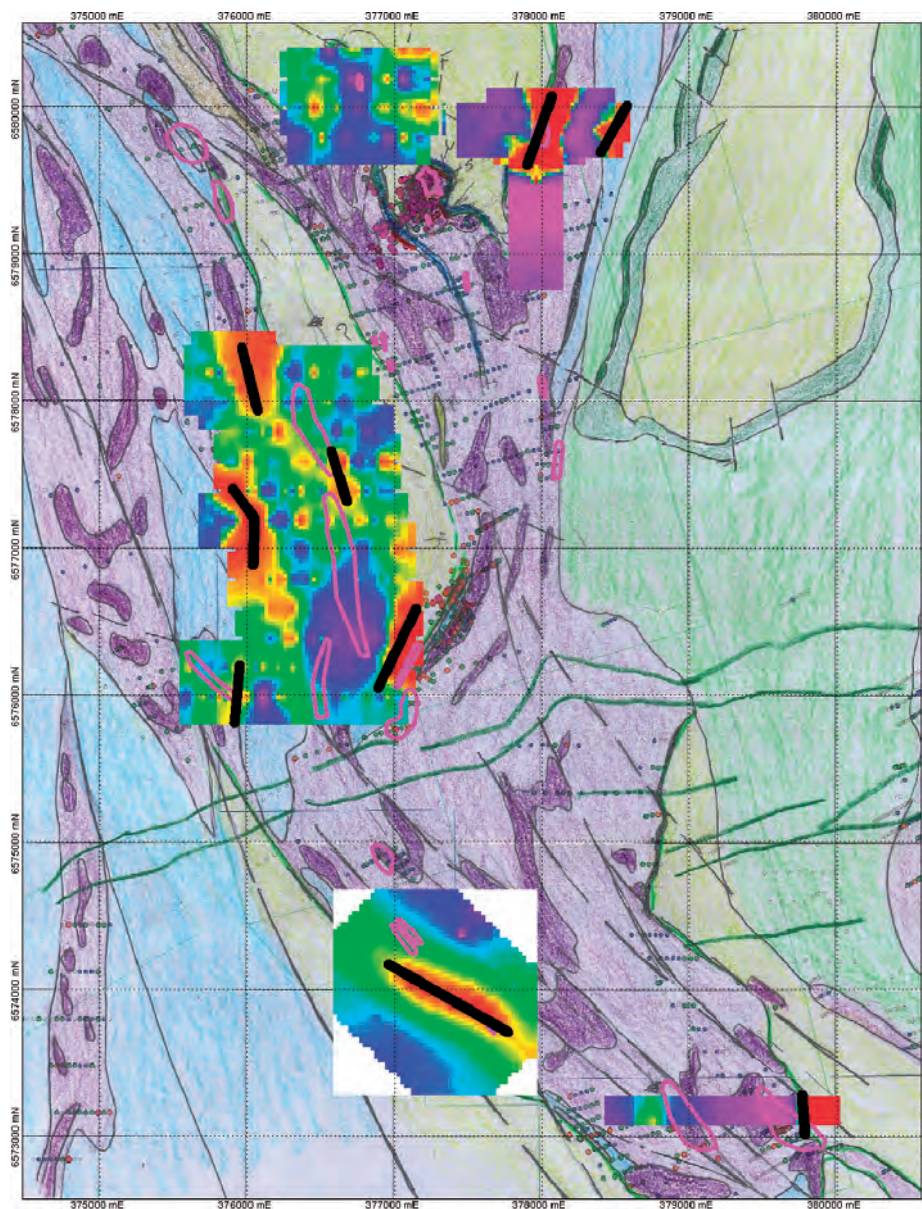


Figure 8 : Golden Ridge geology overlain by newly acquired SQUID EM anomalies (black bars), coincident Ni and Cu anomalism in drillholes (purple shapes).

MINERAL RESOURCE STATEMENTS

(A) GOLD MINERAL RESOURCES (UNDILUTED)

Australian Mines Limited reports gold resource figures for two projects near Kalgoorlie, namely the Woodline 1 Resource and the Mt Martin project area. The latter includes gold resources at the Mt Martin mine and the nearby Swift pit:

Location	Category	Resource Tonnes	Gold g/t	Gold Ounces
Woodline 1	Measured			
	Indicated	90,000	2.19	6,300
	Inferred	2,000	2.12	150
	Sub-total	92,000	2.19	6,450
Mt Martin Mine	Measured			
	Indicated	3,180,000	2.00	204,000
	Inferred	1,490,000	2.59	124,000
	Sub-total	4,670,000	2.19	328,000
Swift	Measured			
	Indicated	130,000	2.56	10,700
	Inferred			
	Sub-total	130,000	2.56	10,700
	Total	4,892,000	2.20	345,150

Table 1: Gold resources as at June 30th 2010. (Reported at 0.5g/t Au cut off grade).

(B) NICKEL MINERAL RESOURCES (UNDILUTED)

Australian Mines Limited reports nickel sulphide resource figures for the indefinitely suspended Blair nickel mine, and in addition reports nickel resources from other exploration projects which are all on granted mining leases.

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Blair Mine – Ni sulphide Resource	Measured	33,000	4.2	1,400
	Indicated	28,000	4.1	1,100
	Inferred	52,000	3.5	1,800
	Sub-total	113,000	3.8	4,300
Marriott's – Ni Sulphide Resource	Measured			
	Indicated	460,000	1.12	5,100
	Inferred	370,000	1.15	4,300
	Sub-total	830,000	1.13	9,400
Goodyear – Ni Sulphide Resource	Measured			
	Indicated			
	Inferred	390,000	3.78	14,700
	Sub-total	390,000	3.78	14,700
Ni Sulphide Resource	Total	1,332,000	2.13	28,400

Table 2: Nickel sulphide resources as at June 30th 2010. (Reported at 0.5% Ni cut off grade).



TENEMENT SCHEDULE

The Company's tenements are located in the Central and Eastern Goldfields of Western Australia on ground highly prospective for nickel and gold.

Tenement Numbers	Project Name	Project Interest
Blair Project		
M26/219 – M26/222	Blair Project_GRJV	44% of Ni, 100% of Au
M26/285 – M26/286	Blair Project_GRJV	44% of Ni, 100% of Au
M26/384	Blair Project_GRJV	44% of Ni, 100% of Au
ELA26/139	Blair Project_GRJV	Application
M26/223	Blair Project	100%
M26/284	Blair Project	100%
M26/287 – M26/289	Blair Project	100%
M26/782	Blair Project	100%
P26/2899	Blair Project	100%
P26/3346	Blair Project	100%
P26/3347	Blair Project	100%
P26/3348	Blair Project	100%
P26/3349	Blair Project	100%
East Location 45	Blair Project	100%
M26/132	Blair Project	100%
M26/464	Blair Project	100%
ELA26/145	Blair Project	Application
ELA26/148	Blair Project	Application
Balagundi North		
P25/2108	Balagundi North Project	Application
P25/2109	Balagundi North Project	Application
P25/2110	Balagundi North Project	Application
P25/2111	Balagundi North Project	Application
Marriott's Project		
M37/96	Marriott's Project	100%

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr E Poole who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Poole is employed by AUZ. Mr Poole has sufficient experience which is relevant to the style of mineralisation and type of deposits 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 Exploration Results, Mineral Resources and Ore Reserves". Mr Poole has consented to the inclusion of the information in the form and context in which it appears.

DIRECTORS' REPORT

The Directors present their report together with the financial report of Australian Mines Limited ("the Company" or "Australian Mines") and its controlled entities ("the Consolidated Group") for the year ended 30 June 2010 and the auditor's report thereon.

1. DIRECTORS

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

Neil Warburton – Non-Executive Chairman appointed 13 October 2005, director since 22 April 2003
Associate Mining Engineering – WASM, FAusIMM

Neil Warburton is a qualified mining engineer with more than 30 years experience in the development and mining of gold and nickel projects in Australia.

He has held executive and board positions with a number of Australian resource companies and is currently Chief Executive Officer of Barminto Ltd.

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

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

Mick Elias has over 25 years of extensive, international experience in all aspects of nickel resource development in both laterites and sulphides, from project generation and evaluation, exploration planning and management, development studies, open cut and underground mine geology, resource/reserve estimation, and resource economics.

He previously held the positions of Chief Geologist – WA Nickel Operations and Chief Geologist – Nickel Resource Development at WMC Resources Ltd. Mr Elias holds a Bachelor of Science (Honours) in Geology from the University of Melbourne. Mr Elias is a director of Mercator Gold plc, Silver Swan Group Limited and a Fellow of the Australasian Institute of Mining and Metallurgy.

Brett Young – Executive Director appointed 17 October 2005, Chief Operating Officer/Company Secretary since 1 September 2004
CA BCom

Brett Young is a Chartered Accountant and holds a Bachelor of Commerce degree from UWA. He has more than 25 years commercial and financial experience in resource based companies.

Mr Young has held senior management positions with major resource companies including Commercial Manager for Pasminco Century Zinc in the start up phase, KCGM, Newcrest and WMC. He has experience in commercial evaluation of projects, company secretarial, implementing corporate strategies and developing information systems.

2. COMPANY SECRETARY

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

Brett Young - CA BCom, appointed 1 September 2004
 (see details above)

3. DIRECTORS' MEETINGS

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

Director	Board Meetings		Remuneration Committee	
	Held	Attended	Held	Attended
Neil Warburton	12	12	1	1
Mick Elias	12	12	1	1
Brett Young	12	12	1	1

DIRECTORS' REPORT (cont.)

3. DIRECTORS' MEETINGS (cont.)

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

4. PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Group during the year comprised the exploration for gold on its Golden Ridge tenements and at Mt Martin gold mine located near Kalgoorlie in Western Australia. During the year Mt Martin gold mine has reported Indicated and Inferred Resources of 4.7m tonnes at 2.19g/t for 328,000 ounces of gold. Limited exploration work was done on the Consolidated Group's nickel assets.

There was no mining of nickel ore at the Blair Nickel Mine and the mine remained in indefinite suspension since December 2008 due to sub-economic prevailing conditions.

5. OPERATING AND FINANCIAL REVIEW

Review of financial condition

The Consolidated Group made a loss for the year of \$129,000 (2009: loss \$3,435,000)

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

Financials	2010 \$'000 s	2009 \$'000 s
Revenue from operating activities	-	8,778
Net Profit / (Loss)	(129)	(3,435)
Cash and cash equivalents	1,578	489

Historical Financial Position

The Consolidated Group's financial position has improved significantly since the end of the 2009 financial year. The Consolidated Group was placed in suspension from trading on the ASX on 30 September 2008 due to a deficiency of working capital.

However due a successful capital raising as detailed below the Consolidated Group was relisted on the ASX on the 13th August 2009.

The Consolidated Group's projects were retained by the Consolidated Group shifting the focus to gold exploration and potential mining of its major gold asset, Mt Martin gold project.

Recapitalisation

During the financial year the Consolidated Group completed a restructure plan as detailed below.

The proposed recapitalisation strategy was put to a meeting of shareholders on 24 July 2009. The successful recapitalisation was a placement of shares to sophisticated investors of Patersons Securities Limited. This was completed on 12 August 2009 along with the entitlements issue to shareholders and provided sufficient working capital for the Consolidated Group to continue as a going concern. This recapitalisation raised \$5.6m before costs.

The recapitalisation satisfied all compliance issues and was completed under a fully underwritten prospectus with the following securities issued: -

1. The issue of 3,197,644,772 shares in a non-renounceable entitlement issue of 7 shares for every 1 share held at 0.1 cent to the shareholders of the Consolidated Group to raise approx \$3.2m.
2. The issue of 159,882,239 options to shareholders on the basis of 1 free attaching option (exercisable at 0.2 cent and having a 4 year expiry period) for every 20 new shares held.



DIRECTORS' REPORT (cont.)

5. OPERATING AND FINANCIAL REVIEW (cont.)

3. The placement of 2,416,500,000 shares at 0.1cent per share to sophisticated clients of Patersons Securities limited to raise approximately \$2.4m before costs.
4. The issue of 120,825,000 placement options to sophisticated clients of Patersons Securities Limited on the basis of 1free attaching option (exercisable at 0.2 cent and having a 4 year expiry period) for every 20 new shares.
5. The issue of 910,642,600 underwriter commitment options (exercisable at 0.2 cent and having a 4 year expiry period) in consideration for underwriting the entitlement issue.

Reinstatement to the ASX

On 12 August 2009 the recapitalisation was finalised and the Consolidated Group was reinstated on the ASX. The entitlements issue and the placement raised \$5.6m before costs of the issue.

The Consolidated Group paid all outstanding liabilities from the recapitalisation on 18 August 2009 and remaining hire purchase contracts were closed and surplus assets sold. A shortfall of \$300,000 on the sale of the mining fleet was paid to its major financier.

The remaining funds provided sufficient working capital for the Consolidated Group to focus on gold exploration.

Mt Martin Gold Mine

The Mt Martin gold mine which is contained on the East Location 45 tenement which was under sub-lease to Dioro Exploration NL was returned to the Consolidated Group on 25 January 2010 when the sub-lease expired.

During the second half of the financial year the Consolidated Group commenced drilling Mt Martin and has reported an upgraded Indicated and Inferred Resources of 4.7m tonnes at 2.19g/t for 328,000 ounces of gold.

Renewal of Lease on East Location 45

The head lease on East Location 45 was renegotiated in September 2009 for a further 11 year period to 25 January 2021. This gives the Consolidated Group security over the 90 km² of valuable gold and nickel exploration ground where the company has reported Indicated and Inferred Resources of 328,000 ounces of gold at Mt Martin gold mine and 14,700 tonnes of nickel at the Goodyear Project.

Results of Operations

The Consolidated Group has focused on gold exploration on the Golden Ridge and Mt Martin tenements during the year and also on developing gold resources at the Mt Martin gold mine.

There was no physical mining activity at the Blair Mine for the year as the mine was closed in December 2008. It remains in indefinite suspension and could be reopened if the nickel price improved sufficiently.

All nickel projects have been retained by the Consolidated Group for the future in the expectation that nickel prices will improve and the projects will become economic to recommence operations.

6. DIVIDENDS

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

7. EVENTS SUBSEQUENT TO BALANCE DATE

There were no material events subsequent to balance date

8. LIKELY DEVELOPMENTS

The Consolidated Group remains committed to gold exploration and also continues to review the options for the Mt Martin gold mine.



DIRECTORS' REPORT (cont.)

9. DIRECTORS' INTERESTS

At the date of this report, the number of shares and options in the Company held by each Director of Australian Mines Limited and other key management personnel of the Consolidated Group, including their personally-related parties, are as follows:

	Shares	Unlisted Options
Specified directors		
N Warburton (i)	82,331,258	83,000,000
M Elias (ii)	16,806,310	62,250,000
B Young (iii)	140,700,270	126,000,000
Specified executives		
E Poole	-	750,000

- (i) 38,931,242 shares in which Mr N Warburton has a relevant interest are owned by Michlange Pty Ltd as trustee for the Warburton family Trust and 43,400,016 are held by Michlange Pty Ltd as trustee for the Warburton Super Fund.
- (ii) 16,806,310 shares in which Mick Elias owns an interest are in the name of Elias Super Fund.
- (iii) 64,084,352 shares are owned in the name of the B Young Superannuation Fund and 76,615,918 shares are owned by Costo Pty Ltd as trustee for the M B Young Family Trust.

10. SHARE OPTIONS

Unissued shares under options

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

	Expiry date	Exercise price	Number of shares
Unlisted share options			
Specified director share options	31 December 2011	\$0.050	1,500,000
Specified director share options	31 December 2011	\$0.075	3,250,000
Specified director share options	31 December 2011	\$0.010	3,250,000
Specified director share options	31 December 2011	\$0.012	3,250,000
Specified executive share options	31 December 2011	\$0.075	500,000
Specified executive share options	31 December 2012	\$0.075	250,000
Specified executive share options	31 December 2014	\$0.003	65,000,000
Specified executive share options	31 December 2014	\$0.004	65,000,000
Specified executive share options	31 December 2014	\$0.005	65,000,000
Specified executive share options	31 December 2014	\$0.006	65,000,000
Listed share options	30 June 2013	\$0.002	1,191,288,839
			1,463,288,839
Unlisted Options Issued during the year			
Specified executive share options	31 December 2014	\$0.003	65,000,000
Specified executive share options	31 December 2014	\$0.004	65,000,000
Specified executive share options	31 December 2014	\$0.005	65,000,000
Specified executive share options	31 December 2014	\$0.006	65,000,000
Listed share options issued during the year	30 June 2013	\$0.002	1,191,349,839
Options exercised during the year	30 June 2013	\$0.002	61,000
Options forfeited or lapsed during the year			Nil

DIRECTORS' REPORT (cont.)

11. REMUNERATION REPORT – AUDITED

11.1 Overview of Remuneration Policies

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

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

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

11.2 Principles of compensation

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel, and relevant key management personnel of the Consolidated Group are competitively set to attract and retain appropriately qualified and experienced directors and executives.

Fixed compensation

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

Performance linked compensation

Performance linked compensation includes long-term incentives in the form of options that are able to be issued under the Employee Option Scheme.

Short term incentive bonus

The company did not pay any discretionary bonuses based on performance this year.

Long Term Incentive Bonus - Employee Share Option Plan

Persons eligible to participate in the Australian Mines Employee Option Plan ('Plan') include Directors (subject to shareholder approval) and all employees of the Company. Options are granted under the plan for no consideration for a maximum period of 5 years and can be exercised at any time between the date the option is granted and the expiry date.

There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of securities offered to shareholders of the Company during the currency of the options. An option holder is required to exercise options in order to participate in any new issue of securities offered to shareholders by the Company for subscription on a pro rata basis.

Options are only capable of exercise if the daily volume weighted average sale price of shares on the ASX exceeds the hurdle price (if any) for not less than 5 consecutive trading days and the minimum service period is also met. The minimum service period will be waived so as to not be applicable in the event of a takeover offer or a merger of the Company. Each option exercised will entitle the holder to one ordinary share in the capital of the Company.

Where the employee ceases for any reason to be employed with the Company, all unexercised options automatically expire 14 days after the date of ceasing to be employed.

There is presently no stated policy restricting Directors or Executives from limiting their exposure to risk in relation to options granted.

As a result of the plan, there are currently 272,000,000 unissued shares of the Company under option. The fair value of the options is estimated at the date of grant using the Black-Scholes model. There were 260,000,000 options issued under the plan during the year 30 June 2010.



DIRECTORS' REPORT (cont.)

11. (cont.)

11.2 Principles of compensation (cont.)

Consequences of performance on shareholder wealth

In considering the Consolidated Group's performance and benefits for shareholder wealth, the Remuneration Committee take into account profitability, share price movements and total production of the Consolidated Group when setting the total amount of any bonuses. No performance bonuses were paid in the current financial year.

Service contracts - Executive Director

The Company has entered into a service agreement contract with Executive Director, Mr Brett Young who is employed on a salary of \$180,000¹ (2009: \$180,000) plus 9% superannuation.

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

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

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

Executive Officers

The Company has entered into employment contracts with Executive Officers;

Mr E Poole as Exploration Manager has a salary of \$145,000 as of 1 January 2010 (2009: \$125,000) plus 9% superannuation. The contract is for an unlimited term and may be terminated with four weeks written notice.

Mr D O'Brien resigned as Operations Manager of Blair Mine in January 2009 salary nil (2009: \$94,432).

Non-Executive Directors

Total remuneration for all Non-Executive Directors, is not to exceed \$300,000 per annum and are set with reference to fees paid to other Non-Executive Directors of comparable companies. Non-

Executive Directors' base fees are presently \$27,500¹ (2009: \$27,500) per annum. The Non-Executive Chairman receives a fee of \$43,000¹ (2009: \$43,000) per annum.

The Chairperson and Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of committees. The directors have participated in the Employees Option Plan and received an allotment of unlisted options as detailed in note 19.

¹ Directors' pays remain at reduced levels from the 2009 year and this reflected the difficult economic situation that the Company was confronted with. The reduced remuneration amounts remained in place during the 2010 year and are set out as paid to Directors and Executives in this report.



DIRECTORS' REPORT (cont.)

11.3 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of the remuneration of each Director of the Consolidated Group and the executive officers of the Consolidated Group receiving the highest remuneration are:

Directors	Short term	Post employment				Share based payments			Total \$	Proportion of remuneration based on performance %	Value of Options as a proportion of Remuneration %	
		Directors' fees \$	Executive salaries \$	Bonus \$	Super-annuation contribution \$	Termination & retirement benefits	Options Issued (A,B) \$	Insurance Premiums \$				
Non-executive												
Mr N Warburton (A)(B)	2010	43,000	-	-	-	-	34,928	557	78,485	-	32	
	2009	64,500	-	-	-	-	9,153	3,268	76,921	-	12	
Mr M Elias (A)(B)	2010	27,500	-	-	-	-	26,196	557	54,253	-	36	
	2009	41,250	-	-	-	-	6,866	3,268	51,384	-	13	
Executive												
Mr B Young (A)(B)	2010	-	180,000	-	16,200	-	52,392	557	249,149	-	14	
	2009	-	199,875	-	17,989	-	13,731	3,268	234,863	-	6	
Total compensation: Directors	2010	70,500	180,000	-	16,200	-	113,516	1,671	381,887	-	20	
	2009	105,750	199,875	-	17,989	-	29,750	9,804	363,168	-	8	

(A) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model. Further details of options granted on 27 November 2009 are set out under "Options" above and at 11.4 below. This value has been ascertained using the following inputs and assumptions:

- a share price of 0.2 cent being the sale price of ordinary shares on 12 October 2009 being the date of valuation;
- option exercise price of 0.3 cent;
- a risk free rate of 5.30%;
- a volatility factor of 75% which has been determined with reference to the historical trading of the Company's shares on ASX; and
- an expiry date of 31 December 2014.



DIRECTORS' REPORT (cont.)

	Short term Salary	Bonus	Post employment Super-annuation contributions	Termination and Retirement benefit	Share based payments Options Issued (B)	Insurance Premiums	Total	Proportion of remuneration performance based %	Value of Options as a proportion of Remuneration %
	\$	\$	\$	\$	\$	\$	\$	%	%
Executive Officers									
Mr D O'Brien (B)	2010	-	-	-	-	-	-	-	-
	2009	94,432	20,018	-	(2,687)	1,700	113,463	-	(2)
Mr E Poole (B)	2010	135,000	30,429	-	-	557	165,986	-	-
	2009	120,076	34,053	-	2,688	3,268	160,085	-	2
Total compensation	2010	135,000	30,429	-	-	557	165,986	-	-
Executive Officers	2009	214,508	54,071	-	1	4,968	273,548	-	-

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

- a share price of 7.5 cents being the sale price of ordinary shares on 31 December 2007 being the date of valuation;
- option exercise price of 7.5 cents;
- a risk free rate of 5.80%;
- a volatility factor of 75% which has been determined with reference to the historical trading of the Company's shares on ASX; and
- an expiry date of 31 December 2012.



DIRECTORS' REPORT (cont.)

11.4 Equity Instruments and Exercise of Options granted as compensation

The number of options over ordinary shares in the Company held at year end, by each Director of the Consolidated Group and other key management personnel of the Consolidated Group, including their personally-related parties, are as follows:

	Held at 1 July 2009	Granted as remuneration	Grant Date	Exercised	Held at resignation	Held at 30 June 2010	Exercisable at 30 June 2010	Fair value of option at grant date	Exercise Price	Expiry Date
Specified directors										
N Warburton	1,000,000	-	29 Nov 2006	-	-	1,000,000	1,000,000	\$0.0215	\$0.075	31 Dec 2011
N Warburton	1,000,000	-	29 Nov 2006	-	-	1,000,000	1,000,000	\$0.0177	\$0.100	31 Dec 2011
N Warburton	1,000,000	-	29 Nov 2006	-	-	1,000,000	1,000,000	\$0.0164	\$0.120	31 Dec 2011
N Warburton		20,000,000	27 Nov 2009			20,000,000	20,000,000	\$0.0092	\$0.003	31 Dec 2014
N Warburton		20,000,000	27 Nov 2009			20,000,000	-	\$0.0082	\$0.004	31 Dec 2014
N Warburton		20,000,000	27 Nov 2009			20,000,000	-	\$0.0075	\$0.005	31 Dec 2014
N Warburton		20,000,000	27 Nov 2009			20,000,000	-	\$0.0069	\$0.006	31 Dec 2014
M Elias	750,000	-	29 Nov 2006	-	-	750,000	750,000	\$0.0215	\$0.075	31 Dec 2011
M Elias	750,000	-	29 Nov 2006	-	-	750,000	750,000	\$0.0177	\$0.100	31 Dec 2011
M Elias	750,000	-	29 Nov 2006	-	-	750,000	750,000	\$0.0164	\$0.120	31 Dec 2011
M Elias		15,000,000	27 Nov 2009			15,000,000	15,000,000	\$0.0092	\$0.003	31 Dec 2014
M Elias		15,000,000	27 Nov 2009			15,000,000	-	\$0.0082	\$0.004	31 Dec 2014
M Elias		15,000,000	27 Nov 2009			15,000,000	-	\$0.0075	\$0.005	31 Dec 2014
M Elias		15,000,000	27 Nov 2009			15,000,000	-	\$0.0069	\$0.006	31 Dec 2014
B Young	1,500,000	-	29 Nov 2006	-	-	1,500,000	1,500,000	\$0.0224	\$0.050	31 Dec 2011
B Young	1,500,000	-	29 Nov 2006	-	-	1,500,000	1,500,000	\$0.0215	\$0.075	31 Dec 2011
B Young	1,500,000	-	29 Nov 2006	-	-	1,500,000	1,500,000	\$0.0177	\$0.100	31 Dec 2011
B Young	1,500,000	-	29 Nov 2006	-	-	1,500,000	1,500,000	\$0.0164	\$0.120	31 Dec 2011
B Young		30,000,000	27 Nov 2009			30,000,000	30,000,000	\$0.0092	\$0.003	31 Dec 2014
B Young		30,000,000	27 Nov 2009			30,000,000	-	\$0.0082	\$0.004	31 Dec 2014
B Young		30,000,000	27 Nov 2009			30,000,000	-	\$0.0075	\$0.005	31 Dec 2014
B Young		30,000,000	27 Nov 2009			30,000,000	-	\$0.0069	\$0.006	31 Dec 2014
Specified executives										
E Poole	500,000	-	31 Dec 2006	-	-	500,000	500,000	\$0.0215	\$0.075	31 Dec 2011
E Poole	250,000		31 Dec 2007	-	-	250,000	250,000	\$0.0215	\$0.075	31 Dec 2012



DIRECTORS' REPORT (cont.)

11.5 Terms of equity settled share based payment transactions

Director's employment related options granted on 29 November 2006 are vested in four tranches. The details of the vesting plan are set out below. The values of all granted options are included in remuneration over the vesting period from December 2006 to December 2009.

Specified directors/ executives	Granted as remuneration	Grant Date	Date vests	% vested in year	% forfeited in year	Exercise Price (\$)	Expiry Date
N Warburton	1,000,000	29 Nov 2006	31 Dec 2006	100%	-%	0.050	Dec 2011
	1,000,000	29 Nov 2006	31 Dec 2007	100%	-%	0.075	Dec 2011
	1,000,000	29 Nov 2006	31 Dec 2008	100%	-%	0.100	Dec 2011
	1,000,000	29 Nov 2006	31 Dec 2009	100%	-%	0.120	Dec 2011
M Elias	750,000	29 Nov 2006	31 Dec 2006	100%	-%	0.050	Dec 2011
	750,000	29 Nov 2006	31 Dec 2007	100%	-%	0.075	Dec 2011
	750,000	29 Nov 2006	31 Dec 2008	100%	-%	0.100	Dec 2011
	750,000	29 Nov 2006	31 Dec 2009	100%	-%	0.120	Dec 2011
B Young	1,500,000	29 Nov 2006	31 Dec 2006	100%	-%	0.050	Dec 2011
	1,500,000	29 Nov 2006	31 Dec 2007	100%	-%	0.075	Dec 2011
	1,500,000	29 Nov 2006	31 Dec 2008	100%	-%	0.100	Dec 2011
	1,500,000	29 Nov 2006	31 Dec 2009	100%	-%	0.120	Dec 2011
E Poole	500,000	31 Dec 2006	31 Dec 2006	100%	-%	0.075	Dec 2011
	250,000	31 Dec 2007	31 Dec 2008	100%	-%	0.075	Dec 2012

Director's employment related options granted on 27 November 2009 are vested in four tranches. The details of the vesting plan are set out below. The values of all granted options are included in remuneration over the vesting period from December 2009 to December 2012.

Specified directors/ executives	Granted as remuneration	Grant Date	Date vests	% vested in year	% forfeited in year	Exercise Price (\$)	Expiry Date
N Warburton	20,000,000	27 Nov 2009	31 Dec 2009	100%	-%	0.003	Dec 2014
	20,000,000	27 Nov 2009	31 Dec 2010	-%	-%	0.004	Dec 2014
	20,000,000	27 Nov 2009	31 Dec 2011	-%	-%	0.005	Dec 2014
	20,000,000	27 Nov 2009	31 Dec 2012	-%	-%	0.006	Dec 2014
M Elias	15,000,000	27 Nov 2009	31 Dec 2009	100%	-%	0.003	Dec 2014
	15,000,000	27 Nov 2009	31 Dec 2010	-%	-%	0.004	Dec 2014
	15,000,000	27 Nov 2009	31 Dec 2011	-%	-%	0.005	Dec 2014
	15,000,000	27 Nov 2009	31 Dec 2012	-%	-%	0.006	Dec 2014
B Young	30,000,000	27 Nov 2009	31 Dec 2009	100%	-%	0.003	Dec 2014
	30,000,000	27 Nov 2009	31 Dec 2010	-%	-%	0.004	Dec 2014
	30,000,000	27 Nov 2009	31 Dec 2011	-%	-%	0.005	Dec 2014
	30,000,000	27 Nov 2009	31 Dec 2012	-%	-%	0.006	Dec 2014

12. CORPORATE GOVERNANCE

The Consolidated Group's corporate governance policies and practices are set out in pages 61 to 66.



DIRECTORS' REPORT (cont.)

13. ENVIRONMENTAL REGULATIONS

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

14. FINANCIAL REPORTING

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

15. INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

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

The Company has paid insurance premiums during the year of \$11,143 (2009: \$29,547) in respect of liability for any current and future Directors, Company Secretary, executives and employees of the Company.

16. NON-AUDIT SERVICES

During the year KPMG, the Consolidated Group's auditor, did not perform any services other than their statutory audits. Refer to Note 6 for auditor's remuneration.

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

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

17. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 27 and forms part of this Directors' Report for the year ended 30 June 2010.

18. ROUNDING OFF

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

This report is made with a resolution of the Directors

Brett Young
Director

Dated: 30 September 2010



AUDITOR'S INDEPENDENCE DECLARATION



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

To: the directors of Australian Mines Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

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

KPMG

KPMG

Kevin Smout
Partner

Perth

30 September 2010



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$000	2009 \$000
Revenue	2	-	8,778
Cost of sales			
Site operating costs		(4)	(6,884)
Royalties		-	(200)
Depreciation and amortisation	4	(21)	(2,814)
Change in stocks		-	(419)
Total cost of sales		(25)	(10,317)
Gross profit / (loss)		(25)	(1,539)
Other income	3	627	1,177
Impairment of exploration	4	-	(1,677)
Corporate overheads and indirect expenses		(762)	(1,092)
Results from operating activities		(160)	(3,131)
Financial income	7	58	20
Financial expenses	7	(27)	(324)
Net financing income/(costs)		31	(304)
Profit/(loss) before income tax		(129)	(3,435)
Income tax	8	-	-
Profit/(loss) for the year attributable to equity holders of the Company		(129)	(3,435)
Other comprehensive income		-	-
Total comprehensive income for the period		(129)	(3,435)
Basic earnings/(loss) per share (cent)	9	(0.002)	(0.404)
Diluted earnings/(loss) per share (cent)	9	(0.002)	(0.404)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Issued capital \$000	Accum Losses \$000	Share option reserve \$000	Share Based Payment Reserve \$000	Total equity \$000
Contributions by and distribution to members					
Opening balance at 1 July 2009	21,119	(16,010)	-	223	5,332
Total comprehensive income for the period					
Profit or loss	-	(129)	-	-	(129)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	(129)	-	-	(129)
Transactions with owners, recorded directly in equity					
Share based payment transactions	-	-	-	659	659
Shares issued during the year	6,356	-	-	-	6,356
Options issued to shareholders	-	-	169	-	169
Transaction costs from issue of shares	(996)	-	-	-	(996)
Total transactions with owners, recorded directly in equity	5,360	-	169	659	6,188
Closing balance at 30 June 2010	26,479	(16,139)	169	882	11,391

	Issued capital \$000	Accum Losses \$000	Share option reserve \$000	Share Based Payment Reserve \$000	Total equity \$000
Contributions by and distribution to members					
Opening balance at 1 July 2008	21,119	(12,575)	-	196	8,740
Total comprehensive income for the period					
Profit or Loss	-	(3,435)	-	-	(3,435)
Total comprehensive income for the period	-	(3,435)	-	-	(3,435)
Transactions with owners, recorded directly in equity					
Share based payment transactions	-	-	-	27	27
Total transactions with owners, recorded directly in equity	-	-	-	27	27
Closing balance at 30 June 2009	21,119	(16,010)	-	223	5,332

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Notes	2010 \$000	2009 \$000
CURRENT ASSETS			
Cash and cash equivalents	10	1,578	489
Trade and other receivables	12	-	5
TOTAL CURRENT ASSETS		1,578	494
NON CURRENT ASSETS			
Exploration and evaluation assets	13	10,408	9,134
Property, plant and equipment	14	60	972
TOTAL NON CURRENT ASSETS		10,468	10,106
TOTAL ASSETS		12,046	10,600
CURRENT LIABILITIES			
Trade and other payables	15	327	4,134
Interest bearing liabilities	16	3	684
Employee benefits	17	46	50
TOTAL CURRENT LIABILITIES		376	4,868
NON-CURRENT LIABILITIES			
Interest bearing liabilities	16	4	187
Provisions	18	275	213
TOTAL NON CURRENT LIABILITIES		279	400
TOTAL LIABILITIES		655	5,268
NET ASSETS		11,391	5,332
EQUITY			
Contributed equity	19	26,479	21,119
Reserve	19	1,051	223
Accumulated losses	20	(16,139)	(16,010)
TOTAL EQUITY		11,391	5,332

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$000	2009 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from operations		-	11,400
Cash payments in the course of operations		(4,491)	(8,946)
Interest received		58	20
Interest paid		-	(324)
Sundry Income		5	60
Net cash provided by operating activities	11	(4,428)	2,210
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation		(1,212)	(632)
Payments for property, plant and equipment		(2)	(709)
Proceeds from sale of plant and equipment		1,019	2,040
Receipt from sale of exploration assets		501	400
Net cash provided by/(used in) investing activities		306	1,099
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares net of costs		6,075	-
Repayments of loans		(150)	(1,225)
Finance lease payments		(714)	(1,859)
Net cash provided by/(used in) financing activities		5,211	(3,084)
Net increase/(decrease) in cash held		1,089	225
Cash at the beginning of the financial year		489	264
Cash at the end of the financial year	10	1,578	489

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES

Australian Mines Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the 'Consolidated Group') and the Consolidated Group's interest in jointly controlled entities.

The financial report was authorised for issue by the directors on 30 September 2010.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') (including interpretations) and the Corporations Act 2001. The consolidated financial report of the group comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the group.

(c) Basis of measurement

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified as available-for-sale.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) Going Concern

This report has been prepared on the going concern basis which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. For the year ended 30 June 2010 the Consolidated Group incurred a loss of \$129,000 and experienced a net operating cash outflow of \$4,428,000. At 30 June 2010 the Consolidated Group has net assets of \$11,391,000 which includes cash and cash equivalents of \$1,578,000. The cash flow forecast prepared by Directors indicates that within the next six to nine months a minimum of \$2m will be required to meet operational and tenement expenditure commitments.

The Directors are confident that the required funds could be raised from either raising further equity or through current plans to commercially exploit the Mt Martin gold mine. The Consolidated Group has completed an open pit optimisation study on a cutback to the current open pit that indicates the mine is capable of producing 50,000 ounces of gold at a significant profit based on the current gold price. The Directors are considering their options with regard to the Consolidated Group developing and mining the resource or alternatively selling the mine.

The ability of the Consolidated Group to continue as a going concern is dependent on the successful completion of a capital raising, securing alternative funding or successfully exploiting the Mt Martin mine by the time the Consolidated Group has utilised its existing cash resources. Due to these matters a material uncertainty exists which may cast significant doubt about the ability of the Consolidated Group to continue as a going concern and whether the Consolidated Group will be able to realise their assets and extinguish their liabilities at the amounts recorded in the financial report.

(e) (i) Use of judgements and estimates

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

Judgements made by management that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in accounting policies note 1(v).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

(ii) Changes in Accounting Policies

Starting at 1 July 2009, the Consolidated Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements.

(f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(g) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(h) Property, plant and equipment

(i) 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 note 1(m)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(h) Property, plant and equipment (cont.)

(ii) Leased assets

Leases in terms of which the Consolidated Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy note 1(m)). Lease payments are accounted for as described in accounting policy note 1(s).

(iii) Subsequent costs

The Consolidated Group 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

With the exception of freehold land and mining property and development assets, depreciation is charged to the income statement on a straight-line basis over the estimated life of the asset, using rates per annum as set out below:

	2010	2009
Buildings	33%	33%
Plant & equipment	33%	33%
Leased plant & equipment	25%	25%

Land is not depreciated. Mining property and development assets are amortised on a units of production basis over the life of the economically recoverable reserves. Exploration and development costs for reserves not yet in production are not amortised.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(i) Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated Group has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment note, accounting policy note 1(m)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation assets to mining property and development assets within property, plant and equipment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(j) Trade and other receivables

Trade and other receivables are initially recorded at fair value and stated at their amortised cost less impairment losses (see impairment note, accounting policy note 1(m)).

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of mining inventories is determined using a weighted average basis. Cost includes direct material, overburden removal, mining, processing, labour, related transportation costs to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable overhead costs directly related to mining activities.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Impairment

The carrying amounts of the Consolidated Group's assets, trade and other receivable note 1(j), inventories (see accounting policy note 1(k)) and deferred tax assets (see accounting policy note 1(t)), are reviewed at each balance sheet 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 an 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 profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (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.

(i) Calculation of recoverable amount

The recoverable amount of the Consolidated Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of 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 sheet date.

The recoverable amount of other assets is the higher 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(m) Impairment (cont.)

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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.

(iii) Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired
- the Consolidated Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the Consolidated Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

(n) Interest-bearing borrowings

Interest-bearing borrowings 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.

(o) Employee benefits

(i) Long-term service benefits

The Consolidated Group's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the Consolidated Group's obligations.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iii) Share-based payment transactions

The share option programme allows Consolidated Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black - Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(o) Employee benefits (cont.)

(iv) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(p) Provisions

A provision is recognised in the balance sheet when the Consolidated Group 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. 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, where appropriate, the risks specific to the liability.

Mine rehabilitation

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cashflows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation. The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in mining property and development assets.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the income statement. 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 with the write-down recognised in the income statement in the period in which it occurs.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the income statement as incurred. Changes in the liability are charged to the income statement as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

(q) Trade and other payables

Trade and other payables are stated at their amortised cost.

(r) Revenue

Revenue from the sale of nickel and copper bearing ore is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue is measured at the concentrator by sampling and weighing the ore delivered, and applying the 30 day spot average price for the month of delivery. Revenue is adjusted to reflect the 30 day spot average at the end of a 90 day quotation period. At 30 June nickel revenues are adjusted to reflect this anticipated adjusted price. There was no nickel revenue received during the year ended 30 June 2010.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

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.

(iii) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

(t) Income tax

Income tax on the profit or loss for the year 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 case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively 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: initial recognition of 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entity have formed a tax-consolidated group with effect from 9 April 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Mines Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Tax consolidation (cont.)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable/(payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(u) Goods and services tax

Revenue, 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.

(v) Accounting estimates and judgments

Management discussed with the Board the development, selection and disclosure of the Consolidated Group's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 21 contains detailed analysis of the interest rate and liquidity risk of the Consolidated Group.

(i) Mine rehabilitation and site restoration provision

The Consolidated Group assesses its mine rehabilitation provision at each balance date in accordance with accounting policy 1(p). Significant judgement is required in determining the provision for mine rehabilitation. Factors that will affect this liability include, changes in technology and price increases. When these factors change, such differences will impact the site rehabilitation provision and asset in the period in which they change.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(v) Accounting estimates and judgments (cont.)

(ii) Fair value of derivative instruments

The Consolidated Group assesses the fair value of its derivatives at each balance date in accordance with accounting policy 1(x) and Note 21. Fair values have been determined based on market conditions existing at the time of the audit. These calculations require the use of estimates and assumptions. When these assumptions change or become known in the future, such differences will impact asset and liability carrying values and the profit and loss in the period in which they change or become known.

(iii) Units of production method of amortisation

The Consolidated Group amortises mine properties in production on a units of production basis over the economically recoverable tonnes. Significant judgement is required in assessing the available reserves and resources under this method. Factors that must be considered in determining reserves and resources are the product prices, foreign exchange rates, cost structures and future developments. When these factors change in the future, such differences will impact the carrying value of mine property assets.

(iv) Impairment of exploration and evaluation assets.

The ultimate recoupment of the value of exploration and evaluation assets is dependent of successful development and commercial exploitation, or alternatively, sale, of the underlying mineral exploration properties. The Consolidated Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of those assets. Should an indicator of impairment exist, there is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The key areas of estimation and judgement that are considered in this review include:

- Recent drilling results and reserves and resources estimates;
- Environmental issues that may impact the underlying tenements;
- The estimated market value of assets at the review date;
- Independent valuations of the underlying assets that may be available;
- Fundamental economic factors such as the gold and nickel price, exchange rates and current and anticipated operating costs in the industry; and
- The Group's market capitalisation compared to its net assets.

Information used in the review process is rigorously tested to externally available information as appropriate. In addition, an allocation of the costs of acquired mineral rights to individual projects was performed during the year. This allocation process required estimates and judgement as to the value of these projects acquired.

(V) Fair Value of Share Based Payment Transactions

The fair value of the employee option plan is measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instrument, risk-free interest rate.

(w) Share Capital

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(x) Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(x) Financial Instruments (cont.)

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised if the Consolidated Group's contractual rights to the cash flows from the financial assets expire or if the Consolidated Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchases and sale decision based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(y) Segment Reporting

As of 1 July 2009 the Consolidated Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating segments.

An operating segment is a component of the Consolidated Group that engages in business activities of which it may earn revenue and incur expenses. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

(z) Presentation of financial statements

The Consolidated Group applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(aa) Issued standards not yet adopted

The following standards and amendments have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Consolidated Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Consolidated Group has not yet determined the potential effect of the standard.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(aa) Issued standards not yet adopted (cont.)

- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Consolidated Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Consolidated Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Consolidated Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Consolidated Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement – AASB 14 make amendments to Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Consolidated Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Consolidated Group's 30 June 2011 financial statements, with retrospective application required. The Consolidated Group has not yet determined the potential effect of the interpretation.

2. REVENUE

	2010 \$000	2009 \$000
Revenue from nickel sales	-	7,402
Revenue from copper sales	-	105
Forward sales gain/(loss)	-	1,398
Exchange gain/(loss)	-	(127)
	-	8,778

3. OTHER INCOME

Gain on sale of fixed assets	627	1,117
Other	-	60
	627	1,177



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. OTHER EXPENSES

	2010 \$000	2009 \$000
Depreciation and amortisation of:		
Buildings	-	9
Plant and equipment	3	41
Plant and equipment leased	18	1,051
Mine properties	-	1,713
	<u>21</u>	<u>2,814</u>
Impairment of Exploration (i)	-	1,677

(i) The impairment charge during the 2009 period was made to the cost of exploration and represents a reduction in carrying value of the Marriott's Project due to the fall in the nickel price.

5. PERSONNEL EXPENSES

	2010 \$000	2009 \$000
Wages and salaries	265	3,191
Other associated personnel expenses	74	530
Contributions to superannuation funds	28	246
Increase/(decrease) in liability for leave	(4)	(321)
Employee option expenses	114	27
	<u>477</u>	<u>3,673</u>

6. AUDITOR'S REMUNERATION

	2010 \$	2009 \$
Audit services		
Auditors of the company		
KPMG Australia:		
- Audit and review of financial reports	40,291	40,000
- Prior year under-accrued (i)	-	43,640
Total for year	<u>40,291</u>	<u>83,640</u>

(i) Prior year under-accrual was due to financial issues raised in 2008 audit.

7. NET FINANCING COSTS

	2010 \$000	2009 \$000
Interest income	58	20
Financial income	<u>58</u>	<u>20</u>
Interest expense/(reversal)	(20)	102
Interest on finance leases	47	222
Financial expenses	<u>27</u>	<u>324</u>
Net financing income/(expense)	<u>31</u>	<u>(304)</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

8. INCOME TAX EXPENSE CURRENT TAX EXPENSE/(BENEFIT)

	2010 \$000	2009 \$000
Current year	(443)	(580)
Adjustment for prior periods	(5)	68
	(448)	(512)
Deferred tax expense/(benefit)		
Origination and reversal of temporary differences	283	436
Tax losses not brought to account	165	76
	448	512
Total income tax in income statement	-	-

Numerical reconciliation between tax expense and pre-tax profit

Profit/(loss) for the period	(129)	(3,435)
Income tax benefit using the domestic corporate tax rate of (30%) (2009:30%)	(39)	(1,031)
Increase in income tax expense due to:		
Non-deductible expenses	14	15
Change in unrecognised temporary differences	(418)	436
Tax losses not brought to account	448	512
Under/over provision in prior years	(5)	68
Income tax expense	-	-

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

Deductible temporary differences	(2,888)	(2,605)
Tax losses	7,275	6,825
	4,387	4,220

The deductible temporary differences and tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Group can utilise the benefits from.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

8. INCOME TAX EXPENSE CURRENT TAX EXPENSE/(BENEFIT) (cont.)

	2010 \$000	2009 \$000
Unrecognised deferred tax assets and (liabilities)		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Exploration	(3,123)	(2,740)
Property plant and equipment	16	25
Capital raising costs	122	31
Provisions	97	79
Tax losses	7,275	6,825
Net deferred tax assets	4,387	4,220

Movements in temporary differences

Opening balance at 1 July	4,220	3,273
Receivables	-	(9)
Exploration	(382)	414
Property plant and equipment	(9)	125
Capital raising costs	91	1
Provisions	19	(96)
Tax losses	448	512
Closing balance at 30 June	4,387	4,220

9. EARNINGS PER SHARE

	2010	2009
Basic earnings/(loss) per share (cents)	(0.002)	(0.404)

The calculation of basic earnings per share at 30 June 2010 was based on the continuing operations loss attributable to ordinary shareholders of \$129,000 (2009 loss: \$3,435,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 6,286,897,242 (2009: 849,679,020), calculated as follows:

Weighted average number of ordinary shares	2010	2009
Issued ordinary shares at 1 July	456,806,396	456,806,396
Placement and entitlements issue	5,614,144,772	-
Exercise of options	61,000	-
Placement	910,650,000	-
Issued ordinary shares at 30 June	6,981,662,168	456,806,396
Weighted average number of ordinary shares at 30 June	6,286,897,242	849,679,020

Diluted Earnings per Share

The calculation of diluted earnings per share at 30 June 2010 was based on loss attributable to ordinary shareholders of \$129,000 (2009: \$3,435,000) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 6,286,897,242 (2009: 849,679,020). There were a further 1,463,288,839 potential ordinary shares on issue at 30 June 2010, that are not considered dilutive as the Consolidated Group made a loss for the year ended 30 June 2010.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

10. CASH AND CASH EQUIVALENTS

	2010 \$000	2009 \$000
Bank balances	1,322	240
Deposits – Restricted security bonds	256	249
Cash and cash equivalents in the statement of cash flows	1,578	489

11. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2010 \$000	2009 \$000
Cash flows from operating activities:		
Net profit/(loss)	(129)	(3,435)
Add/(less) items classified as investing/financing activities:		
Profit on sale of assets	(627)	(1,118)
Depreciation, amortisation and Impairment charges	21	2,814
Impairment exploration	-	1,677
Option expense	113	27
Provision for loss on Investment	-	18
Movement in operating assets and liabilities:		
(Increase)/decrease in receivables	5	2,440
(Increase)/decrease in inventories	-	419
Increase/(decrease) in payables	(3,807)	(171)
Increase/(decrease) in provisions and employee benefits	(4)	(461)
Net cash provided by operating activities	(4,428)	2,210

12. TRADE AND OTHER RECEIVABLES

	2010 \$000	2009 \$000
Current		
Other debtors and prepayments	-	5
	-	5

13. EXPLORATION AND EVALUATION ASSETS

	2010 \$000	2009 \$000
Exploration and evaluation		
Opening balance	9,134	10,520
Disposals	-	(341)
Expenditure incurred for year	1,274	632
Exploration expenditure Impairment	-	(1,677)
Exploration costs carried forward	10,408	9,134



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. EXPLORATION AND EVALUATION ASSETS (cont.)

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

There are applications out standing on a number of tenements pending award that have some value to the Consolidated Group. Management are confident that these tenements will be awarded. Subsequent to year end the warden has recommended that this tenement be granted.

14. PROPERTY, PLANT AND EQUIPMENT

	2010 \$000	2009 \$000
Mine properties		
Mine properties	-	21,567
Accumulated amortisation	-	(21,567)
	-	-
Building		
At cost	-	88
Accumulated depreciation	-	(88)
	-	-
Plant & equipment		
At cost	77	1,080
Accumulated depreciation	(64)	(1,050)
	13	30
Leased plant & equipment		
At cost	220	2,489
Accumulated depreciation	(173)	(1,547)
	47	942
Total property, plant and equipment	60	972

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Mine property and development

Opening balance	-	1,014
Development expenditure	-	699
Amortisation	-	(1,713)
Carrying amount at end of year	-	-

Buildings

Carrying amount at beginning of year	-	61
Disposals	-	(52)
Depreciation	-	(9)
Carrying amount at end of year	-	-



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

14. PROPERTY, PLANT AND EQUIPMENT (cont.)

	2010 \$000	2009 \$000
Plant and equipment		
Carrying amount at beginning of year	29	385
Additions	2	10
Disposals	-	(324)
Depreciation	(18)	(41)
Carrying amount at the end of Year	13	30
Plant and equipment leased		
Carrying amount at beginning of year	942	4,917
Additions	-	13
Disposals	(892)	(2,937)
Amortisation	(3)	(1,051)
Carrying amount at end of year	47	942
Total property, plant and equipment	60	972

15. TRADE AND OTHER PAYABLES

	2010 \$000	2009 \$000
Current (unsecured)		
Trade creditors and accruals	327	3,821
Other creditors and accruals	-	313
	327	4,134

16. INTEREST-BEARING LIABILITIES

	2010 \$000	2009 \$000
Current liabilities		
Loan related party	-	150
Lease liabilities (i)	3	534
	3	684
Non current		
Lease liabilities (i)	4	187
	4	187



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. INTEREST-BEARING LIABILITIES (cont.)

(i) Finance lease liabilities

Finance lease liabilities are secured over the leased asset and are payable as follows:

	Minimum lease payments 2010 \$000	Interest 2010 \$000	Principal 2010 \$000	Minimum lease payments 2009 \$000	Interest 2009 \$000	Principal 2009 \$000
Less than one year	4	1	3	575	41	534
Between one and five years	4	-	4	197	10	187
	8	1	7	772	51	721

17. EMPLOYEE BENEFITS

	2010 \$000	2009 \$000
Current		
Liability for annual leave	31	36
Liability for sick leave	15	14
	46	50

Share based payments

The Board has introduced the Australian Mines Limited Employee Option Plan in 2004, an equity-based employee option scheme, to promote continuity of employment and to provide additional incentive to increase shareholder wealth. Equity-based employee option schemes are provided as options over ordinary shares of the Company and may be issued to directors, executives and employees. Options were issued to employees during the year in accordance with note 19.

18. PROVISIONS

	2010 \$000	2009 \$000
Non current		
Mine rehabilitation:		
Opening balance	213	213
Additions	62	-
Closing balance	275	213



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. CAPITAL AND RESERVES

	2010 \$000	2009 \$000
Issued and paid up capital		
6,981,662,168 (2009: 456,806,396) ordinary shares fully paid	26,479	21,119
Reconciliation of contributed equity		
Balance at beginning of year	21,119	21,119
Shares issued during the year		
The issue of 3,197,644,772 shares in a non-renounceable entitlement issue of 7 shares for every 1 share held at 0.1 cent to the shareholders	3,198	-
The placement of 2,416,500,000 shares at 0.1cent per share to sophisticated clients of Patersons Securities limited	2,416	-
Placement 910,650,000 to sophisticated investors	911	-
Options to shareholders	(169)	-
Cost of capital raising	(996)	-
Balance at end of year	26,479	21,119

The Company does not have authorised capital or par value in respect of its issued shares.

	2010 \$000	2009 \$000
Share Option Reserves		
Balance at beginning of year	-	-
Options issued to shareholders	169	-
Balance at end of year	169	-
Share Based Payments Reserves		
Balance at beginning of year	223	196
Share based payment employees/directors transactions	113	27
Options issued to underwriter	546	-
Balance at end of year	882	-
Total reserves	1,051	223

The Share Based Payment Reserve represents the fair value of share options granted. The estimate of fair value of the services received is based on the Black-Scholes model. The calculated fair value is based on parameters as set out in Section 11 in the Directors' Report.

The fair value of options issued to the underwriter and the shareholders was \$0.0006 per option. This valuation was based on the Black Scholes options pricing model using the share price of \$0.001, exercise price of \$0.002, risk free rate of 4.61%, volatility of 100% and the issue date of 11/8/09.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. CAPITAL AND RESERVES (cont.)

Listed Options

During the year the following listed options were issued.

1. The issue of 159,882,239 options to shareholders on the basis of 1 free attaching option (exercisable at 0.2 cent and having a 4 year expiry period) for every 20 new shares held.	159,882,239
2. The issue of 120,825,000 placement options to sophisticated clients of Patersons on the basis of 1 free attaching option (exercisable at 0.2 cent and having a 4 year expiry period) for every 20 new shares.	120,825,000
3. The issue of 910,642,600 underwriter commitment options (exercisable at 0.2 cent and having a 4 year expiry period) in consideration for underwriting the entitlement issue.	910,642,600
	1,191,349,839
Options converted	(61,000)
Closing balance 30 June 2010	1,191,288,839

Unlisted Options

During the year the following unlisted options were issued to executives of the Company under the Employees Option Plan (see note 28).

Unlisted Options Issued during the year	Grant date	Expiry date	Exercise Price	No Granted
Opening Balance 1 July 2009				12,000,000
Specified executive share options	27 Nov 2009	31 Dec 2014	\$0.003	65,000,000
Specified executive share options	27 Nov 2009	31 Dec 2014	\$0.004	65,000,000
Specified executive share options	27 Nov 2009	31 Dec 2014	\$0.005	65,000,000
Specified executive share options	27 Nov 2009	31 Dec 2014	\$0.006	65,000,000
Closing Balance 30 June 2010				272,000,000

20. ACCUMULATED LOSSES

	2010 \$000	2009 \$000
Balance at beginning of period	(16,010)	(12,575)
Net profit/(loss) for the year	(129)	(3,435)
Accumulated losses at end of period	(16,139)	(16,010)

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Overview

The Consolidated Group has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Liquidity risk

This note presents information about the Consolidated Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk of the management framework. The Board is responsible for developing and monitoring risk management policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (cont.)

Risk management policies are established to identify and analyse the risks faced by the Consolidated Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Group's activities.

The Consolidated Group does not enter into financial instruments for trade or speculative purposes. However in the normal course of its business, it is exposed to liquidity risks and interest rates.

(a) Interest rate risk

The Consolidated Group does not have a policy in place to hedge interest rate risks.

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

2010	Weighted average interest rate	6 months or less \$'000	6 – 12 months \$'000	1 to 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets						
Cash and cash equivalents	4.80% (variable)	1,578	-	-	-	1,578
Trade and other receivables		-	-	-	-	-
		1,578	-	-	-	1,578
Financial liabilities						
Trade and other payables					327	327
Lease liabilities (current)	12.19% (fixed)	1	2	-	-	3
Lease liabilities (non-current)	12.19% (fixed)	-	-	4	-	4
		1	2	4	327	334
2009	Weighted average interest rate	6 months or less \$'000	6 – 12 months \$'000	1 to 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets						
Cash and cash equivalents	5.27% (variable)	489	-	-	-	489
Trade and other receivables		-	-	-	5	5
		489	-	-	5	494
Financial liabilities						
Trade and other payables		-	-	-	4,134	4,134
Loans secured	11.25% (fixed)	150	-	-	-	150
Lease liabilities (current) fixed	8.86% (fixed)	316	218	-	-	534
Lease liabilities (non-current) fixed	9.87% (fixed)	-	-	187	-	187
		466	218	187	4,134	5,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

21. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (cont.)

Sensitivity analysis for variable rate instruments

A change in interest rates at the reporting date would have resulted in the following impact on annual profits, assuming the amounts of variable rate instruments at 30 June were constant throughout the preceding year:

	2010 \$000	2009 \$000
Net financial assets subject to variable interest rates	1,578	489
Increase in profits resulting from a 1%pa increase in variable interest rates	16	5
(Decrease) in profits resulting from a 1%pa decrease in variable interest rates	(16)	(5)

(b) Liquidity risk

The Consolidated Group manages its liquidity risk by monitoring cashflows using monthly cashflow forecasts and by paying creditors on 30 day terms.

The following are the Consolidated Group's contractual maturities of financial liabilities, including estimated interest payments:

2010	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6 to 12 months \$'000	1 to 5 years \$'000
Trade and other payables	327	327	327	-	-
Loans secured	-	-	-	-	-
Lease liabilities	7	8	2	2	4
	334	335	329	2	4

2009	Carrying amount \$'000	Contractual cash flows \$'000	6 months or less \$'000	6 to 12 months \$'000	1 to 5 years \$'000
Trade and other payables	4,134	4,134	4,134	-	-
Loans secured	150	150	150	-	-
Lease liabilities	721	772	343	232	197
	5,005	5,056	4,627	232	197

(d) Capital management

The Consolidated Group monitors its capital performance and reviews its adequacy at regular intervals to ensure it is achieving a reasonable return on capital. There are no externally imposed capital requirements. The directors monitor the market capitalisation and net assets of the Consolidated Group to ensure performance is maintained for shareholders.

(e) Fair values

The fair values of significant financial assets and liabilities equate to the carrying amounts shown in the balance sheet.

The carrying values for assets capitalised in the balance sheet have been confirmed as reasonable by various measures and include valuations prepared by 3rd parties, peer group comparison and also market values being achieved for sale of assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

22. COMMITMENTS

	2010 \$000	2009 \$000
Exploration expenditure Commitment		
Within one year	1,065	1,040

In order to maintain current rights of tenure to exploration tenements, the Consolidated Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable as stated in the table above.

Operating Lease

The Consolidated Group leases an office facility on a monthly lease basis with 30 day notice required for termination.

23. CONSOLIDATED ENTITIES

	Country of Incorporation	Ownership interest	
Parent entity		2010	2009
Australian Mines Limited			
Subsidiary			
Blair Nickel Mine Pty Ltd	Australia	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

23. CONSOLIDATED ENTITIES (cont.)

PARENT ENTITY RESULTS	Country of Incorporation	Company	
Australian Mines Limited	Australia	2010 \$000	2009 \$000
STATEMENT OF FINANCIAL POSITION			
Current Assets		1,315	16
Total Assets		8,535	3,515
Current Liabilities		89	818
Total Liabilities		96	825
Net Assets		8,439	2,690
EQUITY			
Contributed equity		27,194	21,119
Share option reserve		336	223
Accumulated losses		(19,091)	(18,652)
TOTAL EQUITY		8,439	2,690
STATEMENT OF COMPREHENSIVE INCOME			
Operating costs			
Depreciation		(21)	(21)
Other comprehensive income		273	619
Impairment exploration		-	(1,625)
Corporate overheads and indirect expenses		(759)	(1,047)
Results from operating activities		(507)	(2,074)
Net financing income/(costs)		68	(20)
Profit loss before income tax		(439)	(2,094)
Income Tax		-	-
Profit/Loss attributable to equity holders of the Company		(439)	(2,094)
Other comprehensive income		-	-
Total Comprehensive Income		(439)	(2094)

24. INTEREST IN UNINCORPORATED JOINT VENTURES

The Consolidated Group has a 44% (2009:44%) interest in nickel rights in the Golden Ridge Joint Venture.

25. SEGMENT INFORMATION

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

26. CONTINGENT LIABILITIES

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

The Consolidated Group has entered into discussions regarding an instalment payment due on one of its mining tenements. The instalment payment is not due until September 2011 and therefore will not be taken up as a provision because of the uncertainty of the outcome of the discussions. Uncertainty also exists as to whether the Consolidated Group will make alternate arrangements for the tenement prior to the due date of the payment. Any potential obligations have not been quantified given the inherent significant uncertainty.

27. SUBSEQUENT EVENTS

There were no material events subsequent to balance date

28. RELATED PARTIES

The following were key management personnel of the group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Non Executive Directors

Mr N F Warburton (chairperson)
Mr M Elias

Executives

Mr E Poole Exploration Manager

Executive Director

Mr M B Young

The key management personnel compensation included in 'personnel expenses' (see Note 5) is as follows:

	2010 \$000	2009 \$000
Short-term employee benefits	386	520
Post-employment benefits	48	72
Share based payments	113	30
	<u>547</u>	<u>622</u>

Individual directors and executives compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures are permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Consolidated Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Options and rights over equity instruments

The movement in options over ordinary shares held directly, indirectly or beneficially by each key management person is as follows:

	Held at 1 July 2009	Granted as remuneration	Exercised	Held at Resignation	Held at 30 June 2010	Vested during the year	Exercisable at 30 June 2010
Directors							
N Warburton	3,000,000	80,000,000	-	-	83,000,000	21,000,000	23,000,000
M Elias	2,250,000	60,000,000	-	-	62,250,000	15,750,000	17,250,000
B Young	6,000,000	120,000,000	-	-	126,000,000	31,500,000	36,000,000
Executives							
E Poole	750,000	-	-	-	750,000	-	750,000



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

26. CONTINGENT LIABILITIES (cont.)

Movement in shares

The movement during the reporting period in the number of ordinary shares held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2009	Purchases and Entitlements	Received on exercise of options	Sales	Held at resignation	Held at 30 June 2010
Directors						
N Warburton	33,800,000	157,113,242	-	108,581,984	-	82,331,258
M Elias	1,250,000	15,556,310	-	-	-	16,806,310
B Young	4,184,294	136,515,976	-	-	-	140,700,270

Executives

E Poole	250,000	-	-	250,000	-	-
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	Held at 1 July 2008	Purchases and Entitlements	Received on exercise of options	Sales	Held at resignation	Held at 30 June 2009
Directors						
N Warburton	31,200,000	2,600,000	-	-	-	33,800,000
M Elias	1,250,000	-	-	-	-	1,250,000
B Young	4,184,294	-	-	-	-	4,184,294

Executives

D O'Brien	-	-	-	-	-	-
E Poole	1,300,000	-	-	(1,050,000)	-	250,000

Other key management personnel transactions

The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel were as follows: -

Director	Transaction	Consolidated	
		2010 \$000	2009 \$000
Mr M Elias	Geological Consulting fees	18	-
Mr N Warburton	Secured Loan (i)	-	150

- (i) The loan from Neil Warburton was secured by a fixed and floating charge over the assets of the Company at an interest rate of 11.25%. It was repaid when the Company implemented its restructure plan and Mr Warburton exchanged the loan for shares as part of his commitment to the entitlements issue and placement of shares.



DIRECTORS' DECLARATION

- 1 In the opinion of the Directors of Australian Mines Limited ('the Company'):
 - (a) the consolidated financial statements and notes and the remuneration disclosures contained in the Remuneration report in the Directors' report, set out in section 11, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Consolidated Group as at 30 June 2010 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian accounting interpretations) and the Corporations Regulations 2001; and
 - (b) the consolidated financial report also complies with International Reporting standards as disclosed in note 1(a)
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Chief Operating Officer for the financial year ended 30 June 2010.

Dated at Perth the 30th day of September 2010.

Signed in accordance with a resolution of the directors:

Brett Young
Director



INDEPENDENT AUDIT REPORT



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

Report on the financial report

We have audited the accompanying financial report of the Group comprising Australian Mines Ltd (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(d) in the financial report which indicates that the group incurred a net loss of \$129,000 during the year ended 30 June 2010 and requires additional funding in the short term to continue operations. These conditions, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the group's ability 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.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Australian Mines Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Kevin Smout
Partner

Perth

30 September 2010



CORPORATE GOVERNANCE STATEMENT 2009 – 2010

Australian Mines Limited ("The Company") and its Board are committed to achieving and demonstrating high standards of corporate governance. This statement sets out the main corporate governance practices of the Company during the financial year, providing disclosure in accordance with the Corporate Governance Principles and Recommendations 2nd edition August 2007 as published by the ASX Corporate Governance Council. All these practices, unless otherwise stated, were in place for the entire year. Disclosure is made at the end of this statement of areas of non compliance with the recommendations.

Further details of the various charters, policies, codes and procedures that document the Company's corporate governance practices are set out in The Company's website at www.australianmines.com.au.

THE BOARD OF DIRECTORS AND MANAGEMENT

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

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

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

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

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

A strategic balance is maintained between the responsibilities of the Board and the Chief Executive Officer.

Board Members

The Company currently has three directors, Neil Warburton, Mick Elias and Brett Young. Details of these directors, including their skills, experience and terms of office are set out in the Company's annual report.

Mr Warburton, although a non-executive director, is an officer of or otherwise associated with substantial shareholders (currently holding 1.18%) of the Company. Thereby in accordance with guidelines adopted by the Board he is not considered independent.

Mr Elias is considered to be an independent non-executive director.

Mr Young is an executive director, is an officer of or otherwise associated with substantial shareholders (currently holding 2.01%) of the Company. Thereby in accordance with guidelines adopted by the Board he is not considered independent.



CORPORATE GOVERNANCE STATEMENT 2009 – 2010

THE BOARD OF DIRECTORS AND MANAGEMENT (cont.)

Board Members (cont.)

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

Mr Warburton owns approximately 1.18% of the shares of the Company. The Board does not consider that this will hinder his independent decision making.

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

Details of the members of the Board, their skills, experience, qualifications, term of office and independence status are set out in the Directors' Report under the heading "information on directors".

Directors' Independence

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

Term of Office

The Company's Constitution specifies that all non executive directors must retire from office no later than the third annual general meeting following the last election. Where eligible, directors may stand for re-election.

Responsibilities of Management

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

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

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

Independent Professional Advice

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board Charter sets out the process to undertake an annual assessment of the Board's collective performance, the performance of the Chairman and its committees.

The performance of senior executives is assessed by the Managing Director. The assessment involves an annual review of performance and development and the results of the review are formally documented.

CORPORATE GOVERNANCE STATEMENT 2009 – 2010

THE BOARD OF DIRECTORS AND MANAGEMENT (cont.)

Remuneration Committee

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

The names of the members of the Remuneration Committee are Neil Warburton, Mick Elias and Brett Young. Their attendance at Remuneration Committee meetings during the 2009 – 2010 year is set out in the Company's annual report.

During the 2009 – 2010 year the Committee was chaired by Neil Warburton, the non-executive Chairman due to his experience and expertise in the areas in which the Company operates and his non-executive status, the Board considers that he is suitably skilled to perform the role of chair of the Remuneration Committee. The Committee did not consist of a majority of independent directors as there is only one independent director on the Board.

Each member of the senior executive team signs an employment contract at the time of their appointment covering a range of matters, including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration Committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the Remuneration Report.

Executive remuneration and other terms of employment is reviewed annually by the Committee having regard to personal and corporate performance, contribution to long term growth, relevant comparative information and independent expert advice. As well as a base salary and compulsory superannuation, remuneration packages may include retirement and termination entitlements, performance-related bonuses and fringe benefits. Non-executive directors and executives are eligible to participate in the Employee Share Option Plan which provides for the issue of options in the Company. Any allotment of options to directors must be approved by shareholders at a general meeting.

Details of the qualifications of directors of the remuneration committee and their attendance at Committee meetings are set out in the Directors' Report.

Audit Committee

The Company recognises the importance of an audit committee however currently there is no audit committee in place. See comments made in the non-compliance statement.

External Auditors Policy

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditors is reviewed annually and applications for tender of external services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. The Corporations Act 2001 requires the rotation of the audit engagement partner every five years.

Analysis of fees paid to external auditors, including a break-down of fees for non audit services, is provided in the Annual Report at Note 6 to the financial statements. The external auditors are required to provide an annual declaration of their independence to the Board. The external auditors are required to provide an annual declaration of their independence to the audit committee. The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Nomination Committee

The Company recognises the importance of a nomination committee however currently there is no nomination committee in place. See comments made in the non-compliance statement.



CORPORATE GOVERNANCE STATEMENT 2009 – 2010

THE BOARD OF DIRECTORS AND MANAGEMENT (cont.)

Risk Assessment and Management

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

- the Board oversees the establishment and implementation of risk management systems and control frameworks, and in the absence of a separate audit committee has the responsibility to establish, implement and maintain these systems and frameworks; and
- the Company's senior management are delegated the tasks of management of operational risk and the implementation of risk management strategies with the Chief Executive Officer and Chief Operating Officer/Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

The Board reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation, annually. The Board also considers the management of risk at its regular meetings. The Company's risk profile, which is assessed and determined on the basis of the

Company's business in commercial mining and mineral exploration, is reviewed annually upon advice from management including, where appropriate, as a result of regular interaction with management and relevant staff from across the Company's business.

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

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

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

The Board requires each major proposal submitted to the Board for decision be accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies. The Company has in place an insurance program which is reviewed periodically by the Board. The Board receives regular reports on budgeting and financial performance. A system of delegated authority levels has been approved by the Board to ensure business transactions are properly authorised and executed.

Environment, Health and Safety

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the board facilitates the systematic identification of environment and OH&S issues and ensures they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation;
- continually assess and improve the impact of its operations on the environment;
- encourage employees to actively participate in the management of environment and OH&S issues;
- work with trade associations representing the entity's business to raise standards;
- use energy and resources efficiently; and
- encourage the adoption of similar standards by the entity's principal suppliers, contractors and distributors.

CORPORATE GOVERNANCE STATEMENT 2009 – 2010

THE BOARD OF DIRECTORS AND MANAGEMENT (cont.)

Environment, Health and Safety (cont.)

To manage OH&S issues, the Board has approved a number of procedure documents including a Safety Management Plan and an Emergency Response Plan. It is a condition of employment for all employees to follow these procedures. Reporting on OH&S issues is a standard agenda item at Board Meetings.

Code of Conduct

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

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

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

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

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

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

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

The implementation of and compliance with the Company's trading policy is dealt with in the procedures and mechanisms set out in the Company's risk assessment and management policy.

Continuous Disclosure and Shareholder Communication

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

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

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

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



CORPORATE GOVERNANCE STATEMENT 2009 – 2010

THE BOARD OF DIRECTORS AND MANAGEMENT (cont.)

Continuous Disclosure and Shareholder Communication (cont.)

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

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

The Chief Operating Officer has been nominated as the person responsible for communication with Australian Securities Exchange(ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing, in conjunction with the Directors, information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website on the same day it is released to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Non-Compliance Statement

The Company has not followed all of the recommendations set out in Australian Securities Exchange Limited Listing Rule 4.10.3. The Recommendations that have not been followed and the explanation of any departure are as follows:

Nomination Committee

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

Board Performance Report

A formal board performance was not undertaken during the year. This year was a period of uncertainty for the directors and the Board numbers were kept to a minimum.

Non Executive directors should not receive options

Non-executive directors are eligible to participate in the Employee Share Option Plan however any allotment must be approved by shareholders at a general meeting of the Company. The board considers it important to offer non-executive directors an incentive for the ongoing commitment and dedication to the growth of the Company.

Audit Committee

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

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

ADDITIONAL ASX INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. Information regarding share and option holdings is current as at 8 October 2010.

a) Substantial Shareholders

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

Ordinary Shares	
Forty Traders limited	475,911,617

b) Ordinary Shareholders

Twenty largest holders of ordinary shares.

	Number of shares	% held
Forty Traders Pty Ltd	475,911,617	6.817
Mr M B Young	140,700,270	2.015
Mr D Sexton <D B Sexton S/F A/C>	101,312,681	1.451
Mr N F Warburton*	82,331,258	1.179
Dr P M Halley	70,000,000	1.003
Mr S Camozzi	70,000,000	1.003
Mr D P Nguyen	64,103,715	0.918
Mr G P Watson	61,000,000	0.874
Central West Electrical Pty Ltd<Bech family A/C>	50,800,000	0.728
Mr S J & Mrs J Tabain <Tabain Family Super>	50,000,000	0.716
HSBC Custody Nominees (Australia) Limited	48,851,942	0.700
Mr S A Yong <S & S Yong Family Super A/C>	45,271,200	0.648
Mr D Tryfonopoulos	43,500,000	0.623
Mr A J Ellis	41,000,000	0.587
Australian Contract Mining	40,000,000	0.573
Mr P Pavithran & Mrs V Prashanth	38,000,000	0.544
Comsec Nominees Pty Limited	37,634,359	0.539
Mahsor Holdings Pty Ltd <Rosham Family Super A/C>	32,028,782	0.459
Mr M J Doherty	31,650,000	0.453
Mr I Semerdziev	31,262,000	0.448

*Mr Neil Warburton has a relevant interest in the 82,331,258 shares owned by Michlange Pty Ltd, a company of which Mr Warburton is a Director.

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

The total number of shares on issue is 6,981,662,168 and there is no current on market buy back.



ADDITIONAL ASX INFORMATION (cont.)

Distribution of ordinary shareholders

Category of shareholding	Number of shareholders
1 – 1,000	39
1,001 – 5,000	165
5,001 – 10,000	322
10,001 – 100,000	1,510
100,001 and over	3,390
Total	5,426

c) Quoted Securities

The Company has the following quoted securities on issue:

1,191,288,839 listed options expiring 30 June 2013 exercisable at \$0.002 each

d) Unquoted Securities

The Company has the following unquoted securities on issue:

Directors' options expiring 31 December 2011

1,500,000 unlisted options expiring 31 December 2011 exercisable at \$0.050 each

3,250,000 unlisted options expiring 31 December 2011 exercisable at \$0.075 each

3,250,000 unlisted options expiring 31 December 2011 exercisable at \$0.10 each

3,250,000 unlisted options expiring 31 December 2011 exercisable at \$0.12 each

Executives' options

500,000 unlisted options expiring 31 December 2011 exercisable at \$0.075 each

250,000 unlisted options expiring 31 December 2012 exercisable at \$0.075 each

Directors' options expiring 31 December 2014

65,000,000 unlisted options expiring 31 December 2014 exercisable at \$0.003 each

65,000,000 unlisted options expiring 31 December 2014 exercisable at \$0.004 each

65,000,000 unlisted options expiring 31 December 2014 exercisable at \$0.005 each

65,000,000 unlisted options expiring 31 December 2014 exercisable at \$0.006 each



Australian Mines Limited

ABN 68 073 914 191

