

**AXG MINING LIMITED**

**ABN 93 092 304 964**

**AND CONTROLLED ENTITIES**

**FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
31 December 2010**

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

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**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**DIRECTORS' REPORT**

Your directors present their report on AXG Mining Limited for the half-year ended 31 December 2010.

**DIRECTORS**

The names of the directors who held office during or since the end of the half-year are:

Mr Alex Bajada

Mr Gordon Sklenka

Mr Roland Berzins

**REVIEW AND RESULTS OF OPERATIONS**

The loss of the consolidated entity after income tax for the half-year ended 31 December 2010 amounted to \$394,851. (Half year ended 31 December 2009: loss \$228,834).

**SUBSEQUENT EVENTS**

There are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods other than as discussed below:

During the half year ended 31 December 2010, the Group entered into a rights issue, being 1 new share for each share held at record date. Initially the shareholders took up 41,236,216 shares at \$0.01 each and on 9 February 2011, the balance of the securities (being the shortfall) were issued. This shortfall amounted to 68,513,784 fully paid ordinary shares being issued, with a corresponding capital raising of \$685,138 (less costs).

**AUDITOR'S INDEPENDENCE DECLARATION**

The Auditors Independence Declaration for the half year ended 31 December 2010 under section 307C of the Corporations Act 2001 is set out on page 4.

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



R Berzins

Director

Dated this 15<sup>th</sup> day of March 2011

Perth, Western Australia.



**AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of AXG Mining Limited and its Controlled Entities for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

**CROWE HORWATH PERTH**



**SEAN MCGURK**  
Partner

Perth, WA

Dated this 15<sup>th</sup> day of March 2011

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**AXG MINING LIMITED  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Consolidated Group</b>	
	<b>31 DECEMBER 2010</b>	<b>31 DECEMBER 2009</b>
	<b>\$</b>	<b>\$</b>
Revenues	11,292	307,090
Employee benefit expenses	(1,394)	(11,119)
Consulting fees	(12,744)	(116,551)
Compliance and regulatory expenses	(45,228)	(22,013)
Exploration expenses written off as incurred	(6,304)	(26,069)
Occupancy costs	(116,669)	(19,798)
Depreciation and amortisation expense	(12,607)	(29,755)
Director fees	(31,000)	(36,667)
Administrative expenses	(103,168)	(206,363)
Interest expense	(403)	(868)
Share associates loss	(27,034)	(52,200)
Loss on Options	-	(2,415)
Doubtful debt	(39,430)	-
MAPP project costs	(10,162)	(12,106)
	<hr/>	<hr/>
(Loss) before income tax expense	(394,851)	(228,834)
Income tax benefit	-	-
	<hr/>	<hr/>
(Loss) attributable to members of the parent entity	(394,851)	(228,834)
	<hr/>	<hr/>
<b>Other Comprehensive income</b>		
Net changes in the fair value of available - for - sale financial assets	(90,894)	(39,476)
	<hr/>	<hr/>
Total comprehensive loss for the period	(485,745)	(268,310)
	<hr/> <hr/>	<hr/> <hr/>
Basic and diluted (loss) per share (cents)	(0.35)	(0.26)

The accompanying notes form part of these financial statements.

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**AXG MINING LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION  
AS AT 31 December 2010**

	<b>Consolidated Group</b>	
	<b>31 December 2010</b>	<b>30 June 2010</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	136,941	214,140
Trade and other receivables	60,245	79,320
Financial assets	1,262,087	1,301,517
<b>TOTAL CURRENT ASSETS</b>	<b>1,459,273</b>	<b>1,595,977</b>
<b>NON CURRENT ASSETS</b>		
Property, plant and equipment	18,166	30,773
Investment accounted for using equity method	1,984,896	1,927,340
Formation expenses	1,740	1,740
Exploration and evaluation expenditure	364,012	364,012
Other financial assets	102,092	192,986
<b>TOTAL NON CURRENT ASSETS</b>	<b>2,470,906</b>	<b>2,516,851</b>
<b>TOTAL ASSETS</b>	<b>3,930,179</b>	<b>4,111,828</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	331,735	358,000
Loan from related company	150,000	250,000
Short - term provisions	39,560	21,561
<b>TOTAL CURRENT LIABILITIES</b>	<b>521,295</b>	<b>629,561</b>
<b>TOTAL LIABILITIES</b>	<b>521,295</b>	<b>629,561</b>
<b>NET ASSETS</b>	<b>3,408,884</b>	<b>3,482,267</b>
<b>EQUITY</b>		
Issued capital	10,653,942	9,455,670
Reserves	(59,986)	746,110
Accumulated losses	(7,185,072)	(6,719,513)
<b>TOTAL EQUITY</b>	<b>3,408,884</b>	<b>3,482,267</b>

The accompanying notes form part of these financial statements.

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**AXG MINING LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED  
31 DECEMBER 2010**

<b>Economic Entity</b>	<b>Ordinary Shares</b>	<b>Other Reserves</b>	<b>Accumulated Losses</b>	<b>Financial Assets Reserve</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 30 June 2010	9,455,670	785,910	(6,719,513)	(39,800)	3,482,267
Share capital issue	412,362	-	-	-	412,362
Other comprehensive income	-	-	(485,745)	-	(485,745)
Fair value transfer to financial assets reserve	-	-	20,186	(20,186)	-
Option reserve transferred to equity on their expiration	785,910	(785,910)	-	-	-
Balance as at 31 December 2010	10,653,942	-	(7,185,072)	(59,986)	3,408,884

<b>Economic Entity</b>	<b>Ordinary Shares</b>	<b>Other Reserves</b>	<b>Accumulated Losses</b>	<b>Financial Assets Reserve</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Balance at 30 June 2009	9,455,670	785,910	(5,174,894)	4,899	5,071,585
Other comprehensive income	-	-	(268,310)	-	(268,310)
Balance as at 31 December 2009	9,455,670	785,910	(5,443,204)	4,899	4,803,275

The accompanying notes form part of these financial statements

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**AXG MINING LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	<b>Consolidated Group</b>	
	<b>Half Year Ended 31 December 2010</b>	<b>Half Year Ended 31 December 2009</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(391,328)	(126,625)
Interest received	10,226	7,629
Profit on sale of shares	-	193,962
Other income	1,066	-
Financing costs	(736)	-
Net cash provided by / (used in) operating activities	<u>(380,772)</u>	<u>74,966</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(84,590)	222,985
Purchase of property, plant and equipment	-	(4,132)
Exploration expenditure incurred	-	-
Net cash provided by/(used in) investing activities	<u>(84,590)</u>	<u>218,853</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	412,362	-
Proceeds from unissued securities	75,801	-
Cost of capital raising	-	-
Repayment of loan to related party	(100,000)	-
Advances to other entities	-	(261,000)
Net cash provided by / (used in) financing activities	<u>388,163</u>	<u>(261,000)</u>
Net (decrease) / increase in cash held	(77,199)	32,819
Cash and cash equivalents at the beginning of the period	214,140	118,793
Cash and cash equivalents at the end of the period	<u>136,941</u>	<u>151,612</u>

The accompanying notes form part of these financial statements.



**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

**NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT**

**Statement of compliance**

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

**Basis of preparation**

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 8, 101, 107, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditure on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no effect on the amounts reported for the current or prior periods.

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010 – (CONT.)**

**Reporting Basis and Conventions**

The half year report has been prepared on an accruals basis and is based on historical cost modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

**Going concern**

The Interim Financial Statements has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation and settlement of liabilities in the normal course of business.

The consolidated entity has incurred a net loss after tax of \$394,851 (2009: \$288,834) and experienced net cash outflows from operations of \$380,772. As at 31 December 2010, the consolidated entity had cash of \$136,941 (30 June 2010: \$214,140) and trade and other payables of \$331,735 (30 June 2010: \$358,000).

The Directors believe that there are sufficient funds to meet the Group's working capital requirements.

The Directors recognise that the ability of the Group to continue as a going concern and to pay its debts as and when they fall due is dependent on the ability of the Group to secure additional funding, in addition to the funding raised since balance date, as disclosed in Note 6 to these financial statements.

Should the Group be unable to source additional funds, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

**NOTE 2: LOSS FOR THE PERIOD**

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	31 December 2010	31 December 2009
	\$	\$
Interest received	10,226	35,985
Profit on sale of shares	-	193,962
Gains on options held	-	77,143
Other income	1,066	-
	_____	_____
<b>Total</b>	<b>11,292</b>	<b>307,090</b>

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010 – (CONT.)**

**NOTE 3: SEGMENT INFORMATION**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group currently operates in one business segment and geographical segment being mineral exploration in Australia. The Group is currently investigating opportunities for investment in alternate mining and exploration business segment. The financial information presented in the statement of comprehensive income and the consolidated statement of financial position is the same as is provided to the chief operating decision maker.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010 – (CONT.)**

**NOTE 4: ISSUANCES, REPURCHASES AND REPAYMENT OF EQUITY SECURITIES**

<b>Ordinary Shares</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
At the beginning of the period	9,455,670	9,455,670
Issued shares	412,362	-
Transfer from expired option reserve	785,910	-
At the end of the period	10,653,942	9,455,670

<b>Ordinary Shares</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>No of Shares</b>	<b>No of Shares</b>
At the beginning of the period	109,750,000	109,750,000
Issued shares	41,236,216	-
At the end of the period	150,986,216	109,750,000

<b>Option Reserve</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
At the beginning of the period	785,910	785,910
Options expired	(785,910)	-
At the end of the period	-	785,910

<b>Options Reserve</b>	<b>31 December 2010</b>	<b>31 December 2010</b>
	<b>No of Options</b>	<b>No of Options</b>
At the beginning of the period	102,250,000	102,250,000
Options expired	(102,250,000)	-
At the end of the period	-	102,250,000

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010 – (CONT.)**

**NOTE 5: CONTINGENT LIABILITIES**

Since the last annual reporting date, there has been no change of any contingent liabilities.

**NOTE 6: SUBSEQUENT EVENTS**

There are no matters or circumstances that have arisen since the end of the half year period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods other than as discussed below:

During the half year ended 31 December 2010, the company entered into a rights issue, being 1 new share for each share held at record date. Initially the shareholders took up 41,236,216 shares at \$0.01 each and on 9 February 2011, the balance of the securities (being the shortfall) were issued. This shortfall amounted to 68,513,784 fully paid ordinary shares being issued, with a corresponding capital raising of \$685,138 (less costs).

**NOTE 7: DIVIDENDS**

No dividends have been paid or declared in respect of the half year ended 31 December 2010.

**NOTE 8: RELATED PARTY**

All loans made by / (to) the director related entities of the Consolidated Group were unsecured loans and payable on demand. Parties are related because of common directors and office holders.

Mr Berzins is a director of Palace Resources Ltd.

<b>Loans outstanding</b>	<b>31 December 2010</b>	<b>31 December 2009</b>
	<b>\$</b>	<b>\$</b>
Palace Resources Ltd	(150,000)	-

**AXG MINING LIMITED  
AND CONTROLLED ENTITIES  
ABN 93 092 304 964**

**DIRECTORS' DECLARATION**

The directors of the Group declare that:

1. The financial statements and notes, as set out on pages 5 to 13
  - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - b. give a true and fair view of the economic entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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R Berzins  
Director

Dated this 15<sup>th</sup> day of March 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF AXG MINING LIMITED AND ITS CONTROLLED ENTITIES**

**REPORT ON THE HALF-YEAR FINANCIAL REPORT**

We have reviewed the accompanying half-year financial report of AXG Mining Limited and its Controlled Entities ('the consolidated entity'), which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, statement of accounting policies, other selected explanatory notes and the directors' declaration.

**Directors' responsibility for the half-year financial report**

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of AXG Mining Limited and its Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AXG Mining Limited and its Controlled Entities is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

**Emphasis of matter**

We draw attention to Note 1 to the financial report regarding the ability of the consolidated entity to continue as a going concern. Our conclusion is not qualified in respect of this matter.

**CROWE HORWATH PERTH**



**SEAN MCGURK**  
Partner

Perth, WA

Dated this 15<sup>th</sup> day of March 2011