# A1 Minerals Limited

**ABN 44 100 727 491**

**30 June 2010**

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# CORPORATE INFORMATION

**ABN 44 100 727 491**

## Directors

Mr Michael Hunt – Chairman (Non Executive)
Mr Ross Louthean – Director (Non-Executive)
Mr William Hobba – Director (Non-Executive)
Mr Richard Stroud – Director (Non-Executive)
Mr Albert Longo – Finance Director
Mr. John Williams – Managing Director (resigned 9 August 2010)

## Company secretary

Mr Albert Longo

## Registered and Principal Office

Suite 34, 25 Walters Drive
Osborne Park Western Australia 6017
Telephone: (618) 9244 1400
Facsimilie: (618) 9244 1600
Email: info@a1minerals.com.au
WWW.a1minerals.com.au

## Share register

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth Western Australia 6000
Telephone; (618)9323 2000
Facsimilie: (618)9323 2033
Freecall: 1300 557 010

## Solicitors

Hunt & Humphry
Level 2, 20 Kings Park Road
West Perth Western Australia 6005

## Bankers

Westpac Banking Corporation
465, Scarborough Beach Road,
Osborne Park, Western Australia 6017.

## Auditors

HLB Mann Judd
Level 4, 130 Stirling Street
Perth WA 6000

## Securities Exchange Listings

ASX Code: AAM

# DIRECTORS' REPORT

Your directors submit the annual financial report of the consolidated entity consisting of A1 Minerals Limited and the entities it controlled during the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act, the directors report as follows:

**Directors**

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Names, qualifications, experience and special responsibilities**

**Michael Hunt BA, LLB (Hons) – Age 63**

Non Executive Chairman (Since 31 October 2003)

*Experience*

Mr Hunt is a partner in Hunt & Humphry Project Lawyers in Perth. He is an experienced commercial lawyer and has Australian and international experience in mining law, the development of mining projects and the resolution of native title issues. Mr Hunt has provided advice on mining and petroleum law to local and overseas companies and governments.

Mr Hunt is a Non-Executive Director of Red Back Mining Inc (listed on the Toronto Stock Exchange), which in October 2005 commenced production of gold at its Chirano Project in Ghana, the first new mine in that country for seven years. Mr Hunt was the founding Chairman of Red Back Mining NL (formerly ASX listed) and in that role over a period of 10 years helped take that company from junior Australian explorer to listing on the TSX, subsequent gold production and a merger with Kinross Gold Corporation to form one of the world's top 5 gold companies.

**Ross Louthean AAusIMM, FCA – Age 65**

Non-Executive Director (Since 20 February 2009)

*Experience*

Mr Louthean is a well known resource sector commentator and observer. He is a journalist and author, and with a particular focus on gold, the mining industry and politics, he has written for and helped develop several national and international publications. His work has been recognised by several medals and awards, the latest being the 2009 Diggers & Dealers Media Award. Mr Louthean has more than 30 years directorial experience with public companies and is currently a Director of an unlisted company developing websites and other media.

Mr Louthean holds no directorships in other listed public companies, and his last position ended two years ago as non executive director of Atom Energy Ltd.

**William Hobba – Age 60**

Technical Director (Since 9 August 2010)

Mr Hobba supervised CPC Engineering's renovation and assembly of the Brightstar gold plant for the company. He has recently assumed responsibility for operational matters at the mine site. He has over 40 years experience in gold and nickel mines including 10 years as a consultant in a mine management consultancy and 5 years supplying resources to mill operations.

**Richard Stroud BSc Mining– Age 59**

Non-Executive Director (Since 9 August 2010)

Mr Richard Stroud is a mining engineer with over 35 years worldwide experience in the mining industry. Over the last 10 years, Mr Stroud has been General Manager for a large mining equipment manufacturer; Manager Mining for one of the largest open pits in Australia and Group General Manager Engineering for one of the largest Australian global mining consultancies. Mr Stroud has had exposure to all facets of the mining industry from operations to corporate, most mineral commodities, open pit and underground and consulting to contracting. Mr Stroud's specialist skills are in Operation Optimisation, strategic and project management, mentoring senior mining personnel and peer reviewing studies and projects.

**Mr Albert Longo B.Bus, CA – Age 55**

Finance Director (Since 9 August 2010)

*Experience*

Mr Longo is a Chartered Accountant with over 30 years experience in accounting and commercial administration predominantly in gold mining companies. He has been involved in a number of start up gold operations including Kanowna Belle and more recently Allied Gold's Simberi mine.

# DIRECTORS' REPORT

**Directors - Continued**

**Names, qualifications, experience and special responsibilities**

**Mr. John Williams B.Sc, MAusIMM – Age 50**

Managing Director (resigned 9 August 2010)

Mr Williams has over 20 years experience as a gelogoist in Australia and overseas. He was instrumental in the discovery of a number of deposits that include the BrightStar Gold Project, Wendy Gully and the Attilia Deposit in Western Australia. Mr Williams was involved with the mine management of gold mines at Lady Bountiful, Broads Dam and Burbanks. Before joining A1 Minerals, Mr Wiliams operated as a mining consultant to Australian and Canadian firms. Mr Williams held no directorships in other listed public companies, ans has not held such a position in the past three years.

**Company Secretary**

Mr Albert Longo B Bus, CA (appointed 24 May 2010)

Mr Longo is a Chartered Accountant with over 30 years experience in accounting and commercial administration predominantly in gold mining companies. He has been involved in a number of start up gold operations including Kanowna Belle and more recently Allied Gold's Simberi mine.

Mr Mark Pitts, B.Bus, CA (Resigned 24 May 2010)

Mr Pitts is a Chartered Accountant with over 25 years experience in statutory reporting and business administration. He is a Partner in the corporate advisory firm Endeavour Corporate. Endeavour offers professional services including company secretarial support; corporate advice; supervision of ASIC and ASX reporting and compliance requirements; and commercial and financial support.

# DIRECTORS' REPORT

**Interests in the shares and options of the company and related bodies corporate**

The following relevant interests in shares and options of the company or a related body corporate were held by the directors as at the date of this report.

| **Directors** | Number of options over ordinary shares | Number of fully paid ordinary shares |
|---|---|---|
| Michael Hunt | 4,500,000 | 2,250,000 |
| Ross Louthean | 1,000,000 | - |
| William Hobba | - | 11,247,775 |
| Richard Stroud | - | - |
| Albert Longo | 1,000,000 | - |
| John Williams (resigned 9 August 2010) | 8,000,000 | 7,541,966 |

The following share options of A1 Minerals Limited were granted to directors and to the five most highly remunerated officers of the company during or since the end of the financial year as part of their remuneration:

| **Directors and officers** | Number of options granted | Number of options over ordinary shares |
|---|---|---|
| Michael Hunt | 2,000,000 | - |
| Ross Louthean | 1,000,000 | - |
| John Williams (resigned 9 August 2010)] | 7,000,000 | - |
| Albert Longo (Finance Director & Company Secretary) | 1,000,000 | - |

Details of ordinary shares issued by the company during or since the end of the financial year as a result of the exercise of an option are:

| *Number of shares* | *Amount paid per share* |
|---|---|
| 3,500,000 | 20 cents |
| 3,500,000 | |

There are no unpaid amounts on the shares issued.

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

| *Expiry Date* | *Exercise price* | *Number of shares* |
|---|---|---|
| 31 December 2010 | 30 cents | 3,000,000 |
| 30 November 2011 | 20 cents | 2,000,000 |
| 23 February 2012 | 20 cents | 1,800,000 |
| 30 November 2012 | 35 cents | 9,500,000 |
| | | 16,300,000 |

**DIRECTORS' REPORT (continued)**

**Dividends**

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

**Principal Activities**

The principal activities of the entities within the consolidated entity during the year were mineral exploration and gold production.

**Review of operations**

The Group has concluded a challenging year where it transitioned from gold explorer to gold producer.

**Brightstar Gold Project (BGP)**

In 2010, CPC Engineering completed the refurbishment and commissioning of A1 Minerals 300 ktpa processing plant – allowing for a couple of months of gold production before the end of the financial year.

The operation has been regularly improving and is now in steady state production targeting 2,500 oz fine gold per month. A1 Minerals appointed WATPAC as mining contractor and together with A1 staff (to manage the camp and operate the plant) form a team of ~60 people onsite.

Government approvals are in place and production in 2011 is expected to continue from the Beta lease with preparation of Alpha for mining underway.

*Mining at BrightStar Beta*


**Exploration**

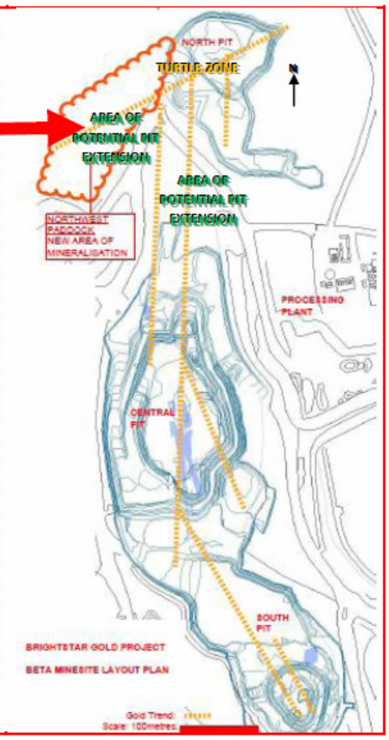
While our main focus has been on getting into production, the Group has maintained a positive exploration programme on the Brightstar leases, primarily on Beta. With extensive drilling on Beta for grade control requirements, A1 has been able to find extensions of gold mineralisation to its initial targets. This has resulted in an additional pit near the plant (tutle zone) which has the potential to significantly increase production from the Beta lease (which is where the plant is located).

**DIRECTORS' REPORT (continued)**

*BrightStar Beta*

| BETA NORTHWEST PADDOCK AREA Surface Geochem Sampling Highlights | | |
|---|---|---|
| COORDINATES | | GRADE |
| Easting(m) | Northing(m) | g/t |
| 780 | 460 | 7.23 |
| 930 | 550 | 6.49 |
| 890 | 460 | 5.17 |
| 890 | 480 | 3.86 |
| 840 | 520 | 3.45 |
| 860 | 440 | 2.71 |
| 930 | 570 | 2.32 |
| 900 | 580 | 1.91 |
| 900 | 480 | 1.76 |
| 910 | 450 | 1.58 |
| 910 | 580 | 1.47 |
| 910 | 530 | 1.45 |
| 850 | 460 | 1.25 |
| 930 | 580 | 1.23 |
| 830 | 520 | 1.23 |
| 930 | 520 | 1.05 |
| 870 | 470 | 1.05 |
| 930 | 530 | 1.02 |
| 790 | 430 | 1.02 |
| 900 | 590 | 0.99 |
| 800 | 430 | 0.85 |
| 850 | 470 | 0.8 |
| 810 | 490 | 0.73 |
| 820 | 510 | 0.71 |
| 910 | 540 | 0.6 |
| 870 | 540 | 0.58 |
| 880 | 510 | 0.56 |
| 770 | 470 | 0.56 |
| 920 | 540 | 0.52 |
| 890 | 530 | 0.51 |
| 910 | 560 | 0.5 |

* assayed for Gold using 40g Fire Assay digest with AAS finish




### JORC Resources & Reserves

For both strategic and financial reasons, A1 Minerals has made several commercial tenement swaps through the year. The Group has picked up ground closer to plant and traded some of its lower grade leases at they were consider noncore or uneconomical. These changes have resulted in a decrease to JORC mineral resources estimates but have not changed JORC Probable Ore Reserve Estimates. Based on these reserves, gold production has a mine life of just over 4 years however, with additional exploration, Brightstar Gold Production is anticipated for many more years.

*Table of Mineral Resources Estimates (Updated 30th June 2010)*

| | Measured | | | Indicated | | | Inferred | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| LOCATION | Tonnes | g/t | grams | Tonnes | g/t | grams | Tonnes | g/t | grams | Tonnes | g/t | grams |
| ALPHA | 178,900 | 3.8 | 679,820 | 311,900 | 2.7 | 842,130 | 631,400 | 4.2 | 2,651,880 | 1,122,200 | 3.7 | 4,152,140 |
| BETA | 68,900 | 4.0 | 275,600 | 628,900 | 3.9 | 2,452,710 | 1,064,900 | 5.2 | 5,537,480 | 1,762,700 | 4.5 | 7,932,150 |
| GAMMA | | | | | | | 27,600 | 3.4 | 93,840 | 27,600 | 3.4 | 93,840 |
| DELTA | | | | 4,152,100 | 2.3 | 9,549,830 | 3,403,900 | 3.8 | 12,934,820 | 7,556,000 | 3.0 | 22,668,000 |
| EPSILON | | | | 1,774,900 | 1.8 | 3,194,820 | 1,163,900 | 2.3 | 2,676,970 | 2,938,800 | 2.2 | 6,465,360 |
| TOTAL | 247,800 | 3.9 | 955,420 | 6,867,800 | 2.3 | 16,039,490 | 6,291,700 | 3.8 | 23,894,990 | 13,407,300 | 3.1 | 41,311,490 |

All data is rounded and discrepancies in summation may occur.

The Table of Mineral Resources Estimates which is updated to 30 June 2010, takes into account resources which have been diminished only through tenement swaps and sales since April 2009 including the 'Zeta tenement'(287,516oz) and the 'Eta- No Mistake'(36,225oz) tenement. The estimates are based on the statement of Mineral Resources for the Brightstar Gold Project in April 2009.

**DIRECTORS' REPORT (continued)**

The information that relates to Mineral Resources for the Brightstar Gold Project is based on A1 Minerals Statement of Mineral Resources for the Brightstar Gold Project (April 2009) which is based on the information compiled by Mr Anthony Ryall who is an independent consulting geologist and a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the JORC Code (2004). Mr Ryall has provided Competent Person sign-off for the quality and representativity of the drill hole data, geological interpretations, resource estimation procedures and results.

*Table of Probable Ore Reserve Estimates (as at April 2009)*

| LOCATION | PROBABLE ORE | IN SITU GOLD (grams) | GOLD RECOVERY (Ounces) |
|---|---|---|---|
| ALPHA | 74,205t @ 5.1g/t gold | 378,445 | 11,560 |
| BETA | 348,716t @ 4.11g/t gold | 1,433,223 | 43,780 |
| DELTA | 470,000t @ 4.0g/t gold | 1,880,000 | 57,428 |
| EPSILON | 233,133t @ 4.6g/t gold | 1,224,211 | 37,396 |
| **TOTAL** | **1,159,054 @ 4.2g/t Gold** | **4,915,879** | **150,164** |

All data is rounded and small discrepancies will occur

PLEASE NOTE: These are probable reserve estimates. Also the Group has recently undergone the transition from explorer to miner and geological as well as metallurgical understanding and databases is subsequently significantly increasing the knowledge and understanding of the deposits which may result in changes to these estimates. Other factors which may change current estimates are changing extraction factors and techniques; metallurgical factors; ore reconciliations through the plant as well as changing economic conditions. Depletion of ore reserves through mining during 2010 has not been taken into account. The information that relates to Ore Reserve Estimates for the Brightstar Gold Project is based on information compiled by Mr John Williams who was an employee of A1 Minerals Limited and is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the type of deposit and mining methods under consideration and to the activity undertaken to qualify as a Competent Person as defined in the JORC Code (2004).

*Operating results for the year*

The net loss after income tax attributable to members of the Group for the financial year to 30 June 2010 amounted to $5,900,505 (2009: $4,282,979).

Exploration expenditure across all projects for the Group during the year was $1,761,384 (2009: $1,566,590)

*Review of financial conditions*

At the end of the financial year, the Group had $439,303 (2009: $2,576,318) in cash and on deposit. Carried forward exploration expenditure was $11,594,986 (2009: $11,987,599).

During the year the Group issued 74,351,581 ordinary shares to raise $13,089,929 before issue costs and issued 2,941,620 shares in consideration for the purchase of the camp, purchase of a mining lease and mining services rendered, As a result, issued capital increased from 119,566,861 in 2009 to 196,860,062 ordinary shares at the end of 2010.

**Significant changes in the state of affairs**

The Group has made the transition from a mineral exploration Group to a gold production Group.

**Significant events after balance date**

On 9 August 2010, the Managing Director tendered his resignation from the Group and Albert Longo was appointed as Finance Director and William Hobba and Richard Stroud appointed as non-executive directors.

On the 9 August the consolidated entity raised $685,585 by way of a Share Purchase Plan resulting in an issue of 3,808,363 ordinary shares at 18 cents each.

**DIRECTORS' REPORT (continued)**

**Likely developments and expected results**

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Therefore, this information has not been presented in this report.

**Environmental legislation**

The Group's operations are subject to significant environmental regulation under the law of the Commonwealth and State. The Directors of the Group monitor compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this Report.

**Indemnification and insurance of Directors and Officers**

The Group has agreed to indemnify all the directors of the company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Group and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Group paid a premium in respect of a contract insuring the directors and officers of the Group and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Remuneration report**

This report outlines the remuneration arrangements in place for the key management personnel of A1 Minerals Limited (the "company") for the financial year ended 30 June 2010. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the three executives in the Parent and the Group receiving the higher remuneration.

*Key Management Personnel*

**(i) Directors**

Michael Hunt (Chairman)

Ross Louthean

John Williams (Resigned 9 August 2010)

**(ii) Executives**

Albert Longo (Company Secretary) (Appointed 24 May 2010)

Allan Downham (General Manager) (Appointed 9 April 2010 and resigned 9 July 2010)

Anthony Wallace (Mine Manager) (Appointed 8 March 2010 and resigned 23 June 2010)

Mark Pitts (Company Secretary) (Resigned 24 May 2010)

*Remuneration philosophy*

The performance of the Group depends upon the quality of the directors and executives. The philosophy of the Group in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

*Remuneration committee*

The Remuneration Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors, the CEO and the executive team.

**DIRECTORS' REPORT (continued)**

**Remuneration report (continued)**

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

*Remuneration structure*

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

*Non-executive director remuneration*

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 30 November 2009 when shareholders approved an aggregate remuneration of $58,870 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. An additional fee is also paid for each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

The remuneration of non-executive directors for the period ended 30 June 2010 is detailed in Table 1 of this report.

*Senior manager and executive director remuneration*

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

*Fixed Remuneration*

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the 5 most highly remunerated Group and company executives is detailed in Table 2.

## DIRECTORS' REPORT (continued)

### Remuneration report (continued)

***Remuneration of directors and named executives***

**Table 1: Directors' remuneration for the year ended 30 June 2010**

| | | Short-term employee benefits | | Post-employment benefits | Equity | | |
|---|---|---|---|---|---|---|---|
| | | **Salary & Fees $** | **Other $** | **Superannuation $** | **Share options $** | **Total $** | **Performance Related %** |
| Michael Hunt | **2010** | **22,940** | - | **2,066** | **356,000** | **381,006** | **93.4%** |
| | 2009 | 22,935 | - | 2,064 | 75,099 | 100,098 | 75.0% |
| Ross Louthean | **2010** | **33,864** | - | **-** | **178,000** | **211,864** | **84.0%** |
| | 2009 | 7,500 | - | **-** | **-** | 7,500 | - |
| John Williams | **2010** | **300,000** | **10,848** | **27,000** | **1,202,500** | **1,540,348** | **78.1%** |
| (resigned 9 August 2010) | 2009 | 300,000 | 10,778 | 27,000 | 75,099 | 412,877 | 18.2% |

## DIRECTORS' REPORT (continued)

### Remuneration report (continued)

**Table 2: Remuneration of the 5 named executives who received the highest remuneration for the year ended 30 June 2010**

| | | Short-term employee benefits | Post-employment benefits | Equity | | |
|---|---|---|---|---|---|---|
| | | Salary & Fees $ | Super-annuation $ | Share Options $ | Total $ | Performance Related % |
| Albert Longo Finance Director & Company Secretary (Appointed 6 April 2010) | **2010** | **41,763** | **3,760** | - | **45,523** | - |
| | 2009 | **-** | - | - | - | - |
| Alan Downham Executive (Appointed 9 April 2010 & resigned 9 July 10) | **2010** | **52,129** | **4,694** | - | **56,823** | - |
| | 2009 | **-** | - | - | - | - |
| Anthony Wallace Executive (Appointed 8 March 2010 & resigned 23 June 10) | **2010** | **73,336** | **6,603** | - | **79,939** | - |
| | 2009 | **-** | - | - | - | - |
| Mark Pitts Secretary (Resigned 24 May 2010) | **2010** | **60,000** | **-** | - | **60,000** | - |
| | 2009 | 60,000 | - | - | 60,000 | - |

## DIRECTORS' REPORT (continued)

### Remuneration report (continued)

**Table 3: Option plans in existence during the financial year**

| Option series | Grant date | Expiry Date | Fair value at grant date | Vesting date |
|---|---|---|---|---|
| SERIES 1 – 9,500,000 | **22 December 2009** | **30 November 2012** | **$1,421,200** | **30 November 2012** |
| SERIES 2 - 500,000 | **27 July 2009** | **30 November 2011** | **$ 55,500** | **30 November 2011** |
| SERIES 3 - 2,300,000 | **23 February 2009** | **23 February 2012** | **$ 313,260** | **23 February 2012** |
| SERIES 4 - 1,500,000 | **28 November 2008** | **30 November 2011** | **$ 30,900** | **30 November 2011** |
| SERIES 5 - 3,000,000 | **21 December 2008** | **31 December 2010** | **$ 90,000** | **31 December 2010** |

For details on the valuation of the options, including models and assumptions used, please refer to Note 16. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

**DIRECTORS' REPORT (continued)**

**Remuneration report (continued)**

**Table 4: Share-based compensation to directors and executives during the current financial year**

| Name | No. granted | Date granted | FV per option at grant date | No. vested | % of grant vested | % of grant forfeited | % compensation for year consisting of options | Expiry date |
|---|---|---|---|---|---|---|---|---|
| Michael Hunt (Chairman) | 2,000,000 | 22/12/2009 | $ 356,000 | - | - | - | 93.7% | 30/11/2012 |
| Ross Louthean (Director) | 500,000 | 24/07/2009 | $ 89,000 | - | - | - | 42.0% | 30/11/2011 |
| | 500,000 | 22/12/2009 | $ 89,000 | - | - | - | 42.0% | 30/11/2012 |
| John Williams (Director) (resigned 9/08/2010) | 7,000,000 | 22/12/2009 | $1,202,500 | - | - | - | 78.1% | 30/11/2012 |

## DIRECTORS' REPORT (continued)

### Remuneration report (continued)

**Table 5: Options issued as compensation exercised during the year by directors and executives**

| Name | No. options exercised | No. shares issued | Amount paid |
|---|---|---|---|
| Michael Hunt (Chairman) | 1,000,000 | 1,000,000 | $ 200,000 |
| Ross Louthean (Director) | - | - | - |
| John Williams (Director) (Resigned 9 August 2010) | 2,500,000 | 2,500,000 | $ 500,000 |

No amounts were unpaid on the exercise of options during the year by directors and executives.

**Table 6: Options granted, exercised or lapsed during the year to directors and executives**

| Name | Value of options granted at the grant date $ | Value of options exercised at the exercise date $ | Value of options lapsed at the date of lapse $ |
|---|---|---|---|
| Michael Hunt (Chairman) | 356,000 | 30,040 | 30,885 |
| Ross Louthean (Director) | 178,000 | - | - |
| John Williams (Director) (Resigned 9 August 2010) | 1,202,500 | 75,099 | 144,130 |

### Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Directors' Meetings |
|---|---|
| **Number of meetings held:** | **5** |
| **Number of meetings attended:** | |
| **Mr M Hunt** | **5** |
| **Mr R Louthean** | **5** |
| **Mr J Williams** | **5** |

## DIRECTORS' REPORT (continued)

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

**Auditor Independence and Non-Audit Services**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 20 and forms part of this directors' report for the year ended 30 June 2010.

**Non-Audit Services**

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 22 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.

Albert Longo

Finance Director

24 September 2010

**CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of A1 Minerals Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council ('CGC') published guidelines as well as its corporate governance principles and recommendations.

The CGC's published guidelines are as follows:

| | |
|---|---|
| **Principle 1.** | Lay solid foundations for management and oversight |
| **Principle 2.** | Structure the board to add value |
| **Principle 3.** | Promote ethical and responsible decision making |
| **Principle 4.** | Safeguard integrity in financial reporting |
| **Principle 5.** | Make timely and balanced disclosure |
| **Principle 6.** | Respect the rights of shareholders |
| **Principle 7.** | Recognise and manage risk |
| **Principle 8.** | Remunerate fairly and responsibly |

A1 Minerals Limited's corporate governance practices were in place throughout the year ended 30 June 2010 and were fully compliant with the Council's best practice recommendations.

**Structure of the Board**

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of A1 Minerals Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of A1 Minerals Limited are considered to be independent:

| **Name** | **Position** | **Name** | **Position** |
|---|---|---|---|
| Mr Michael Hunt | Chairperson, Non-Executive | Mr W Hobba | Non-Executive Director |
| Mr R Louthean | Non-Executive Director | Mr R Stroud | Non-Executive Director |

There are procedures in place, agreed by the Board, to enable directors in the furtherance of their duties to seek independent professional advice at the company's expense.

**CORPORATE GOVERNANCE STATEMENT (continued)**

The term in office held by each director in office at the date of this report is as follows:

| Name | Term in Office | Name | Term in Office |
|---|---|---|---|
| Mr Michael Hunt | 7 years | Mr W Hobba | 2 months |
| Mr R Louthean | 1.5 years | Mr R Stroud | 2 months |
| Mr A Longo | 2 Months | | |

**Risk**

The identification and effective management of risk is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so, the Board has taken the view that it is crucial for all Board members to be a part of this process and as such has not established a separate risk management committee.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management, including responsibility for the day to day design and implementation of the company's risk management and internal control system. Management report to the Board on the company's key risks and the extent to which it believes these risks are being adequately managed.

**Performance**

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators.

**Remuneration**

The remuneration report is set out in the following manner:

- Policies used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share based compensation

**Remuneration Policy**

The Board of Directors is responsible for remuneration policies and the packages applicable to the Directors of the Company. Whilst the broad remuneration policy is to ensure that packages offered properly reflect a person's duties and responsibilities and that remuneration is competitive and attracts, retains, and motivates people of the highest quality, the Board has consciously been focused on conserving the Company's funds to ensure the maximum amount is spent on exploration and mine development, and this is reflected in the modest level of Director fees.

The policy of the Group is to offer competitive salary packages which provide incentive to Directors and executives and are designed to reward and motivate. Non Executive Directors receive fees agreed on an annual basis by the Board, within total Non-Executive remuneration limits voted upon by shareholders at the Annual General Meetings. Share options which were issued to Non-Executive Directors in the reporting period as part remuneration were subject to shareholder approval.

At the date of this report, the Company had not entered into any packages with Directors or senior executives which include performance based components.

HLB Mann Judd

Accountants | Business and Financial Advisers

**Auditor's Independence Declaration**

As lead auditor for the audit of the financial report of A1 Minerals Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of A1 Minerals Limited.

**Perth, Western Australia**
**24 September 2010**

**N G NEILL**
**Partner, HLB Mann Judd**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4 130 Stirling Street Perth 6000 PO Box 8124 Perth BC 6849 Western Australia. Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

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

| | Notes | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| Revenue | 2(a) | 2,769,155 | 199,062 |
| Other income / (loss) | 2(b) | (241,770) | - |
| Cost of sales | 2(c) | (4,477,915) | - |
| Employee benefits expense | 2(d) | (1,731,843) | (658,158) |
| Depreciation and amortisation expense | 2(e) | (410,707) | (76,434) |
| Finance costs | 2(f) | (71,113) | (6,345) |
| Other expenses | 2(g) | (1,736,312) | (3,741,104) |
| **Loss before income tax benefit** | 2 | **(5,900,505)** | **(4,282,979)** |
| Income tax benefit | 3 | - | - |
| **Loss after tax from continuing operations** | | **(5,900,505)** | **(4,282,979)** |
| **Net loss for the year** | | **(5,900,505)** | **(4,282,979)** |
| **Other comprehensive income for the year, net of tax** | | **-** | **-** |
| **Total comprehensive loss for the year** | | **(5,900,505)** | **(4,282,979)** |
| Basic loss per share (cents per share) | 5 | **(3.50)** | **(3.99)** |

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION
# AS AT 30 JUNE 2010

| | Notes | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 6 | 439,303 | 2,576,318 |
| Trade and other receivables | 7 | 775,836 | 187,054 |
| Inventories | 8 | 51,496 | - |
| **Total Current Assets** | | 1,266,635 | 2,763,372 |
| **Non-Current Assets** | | | |
| Other financial assets | 7 | 293,598 | 244,512 |
| Property, plant and equipment | 9 | 22,321,572 | 2,914,516 |
| Deferred exploration expenditure | 10 | 11,594,986 | 11,987,599 |
| **Total Non-Current Assets** | | 34,210,156 | 15,146,627 |
| **Total Assets** | | 35,476,791 | 17,909,999 |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 6,734,743 | 973,112 |
| Borrowings | 12 | 418,091 | 32,089 |
| Provisions | 13 | 161,662 | 28,058 |
| **Total Current Liabilities** | | 7,314,496 | 1,033,259 |
| **Non-Current Liabilities** | | | |
| Borrowings | 12 | 1,178,220 | 49,126 |
| Provisions | 13 | 676,816 | - |
| **Total Non-Current Liabilities** | | 1,855,036 | 49,126 |
| **Total Liabilities** | | 9,169,532 | 1,082,385 |
| **Net Assets** | | 26,307,259 | 16,827,614 |
| **Equity** | | | |
| Issued capital | 14 | 34,487,042 | 20,838,735 |
| Reserves | 15 | 3,386,797 | 1,654,954 |
| Accumulated losses | 15 | (11,566,580) | (5,666,075) |
| **Total Equity** | | 26,307,259 | 16,827,614 |

The accompanying notes form part of these financial statements

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

| | Notes | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| | | Inflows/(Outflows) | |
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 2,312,078 | - |
| Payments to suppliers and employees | | (2,686,909) | (758,188) |
| Interest received | | 98,361 | 195,889 |
| Finance costs | | (71,113) | (6,345) |
| Net cash (used in) operating activities | 6(iii) | (347,583) | (568,644) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of non-current assets | | 1,815,925 | - |
| Purchase of non-current assets | | (15,755,681) | (2,685,962) |
| Net cash (used in)/provided by investing activities | | (13,939,756) | (2,685,962) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 12,634,713 | 882,000 |
| Payments for share issue costs | | (324,107) | - |
| Payment of finance lease liabilities | | (160,282) | (33,585) |
| Net cash provided by financing activities | | 12,150,324 | 848,415 |
| Net increase/(decrease) in cash and cash equivalents | | (2,137,015) | (2,406,191) |
| Cash and cash equivalents at beginning of period | | 2,576,318 | 4,982,509 |
| **Cash and cash equivalents at end of period** | | 439,303 | 2,576,318 |

The accompanying notes form part of these financial statements

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

| **Consolidated** | Note | Issued Capital<br>$ | Accumulated Losses<br>$ | Reserves<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Balance as at 1 July 2008** | | 19,056,735 | (1,512,412) | 921,545 | 18,465,868 |
| Profit for the year | 15 | - | (4,282,979) | - | (4,282,979) |
| **Total comprehensive loss for the year** | | - | (4,289,979) | - | (4,282,979) |
| Shares issued during the year | 14 | 1,782,000 | - | - | 1,782,000 |
| Recognition of share-based payments | 15 | - | - | 862,725 | 862,725 |
| Transfer on cancellation of options | 15 | - | 129,316 | (129,316) | - |
| **Balance at 30 June 2009** | | **20,838,735** | **(5,666,075)** | **1,654,954** | **16,827,614** |
| **Balance as at 1 July 2009** | | 20,838,735 | (5,666,075) | 1,654,954 | 16,827,614 |
| Profit for the year | 15 | - | (5,900,505) | - | (5,900,505) |
| **Total comprehensive loss for the year** | | - | (5,900,505) | - | (5,900,505) |
| Shares issued during the year | 14 | 13,648,307 | - | - | 13,648,307 |
| Recognition of share-based payments | 15 | - | - | 1,731,843 | 1,731,843 |
| **Balance at 30 June 2010** | | **34,487,042** | **(11,566,580)** | **3,386,797** | **26,307,259** |

The accompanying notes form part of these financial statements

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

A1 Minerals Limited ('the Company') is a listed public 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 'Group'). The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report.

### (a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis, unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. The entity's principal activities were exploration for gold and mining and processing of gold.

The financial report is presented in Australian dollars.

The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (b) Statement of Compliance

The financial report was authorised for issue on 24 September 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

In the year ended 30 June 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

### (c) Principles of Consolidation

The consolidated financial statements comprise the separate financial statements of A1 Minerals Limited ("Company") and its subsidiaries as at 30 June each year (the "Group").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Principles of Consolidation (continued)

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

### (d) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in accordance with AASB requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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.

*Share-based payment transactions:*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model, using the assumptions detailed in Note 16.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 16.

*Exploration and evaluation costs carried forward*

The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of “fair value less costs to sell” and “value in use”. In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Critical accounting judgements and key sources of estimation uncertainty (continued)

*Recoverability of long-lived assets*

Certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of recoverable gold ounces. In addition, cash flows are projected over the life of mine, which is based on estimates of recoverable gold ounces. Estimates of recoverable gold ounces in themselves are dependent on various assumptions, in addition to those described above, including gold cut-off grades. Changes in these estimates could materially impact on recoverable gold ounces, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation and amortisation.

*Determination of ore reserves and mineral resources and remaining mine life*

The Group estimates its ore reserves and mineral resources based on information complied by Competent Persons (as defined in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised December 2004 (the JORC code). Reserves and resources, if applicable, determined in this way are taken into account in the calculation of depreciation, amortisation, impairment, deferred mining costs, rehabilitation and environmental expenditure.

In estimating the remaining life of the mine for the purpose of amortisation and depreciation calculations, due regard is given, not only to the amount of remaining recoverable gold ounces, but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues which are inherently difficult to estimate over a lengthy time frame.

Where a change in estimated recoverable gold ounces is made, depreciation and amortisation is accounted for prospectively.

The determination of ore reserves, mineral resources and remaining mine life affects the carrying value of a number of the Consolidated Entity's assets and liabilities including deferred mining costs and the provision for rehabilitation.

*Provision for restoration and rehabilitation obligations*

Certain assumptions are required to be made in determining the amount expected to be incurred to settle its obligations in relation to restoration and rehabilitation of the mine site. Key assumptions include the amount and timing of future cash flow estimates. A 10% increase to cost assumptions will result in a $63,225 increase in the liability.

*Unit-of-production method of depreciation*

The Group applies the unit-of-production method for depreciation of its mine specific assets which results in a depreciation or amortisation of its mine specific assets which results in a depreciation or amortisation charge proportional to the depletion remaining life of production. Each item's economic life, which is assessed annually, has due regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which it is located. These calculations require the use of estimates and assumptions.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Going Concern

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's and consolidated entity's assets and the discharge of their liabilities in the normal course of business.

The company has a deficiency of working capital of $6,047,861 at year end. The Board considers that the Company is a going concern and recognises that additional funding may be required to ensure that the Company can continue to fund its and the consolidated entity's operations and further develop their mineral exploration and evaluation assets during the twelve month period from the date of this financial report. The Board's internal cash flow projections indicate that the Company will continue to be a going concern, primarily as a result of cash positive operations. Additionally the Board has the support of a number of stock brokers in the event that further capital may be required and has already undertaken mining and geological reviews to support any future capital raisings as announced to the share market on 9 August 2010.

As disclosed in Note 21, the Company's share purchase plan raised $685,505 in August 2010. Accordingly, the Directors believe that subject to the continued cash flow positive operations and/or prevailing equity market conditions, the Company will obtain sufficient funding to enable it and the consolidated entities to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report. Should the company be unable to obtain sufficient funding as outlined above, there is significant uncertainty whether or not the entity will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

### (f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

*(ii) Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### (g) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

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

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**(g) Income Tax (continued)**

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(h) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Financing Costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method. Borrowing costs are expensed as incurred and included in net financing costs.

### (j) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(i).

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (k) Cash and cash equivalents

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (l) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 10 days to 30 days.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

### (m) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis; and

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

| | |
|---|---|
| Office furniture and equipment | 5 – 8 years |
| Plant and equipment | 3 - 5 years |
| Motor vehicles | 4 - 5 years |
| Mine property and plant | Life of mine, calculated on resource units. |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*(i) Impairment*

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of 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, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

*(ii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(o) Investments and other Financial Assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

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

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(o) Investments and other Financial Assets (continued)**

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*(i) Financial Assets at Fair Value through Profit and Loss*

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

*(ii) Held-to-maturity Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*(iii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*(iv) Available-for-sale Investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

**(p) Exploration and evaluation**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

- (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
- (b) exploration and evaluation activities in the area of interest have not at the balance 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.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Exploration and evaluation (continued)

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

### (q) Mine Development expenditure

Mine development costs represent the accumulation of all exploration, evaluation and development expenditure incurred in respect of areas of interest in which a decision to mine has been made. Plant construction and commissioning costs are included as mine development costs once the commissioning phase has been completed.

When further development expenditure is incurred in respect of mine property after the commencement of production, such expenditure is carried forward as part of Mine Development Costs only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit of production basis which results in a write off of the cost proportional to the depletion of the proven and probable mineral reserves.

The net carrying value of each area of interest is reviewed regularly and to the extent to which this value exceeds its recoverable amount, the excess is fully provided against or written off in the financial year in which this is determined

### (r) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Impairment of assets (continued)

no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (s) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### (t) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method and the redemption amount is recognised in profit or loss over the period of the borrowings. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (u) Provisions – Employee benefits

*(i) Wages, Salaries, Annual Leave and Sick Leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and non-accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(ii) Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee of departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### (v) Share-based payment transactions

*(i) Equity settled transactions:*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black and Scholes model, further details of which are given in Note 16.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of A1 Minerals Limited (market conditions), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Share-based payment transactions (continued)

conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

*(i) Equity settled transactions: (continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

### (w) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (x) Earnings per share

Basic earnings per share (‘EPS’) is calculated as net profit or loss attributable to members of the Company for the reporting period, after excluding any costs for servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus element.

Diluted earnings is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary share and the effect on revenues and expenses of conversion, by the weighted average number of ordinary shares and potential dilutive ordinary shares, adjusted for any bonus element.

### (y) Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

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

## NOTE 2: REVENUE AND EXPENSES

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **(a) Revenue** | | |
| Sale of gold and by-product | 2,656,509 | - |
| Bank interest receivable | 107,003 | 197,901 |
| Other income | 5,643 | 1,161 |
| | 2,769,155 | 199,062 |
| **(b) Other income / (loss)** | | |
| Sale of tenements | 1,815,925 | - |
| Less: Cost of tenements | (2,057,695) | - |
| | (241,770) | - |
| **(c) Cost of sales** | | |
| Employee expenses | 242,948 | - |
| Stores and other consumables | 336,987 | - |
| Fuel, power and water | 500,556 | - |
| Amortisation of waste material | 813,207 | - |
| Mining, processing and refining | 2,584,217 | - |
| | 4,477,915 | - |
| **(d) Employee benefits expense** | | |
| Share based payments | 1,731,843 | 658,158 |
| **(e) Depreciation of non current assets** | | |
| Gold plant and mine development | 212,734 | - |
| Plant and equipment | 41,907 | - |
| Motor vehicles | 68,720 | 46,783 |
| Site equipment | 67,144 | 13,527 |
| Office equipment | 20,202 | 16,124 |
| | 410,707 | 76,434 |
| **(f) Finance charges** | | |
| Finance charges payable under finance leases and hire purchase contracts | 71,113 | 6,345 |
| **(g) Other expenses** | | |
| Employee expense | 981,366 | 512,460 |
| Less: allocated to exploration | (558,125) | (356,799) |
| | 423,241 | 155,661 |
| Exploration costs expensed and written off | 105,906 | 2,947,923 |
| Consulting | 95,093 | 74,859 |
| Corporate | 292,031 | 190,211 |
| Administration | 820,041 | 372,450 |
| | 1,736,312 | 3,741,104 |

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

## NOTE 3: INCOME TAX

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **(a) Income tax recognised in statement of income** | | |
| Accounting loss before tax from continuing operations | (5,900,505) | (4,282,979) |
| Income tax benefit calculated at 30% | (1,770,152) | (1,284,894) |
| Non-deductible expenses: | 523,739 | 197,447 |
| Exploration costs written off | - | 877,550 |
| Exploration expenditure capitalised | 117,784 | - |
| Mining assets | (1,799,068) | - |
| Other Deferred Tax Assets and Deferred Tax Liabilities not recognised | 2,927,697 | 209,897 |
| Income tax expense / (benefit) reported in the statement of income | - | - |
| | | |
| **(b) Unrecognised deferred tax balances** | | |
| ***Deferred tax assets comprise:*** | | |
| Losses available for offset against future taxable income - revenue | 6,874,335 | 4,078,877 |
| Business related costs | 30,569 | 51,667 |
| Accrued expenses | 155,783 | 10,101 |
| | **7,060,687** | **4,140,645** |
| ***Deferred tax liabilities comprise:*** | | |
| Mining assets | (1,799,068) | - |
| Accrued income | (2,088) | - |
| Exploration expenditure capitalised | (3,478,496) | (3,596,280) |
| Prepayments | - | (9,742) |
| | **(5,279,652)** | **(3,606,022)** |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

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

## NOTE 4: SEGMENT REPORTING

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. Reportable segments disclosed are based on aggregating operating segments, where the segments have similar characteristics. The group's sole activity is mineral exploration and resource development wholly within Australia, therefore it has aggregated all operating segments into the one reportable segment being mineral exploration.

The reportable segment is represented by the primary statements forming these financial statements.

## NOTE 5: EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | Cents per share | Cents per share |
| *Basic earnings per share:* | | |
| Total basic earnings per share | (3.50) | (3.99) |

*Basic earnings per share*

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

| | | |
|---|---|---|
| | $ | $ |
| Earnings | (5,900,505) | (4,282,979) |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 168,783,895 | 107,385,012 |

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

## NOTE 6: CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Cash at bank and on hand | (25,610) | 69,991 |
| Short-term deposits | 464,913 | 2,506,327 |
| | 439,303 | 2,576,318 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short –term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2010, the Group did not have any undrawn committed borrowing facilities.

**(i) Reconciliation to Cash Flow Statement:**

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | 439,303 | 2,576,318 |

**(ii) Cash balances not available for use**

Non current bank deposits held for issuance of unconditional performance bonds issued to the Minister responsible for the Mining Act 1978 for granting licences:

| | | |
|---|---|---|
| Naroo Bond | 61,000 | 61,000 |
| Bond issued for exploration licence No. L38/100 | 25,000 | 25,000 |
| Bond issued for exploration licence No. M38/302 | 16,155 | 15,512 |
| Bond issued for exploration licence No. M38/9 | 123,000 | 123,000 |
| Bond issued for licence on open pit mining & treatment plant | 67,040 | - |
| Total non current deposits not available for use shown in Security and environmental bonds refer to Note 7 | 292,195 | 224,512 |

**(iii) Reconciliation of profit for the year to net cash flows from operating activities**

| | | |
|---|---|---|
| Profit / (loss) for the year | (5,900,505) | (4,282,979) |
| Amortisation | 813,207 | - |
| Depreciation | 410,707 | 76,434 |
| Loss on sale of tenements | 241,770 | - |
| Equity settled share based payment | 1,731,843 | 658,158 |
| Exploration expenses written off | 105,906 | 2,947,923 |
| (Increase)/decrease in assets | | |
| Current receivables | (487,740) | (7,013) |
| Current inventories | (51,496) | - |
| Increase/(decrease) in liabilities | | |
| Current payables | 2,610,556 | 38,833 |
| Current provisions | 133,604 | - |
| Non-current provisions | 44,565 | - |
| Net cash from operating activities | (347,583) | (568,644) |

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

### NOTE 7: TRADE AND OTHER RECEIVABLES

**CURRENT**

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Trade receivables | 350,074 | - |
| GST recoverable | 284,461 | 154,597 |
| Other receivables | 141,301 | 32,457 |
| | 775,836 | 187,054 |

(i) the average credit period on sales of goods and rendering of services is 5 days. GST input credit is recoverable from the Australian Taxation Office within 30 days of month end.

At present, sales of gold and silver are contracted to the Perth Mint at spot pricing; hence credit scoring was not required. Other receivables represent prepaid insurance and advances against purchases.

(ii) For details of the terms and conditions of related party receivables refer to Note 19.

| Aging of past due but not impaired | $ | $ |
|---|---|---|
| 30 – 60 days | 350,074 | - |

**NON CURRENT**

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Security and environmental bonds | 292,195 | 224,512 |
| Other loans | 1,403 | 20,000 |
| | 293,598 | 244,512 |

### NOTE 8: INVENTORIES

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Raw materials – at cost | 51,496 | - |

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

## NOTE 9: PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Office furniture and equipment | Plant and equipment | Motor vehicles | Mine property and plant | Total |
| | $ | $ | $ | $ | $ |
| **Year ended 30 June 2010** | | | | | |
| At 1 July 2009, net of accumulated depreciation and impairment | 20,540 | 29,952 | 63,804 | 2,800,220 | 2,914,516 |
| Additions | 32,121 | 610,770 | 267,672 | 19,720,407 | 20,630,970 |
| Disposals | - | - | - | - | - |
| Depreciation charge for the year | (20,202) | (109,051) | (68,717) | (1,025,944) | (1,223,914) |
| At 30 June 2010, net of accumulated depreciation and impairment | 32,459 | 531,671 | 262,759 | 21,494,683 | 22,321,572 |
| **At 1 July 2009** | | | | | |
| Cost or fair value | 109,271 | 69,656 | 207,925 | 2,800,220 | 3,187,072 |
| Accumulated depreciation and impairment | (88,731) | (39,704) | (144,121) | - | (272,556) |
| Net carrying amount | 20,540 | 29,952 | 63,804 | 2,800,220 | 2,914,516 |
| **At 30 June 2010** | | | | | |
| Cost or fair value | 141,392 | 680,426 | 475,597 | 22,520,627 | 23,818,042 |
| Accumulated depreciation and impairment | (108,933) | (148,755) | (212,838) | (1,025,944) | (1,496,470) |
| Net carrying amount | 32,459 | 531,671 | 262,759 | 21,494,683 | 22,321,572 |

The useful life of the assets was estimated as follows for both 2009 and 2010:

| | |
|---|---|
| Office furniture and equipment | 5 to 8 years |
| Plant and equipment | 3 to 5 years |
| Motor vehicles | 4 to 5 years |
| Mine property and plant | Life of mine, calculated on resource units |

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2010 is $1,659,437 (2009: $63,804). Additions during the year include $1,717,244 (2009: $10,499) of plant and equipment held under finance leases and hire purchase contracts.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

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

## NOTE 10: DEFERRED EXPLORATION EXPENDITURE

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Costs carried forward in respect of: | | |
| **Exploration and evaluation phase – at cost** | | |
| Balance at beginning of year | 11,987,599 | 13,346,175 |
| Sale of tenements | (2,049,367) | - |
| Expenditure incurred | 1,761,384 | 1,566,590 |
| | 11,699,616 | 14,912,765 |
| Expenditure written off | (104,630) | (2,925,166) |
| | 11,594,986 | 11,987,599 |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

## NOTE 11: TRADE AND OTHER PAYABLES (CURRENT)

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Trade payables (i) | 5,913,064 | 889,562 |
| Accrued liabilities | 821,679 | 83,550 |
| | 6,734,743 | 973,112 |

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms and with special arrangements entered into with major suppliers for settlement within 60 days.

## NOTE 12: BORROWINGS

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **Current** | | |
| *Loans carried at amortised cost* | | |
| Obligations under finance leases and hire purchase contracts (refer Note 18) | 418,091 | 32,089 |
| | 418,091 | 32,089 |
| **Non-Current** | | |
| *Loans carried at amortised cost* | | |
| Obligations under finance leases and hire purchase contracts (refer Note 18) | 1,178,220 | 49,126 |
| | 1,178,220 | 49,126 |

At the balance date, with the exception of the above drawn down facilities, the company had no other loan facilities available. The finance leases and hire purchase contracts bear a charge on the specific plant and machinery financed. The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2010 is $1,659,437 (2009: $63,804).

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

## NOTE 13: PROVISIONS

| | Consolidated | | |
|---|---|---|---|
| | Rehabilitation | Employee benefits | Total |
| | | | $ |
| **Consolidated** | | | |
| At 1 July 2009 | - | 28,058 | 28,058 |
| Arising during the year | 632,251 | 191,170 | 823,421 |
| Utilised | - | (13,001) | (13,001) |
| | 632,251 | 206,227 | 838,478 |
| At 30 June 2010 | | | |
| Current 2010 | - | 161,662 | 161,662 |
| Non-current 2010 | 632,251 | 44,565 | 676,816 |

Employee provisions for annual leave and sick leave are based on 20 days and 10 days per annum respectively, and calculated on individual employee base rate per day plus superannuation. Employee provision for long service leave has been pro-rated for the current period of service and based on the assumption that employees would complete 7 years of unbroken service to qualify the statutory pro-rating entitlement of 8.667 weeks for 10 years.

## NOTE 14: ISSUED CAPITAL

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| 196,860,062 Ordinary shares issued and fully paid | 34,487,042 | 20,838,735 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

| | Consolidated | | Consolidated | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | No. | $ | No. | $ |
| *Movement in ordinary shares on issue* | | | | |
| Balance at beginning of financial year | 119,566,861 | 20,838,735 | 101,041,861 | 19,056,735 |
| Issued as part consideration for gold processing plant | - | - | 7,500,000 | 900,000 |
| Issued for cash on placement | - | - | 11,025,000 | 882,000 |
| Issued for cash on share placement | 41,208,946 | 7,950,636 | - | - |
| Issued for cash share purchase plan | 22,667,635 | 2,946,793 | - | - |
| Issued in consideration for exploration asset, mining camp and mining consultancy services | 2,941,620 | 882,486 | - | - |
| Issued for cash on exercise of employee options | 10,475,000 | 2,192,500 | - | - |
| Share issue costs | | (324,108) | - | - |
| Balance at end of financial year | 196,860,062 | 34,487,042 | 119,566,861 | 20,838,735 |

*Share options*

The company has four share based payment option schemes under which options to subscribe for the company's shares have been granted to certain executives and other employees Note 16.

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

## NOTE 15: ACCUMULATED LOSSES AND RESERVES

*Accumulated losses*

Movements in accumulated losses were as follows:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Balance at beginning of financial year | (5,666,075) | (1,512,412) |
| Transfer on cancellation of option | - | 129,316 |
| Net profit / (loss) for the year | (5,900,505) | (4,282,979) |
| Dividends | - | - |
| Balance at end of financial year | (11,566,580) | (5,666,075) |

*Option reserve*

Movements in option reserve was as follows:

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| Balance at beginning of financial year | 1,654,954 | 921,545 |
| Share based payments | 1,731,843 | 862,725 |
| Transfer on cancellation of options | - | (129,316) |
| Balance at end of financial year | 3,386,797 | 1,654,954 |

### Nature and purpose of reserves

*Option reserve*

This option reserve represents the fair value of options, estimated by option valuation models, issued as consideration for services to employees or consultants as remuneration, or to third parties for the acquisition of assets, goods or services.

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

## NOTE 16: SHARE BASED PAYMENT PLANS

**General Employee Share Loan Plan**

The company does not have a General Employee Share Loan Plan.

The expense recognised in the statement of income in relation to share-based payments is disclosed in NOTE 2(d).

The following share-based payment arrangements were in place during the current and prior periods:

**Current - 2010**

| | Number | Grant date | Expiry date | Exercise price $ | Fair value at grant date $ |
|---|---|---|---|---|---|
| Options issued to directors | 3,000,000 | 21/12/2008 | 31/12/2010 | $0.30 | 90,900 |
| Options issued to directors | 1,500,000 | 28/11/2008 | 30/11/2011 | $0.20 | 30,900 |
| Options issued to employees | 2,300,000 | 23/02/2009 | 23/02/2012 | $0.20 | 313,260 |
| Options issued to a director | 500,000 | 27/07/2009 | 30/11/2011 | $0.20 | 45,564 |
| Options issued to directors | 9,500,000 | 22/12/2009 | 30/11/2012 | $0.35 | 1,686,274 |

**Prior period – 2009**

| | Number | Grant date | Expiry date | Exercise price $ | Fair value at grant date $ |
|---|---|---|---|---|---|
| Options issued to directors | 9,500,000 | | 31/12/2009 | $0.35 | 736,444 |
| Options issued to employees | 700,000 | | 30/06/2010 | $0.30 | 28,630 |
| Options issued part consideration for acquisition of gold plant | 5,000,000 | 10/09/2008 | 31/05/2010 | $0.20 | 204,500 |
| Options issued to employees | 1,150,000 | 21/12/2008 | 31/12/2009 | $0.30 | 99,820 |
| Options issued to directors | 3,000,000 | 21/12/2008 | 31/12/2010 | $0.30 | 90,900 |
| Options issued to directors | 5,500,000 | 28/11/2008 | 30/11/2011 | $0.20 | 113,300 |
| Options issued to employees | 2,800,000 | 23/02/2009 | 23/02/2012 | $0.20 | 381,360 |

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

### NOTE 16 : SHARE BASED PAYMENT PLANS (continued)

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

| | 2010 No. | 2010 Weighted average exercise price | 2009 No. | 2009 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 27,650,000 | $0.27 | 29,535,345 | $0.29 |
| Granted during the year | 10,000,000 | $0.35 | 17,800,000 | $0.23 |
| Forfeited during the year | - | - | - | |
| Exercised during the year | (10,475,000) | $0.21 | - | |
| Expired during the year | (10,375,000) | $0.35 | (19,685,345) | $0.27 |
| Outstanding at the end of the year | 16,800,000 | $0.30 | 27,650,000 | $0.27 |
| Exercisable at the end of the year | 17,400,000 | $0.30 | 27,650,000 | $0.27 |

The outstanding balance as at 30 June 2010 is represented by:

- 3,000,000 options over ordinary shares with an exercise price of $0.30 each, exercisable upon meeting the above conditions and until 31 December 2010;
- 2,000,000 options over ordinary shares with an exercise price of $0.20 each, exercisable upon meeting the above conditions and until 30 November 2011];
- 2,300,000 options over ordinary shares with a weighted average exercise price of $0.20 each, exercisable upon meeting the above conditions and until 23 February 2012; and
- 9,500,000 options over ordinary shares with an exercise price of $0.35 each, exercisable upon meeting the above conditions and until 30 November 2012].

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 1.85 years (2009: 1.30 years).

The range of exercise prices for options outstanding at the end of the year was $0.20 - $0.35 (2009:$ $0.20 - $0.35).

The weighted average fair value of options granted during the year was $1,476,700 (2009: $862,360).

The fair value of the equity-settled share options granted under both the option and the loan plans is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

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

**NOTE 16 : SHARE BASED PAYMENT PLANS (continued)**

The following table lists the inputs to the model used for the years ended 30 June 2009 and 30 June 2010:

| | Series 1 | Series 2 | Series 3 | Series 4 | Series 5 | Series 6 |
|---|---|---|---|---|---|---|
| | 22 Dec 09 | 24 Jul 09 | 23 Feb 09 | 28 Nov 08 | 28 Nov 08 | 10 Sep 08 |
| *Dividend yield (%)* | 0% | 0% | 0% | 0% | 0% | 0% |
| Expected volatility (%) | 97% | 120% | 135% | 100% | 100% | 70% |
| Risk-free interest rate (%) | 4.78% | 4.28% | 3.25% | 4.50% | 4.50% | 5.69% |
| Expected life of option (years) | 2.9 | 2.3 | 3.0 | 3.0 | 3.0 | 1.7 |
| Exercise price (cents) | 35c | 20c | 20c | 40c | 20c | 20c |
| Grant date share price (cents) | 30c | 15c | 18c | 7c | 7c | 11c |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

**NOTE 17: FINANCIAL INSTRUMENTS**

**(a) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

| | Consolidated | |
|---|---|---|
| | 2010 | 2009 |
| | $ | $ |
| **(b) Categories of financial instruments** | | |
| **Financial assets** | | |
| Loans and receivables | 1,069,434 | 431,566 |
| Cash and cash equivalents | 439,303 | 2,576,318 |
| **Financial liabilities** | | |
| Trade and other payables | 6,361,923 | 973,112 |
| Borrowings | 1,596,311 | 81,215 |
| Other financial liabilities | 206,227 | 28,058 |

**(c) Market risk**

The Group's activities expose it primarily to the financial risks of changes in commodity prices.

**(d) Foreign currency risk management**

The Group does not have any exposure to foreign currency risk, other than its impact on the economy and commodity price generally.

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

**NOTE 17: FINANCIAL INSTRUMENTS (continued)**

**(e) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

**(f) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the company's and the Group's expected maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Consolidated

| | Less than 1 month | 1 – 3 Months | 3 months – 1 year | 1 – 5 years | 5+ years |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **2010** | | | | | |
| Non-interest bearing | 3,068,471 | 3,666,272 | - | - | - |
| Finance lease liabilities | 32,939 | 65,928 | 319,223 | 1,178,220 | - |
| | 3,101,410 | 3,732,200 | 319,223 | 1,178,220 | - |
| **2009** | | | | | |
| Non-interest bearing | 973,112 | - | - | - | - |
| Finance lease liabilities | 2,277 | 4,611 | 25,201 | 49,126 | - |
| | 975,389 | 4,611 | 25,201 | 49,126 | - |

**(g) Commodity price risk**

The Group has exposure to gold price fluctuations due to gold sales being un-hedged. A 10% change (+/-) to the price of gold would have changed the current year result by $276,916. There would also have be a corresponding change in equity.

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

## NOTE 18: COMMITMENTS AND CONTINGENCIES

**Operating lease commitments – Group as lessee**

The Group has not entered into commercial leases at the balance date.

**Finance lease and hire purchase commitments - Group as lessee**

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

| | *2010* | | *2009* | |
|---|---|---|---|---|
| Consolidated | *Minimum lease payments $* | *Present value of lease payments $* | *Minimum lease payments $* | *Present value of lease payments $* |
| Within one year | 546,777 | 509,093 | 36,216 | 34,286 |
| After one year but not more than five years | 1,329,424 | 1,151,679 | 56,328 | 49,289 |
| Total minimum lease payments | 1,876,201 | 1,660,772 | 92,544 | 83,575 |
| Less amounts representing finance charges | (279,890) | (255,133) | (11,329) | (10,444) |
| Present value of minimum lease payments | 1,596,311 | 1,405,639 | 81,215 | 73,131 |

| | *2010* | | *2009* | |
|---|---|---|---|---|
| Parent | *Minimum lease payments $* | *Present value of lease payments $* | *Minimum lease payments $* | *Present value of lease payments $* |
| Within one year | 546,777 | 509,093 | 36,216 | 34,286 |
| After one year but not more than five years | 1,329,424 | 1,151,679 | 56,328 | 49,289 |
| Total minimum lease payments | 1,876,201 | 1,660,772 | 92,544 | 83,575 |
| Less amounts representing finance charges | (279,890) | (255,133) | (11,329) | (10,444) |
| Present value of minimum lease payments | 1,596,311 | 1,405,639 | 81,215 | 73,131 |

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

## NOTE 18: COMMITMENTS AND CONTINGENCIES (continued)

### Capital commitments

At 30 June 2010 the Group had no commitment (2009: $1,622,462 principally relating to orders placed and contracts entered into for the development and construction of the gold processing plant).

Commitments contracted for at balance date but not recognised as liabilities are as follows:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| *Property, plant and equipment* | | | | |
| Within one year | - | 1,622,462 | - | 1,622,462 |
| After one year but not more than five years | - | - | - | - |

### Other expenditure commitments

Orders unexecuted for procurement of non capital related goods and services.

Commitments contracted for at balance date but not recognised as liabilities are as follows:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $ | $ | $ | $ |
| Within one year | 96,194 | - | 96,194 | - |
| After one year but not more than five years | - | - | - | - |

### Remuneration Commitments

Relates to the service agreement with the Managing Director expiring on 23 October 2010, under which he is entitled to a payment equivalent to 6 months salary in the event that the Company terminates the agreement.
Commitment contracted for at balance date but not recognised as a liability.

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | $'000 | $'000 | $'000 | $'000 |
| Within one year | 150,000 | 150,000 | 150,000 | 150,000 |
| After one year but not more than five years | - | - | - | - |

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

## NOTE 19: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of A1 Minerals Limited and the subsidiaries listed in the following table.

| *Name* | *Country of Incorporation* | *% Equity Interest 2010* | *% Equity Interest 2009* | *Investment ($) 2010* | *Investment ($) 2009* |
|---|---|---|---|---|---|
| Desertex Resources Limited | Australia | 100% | 100% | 770,000 | 770,000 |
| Less: Impairment | | | | (770,000) | (770,000) |
| | | | | - | - |
| Desertex Exploration Pty Ltd | Australia | 100% | 100% | 1,546,004 | 1,546,004 |

A1 Minerals Limited is the ultimate Australian parent entity and ultimate parent of the Group.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

| *Related party* | | *Income from Related Parties $'000* | *Expenditure Related Parties $'000* | *Amounts Owed by Related parties $'000* | *Amounts Owed to Related parties $'000* |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Loan to controlled entity | 2010 | - | - | 2,471,238 | - |
| | 2009 | - | - | 2,471,238 | - |

*Entity with significant influence over the Group*

A1 Minerals Limited owns 100% of the ordinary shares in Desertex Exploration Pty Ltd (2009: 100%).

*Terms and conditions of transactions with related parties*

There are no Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured and interest free.

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

## NOTE 20: PARENT ENTITY DISCLOSURES

***Financial position***

| | 30 June 2010<br>$ | 30 June 2009<br>$ |
|---|---|---|
| **Assets** | | |
| Current assets | 1,266,635 | 2,763,372 |
| Non-current assets | 34,330,270 | 15,279,570 |
| Total assets | 35,596,905 | 18,042,942 |
| **Liabilities** | | |
| Current liabilities | 7,314,503 | 1,046,095 |
| Non-current liabilities | 1,855,036 | 49,126 |
| Total liabilities | 9,169,539 | 1,095,221 |
| **Equity** | | |
| Issued capital | 34,487,042 | 20,838,735 |
| Accumulated losses | (11,446,473) | (5,545,968) |
| Reserves | 3,386,797 | 1,654,954 |
| Total equity | 26,427,366 | 16,947,721 |

***Financial performance***

| | Year ended<br>30 June 2010<br>$ | Year ended<br>30 June 2009<br>$ |
|---|---|---|
| Loss for the year | (5,900,505) | (4,163,966) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | (5,900,505) | (4,163,966) |

***Contingent liabilities of the parent entity***

| | 30 June 2010<br>$ | 30 June 2009<br>$ |
|---|---|---|
| Purchase orders raised and unexecuted | 96,194 | 1,622,462 |

For details on commitments, see Note 18.

***Commitments for the acquisition of property, plant and equipment by the parent entity***

| | 30 June 2010<br>$ | 30 June 2009<br>$ |
|---|---|---|
| **Plant and equipment** | | |
| Not longer than 1 year | - | 1,622,462 |

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

## NOTE 21: EVENTS AFTER THE BALANCE DATE

The Managing Director tendered his resignation from office effective from 9 August 2010. In accordance with the contract of employment, termination benefits will be paid. The Chief Financial Officer has been appointed Finance Director and two new non executive Directors appointed to the Board.

A Share Purchase Plan was issued on 8 July 2010 for existing shareholders to subscribe $15,000 each at 18 cents per share with the closing date being 9 August 2010. A total of 3,808,363 ordinary shares have been allotted raising a total of $685,505 and the shares on issue being 200,668,425.

## NOTE 22: AUDITOR'S REMUNERATION

The auditor of A1 Minerals Limited is HLB Mann Judd.

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2010<br>$ | 2009<br>$ | 2010<br>$ | 2009<br>$ |
| *Amounts received or due and receivable by HLB Mann Judd for:* | | | | |
| An audit or review of the financial report of the entity and any other entity in the Group | 19,950 | 21,400 | 19,950 | 21,400 |
| - tax compliance | 5,000 | - | 5,000 | - |
| | 24,950 | 21,400 | 24,950 | 21,400 |
| *Amounts received or due and receivable by non HLB Mann Judd audit firms* | | | | |
| - other non audit services | 5,920 | 9,800 | 5,920 | 9,800 |

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

## NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES

### (a) Details of Key Management Personnel

*(i) Directors*

| | |
|---|---|
| Michael Hunt | Chairman (non-executive) |
| John Williams | Managing Director |
| Ross Louthean | Director (non-executive) |

*(ii) Executives*

| | |
|---|---|
| Mark Pitts | Company Secretary |
| Albert Longo | Chief Financial Officer & Company Secretary |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

### (b) Option holdings of Key Management Personnel (Consolidated)

| | | | | | | Vested as at end of period | |
|---|---|---|---|---|---|---|---|
| | Balance at beginning of period | Granted as remune-ration | Options exercised | Net change Other # | Balance at end of period | Exercisa-ble | Not Exercisa-ble |
| **30 June 2010** | | | | | | | |
| **Directors** | | | | | | | |
| John Williams | 10,500,000 | 7,000,000 | (2,500,000) | (7,000,000) | 8,000,000 | 8,000,000 | - |
| Michael W Hunt | 5,000,000 | 2,000,000 | (1,000,000) | (1,500,000) | 4,500,000 | 4,500,000 | - |
| Ross Louthean | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | - |
| **Executives** | | | | | | | |
| Tim Hronsky | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 | - |
| Mark Pitts | 500,000 | - | - | - | 500,000 | - | - |
| Albert Longo | - | 1,000,000 | - | - | 1,000,000 | 1,000,000 | - |
| **Total** | 17,000,000 | 11,000,000 | (3,500,000) | (8,500,000) | 16,000,000 | 15,500,000 | - |

*# Includes forfeitures*

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

## NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

### (b) Option holdings of Key Management Personnel (Consolidated) (continued)

| | Balance at beginning of period | Granted as remune-ration | Options exercised | Net change Other # | Balance at end of period | Vested as at end of period Exercisable | Not Exercisa-ble |
|---|---|---|---|---|---|---|---|
| **30 June 2009** | | | | | | | |
| **Directors** | | | | | | | |
| Michael W Hunt | 2,500,000 | 2,500,000 | - | - | 5,000,000 | 5,000,000 | 5,000,000 |
| John Williams | 8,000,000 | 2,500,000 | - | - | 10,500,000 | 10,500,000 | 10,500,000 |
| Tim Hronsky | 1,000,000 | 5,000,000 | - | (5,000,000) | 1,000,000 | 1,000,000 | 1,000,000 |
| Ross Louthean | - | - | - | - | - | | |
| **Executives** | | | | | | | |
| Mark Pitts | 500,000 | - | - | - | 500,000 | 500,000 | 500,000 |
| **Total** | 12,000,000 | 10,000,000 | - | (5,000,000) | 17,000,000 | 17,000,000 | 17,000,000 |

### (c) Shareholdings of Key Management Personnel (Consolidated)

*Ordinary shares held in A1 Minerals Limited (number)*

| **30 June 2010** | Balance at beginning of period | Granted as remunerat-ion | On Exercise of Options | Net Change Other | Balance at end of period |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Michael Hunt | - | - | 1,000,000 | 1,250,000 | 2,250,000 |
| John Williams | 6,426,666 | - | 2,500,000 | 4,875,300 | 13,801,966 |
| Ross Louthean | - | - | - | | - |
| | 6,426,666 | | 3,500,000 | 6,125,300 | 16,051,966 |

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

## NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

### (c) Shareholdings of Key Management Personnel (Consolidated) (continued)

*Ordinary shares held in A1 Minerals Limited (number)*

| **30 June 2009** | Balance at beginning of period | Granted as remuneration | On Exercise of Options | Net Change Other | Balance at end of period |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Michael Hunt | - | - | - | - | - |
| John Williams | 6,416,666 | - | - | 10,000 | 6,426,666 |
| Timothy Hronksy | - | - | - | - | - |
| Ross Louthean | - | - | - | - | - |
| | 6,416,666 | - | - | 10,000 | 6,426,666 |

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

### (d) Other transactions and balances with Key Management Personnel

Some Directors and executives hold positions within other entities which cause them to have control or exert significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company during the reporting period. In each instance normal commercial terms and conditions applied. Terms and conditions were no more favourable than those available, or which might reasonably be expected to be available, for a similar transaction to unrelated parties on an arm's length basis.

The aggregate amounts recognised during the year relating to Directors and executives and their personally related entities, totalled an expense of $152,742 (2009: $110,074). Details of these transactions are set out in the following table

| **30 June 2009** | **Transaction** | **2010** | **2009** |
|---|---|---|---|
| **Directors** | | | |
| Michael Hunt | Legal fees | 82,611 | 51,698 |
| Ross Louthean | Media work | 650 | - |
| **Executives** | | | |
| Mark Pitts | Accounting services | 69,262 | 14,983 |

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

## DIRECTORS' DECLARATION

1. In the opinion of the directors of A1 Minerals Limited (the 'Company'):
   a. the accompanying financial statements, notes and the additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001 including:
      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

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

Albert Longo
Finance Director

Dated this 24 day of September, 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

**INDEPENDENT AUDITOR'S REPORT**

**To the members of**
**A1 MINERALS LIMITED**:

**Report on the Financial Report**

We have audited the accompanying financial report of A1 Minerals Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 21 to 57.

*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 controls 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 Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply 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 company'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 company'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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

HLB Mann Judd

Accountants | Business and Financial Advisers

*Independence*

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

*Auditor's Opinion*

In our opinion:

(a) the financial report of A1 Minerals Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity'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*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

*Continuation as a Going Concern*

Without qualification to the opinion expressed above, we draw attention to Note 1(e) to the financial statements which indicates that the ability of the consolidated entity to continue as a going concern and, therefore, meet its debts and commitments as and when they fall due is dependent upon the continued cash flow positive operations or the raising of additional funds. Should the consolidated entity be unable to complete these objectives there is significant uncertainty whether the consolidated entity will 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 pages 10 to 16 of 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 Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of A1 Minerals Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

**HLB MANN JUDD**
**Chartered Accountants**

Norman Glad

**N G NEILL**
**Partner**

**Perth, Western Australia**
**24 September 2010**