



Chameleon Mining NL

and its Controlled Entities

ABN 17 098 773 785

**INTERIM CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**



CORPORATE DIRECTORY

DIRECTORS

Ben Elias (Chairman)
Anthony Karam
Ahmed Hassan
Antony Sage
Jason Bontempo
Paul Kelly

COMPANY SECRETARIES

James Arkoudis
Ahmed Hassan

AUDITORS

Philip A. Joannou & Associates

REGISTERED OFFICE

Level 14
1 Alfred Street
Sydney NSW 2000
Ph: 02 8226 3300
Fax: 02 8226 3305

WEBSITE

www.chmnl.com

SHARE REGISTRY

Registries Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Ph: 02 9290 9600
Fax: 02 9279 0664

ASX CODE: CHM



CONTENTS

| | |
|--|----|
| Directors' Report | 4 |
| Auditor's Declaration of Independence | 8 |
| Financial Report: | |
| Consolidated Statement of Comprehensive Income | 9 |
| Consolidated Statement of Financial Position | 10 |
| Consolidated Statement of Changes in Equity | 11 |
| Consolidated Statement of Cash Flows | 12 |
| Notes to the Financial Statement | 13 |
| Directors' Declaration | 21 |
| Independent Auditor's Review Report | 22 |



DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the group, being the Company and its controlled entities for the 6 months ended 31 December 2010.

Directors

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

- | | |
|----------------------|---------------------|
| ○ Mr. Ben Elias | ○ Mr. Paul Kelly |
| ○ Mr. Ahmed Hassan | ○ Mr. Anthony Karam |
| ○ Mr. Jason Bontempo | ○ Mr. Antony Sage |

Principal Activities

The principal activities of the Company during the period were:

- Activities associated with mining and mineral exploration;
- Management of litigation claims against Murchison Metals Ltd ('Murchison') & Ors; and
- Investment of surplus funds.

Result and Review of Operations

The loss after income tax for the period amounted to \$4,441,554.

During the period, the Company made significant progress involving the:

- Maintenance and examination of opportunities to develop its tenements;
- Successful defense of plaintiffs;
- Finalisation of one set of proceedings against Murchison and Grimaldi in the Federal Court (now on appeal to the Full Court of the Federal Court);
- Termination of litigation funding agreement with International Litigation Partners;
- Consolidation of its financial resources.

There were a number of significant changes in the state of affairs of the Company that occurred during the period. These are listed below.

Corporate Actions:

Strategic Alliance with Cape Lambert Resources Ltd

On 10 August 2010, the board of Chameleon Mining NL announced a strategic alliance with Cape Lambert Resources Ltd. This strategic alliance provided the Company with an injection of capital (by way of placement) and significant mining expertise at the board level.

The key terms of Chameleon's strategic alliance with Cape Lambert are as follows:

- A placement by Chameleon of 166,666,667 shares at 1.5c per share, raising \$2,500,000. The placement included a three for five attaching option exercisable at 1.5c on or before 31 December 2012. The placement options were approved by shareholders at the Company's AGM on 29 November 2010. The proceeds of the placement are being used to supplement Chameleon's working capital, its exploration activities, and its administration and corporate commitments.
- Arrangement of a credit facility to provide Chameleon funding of up to \$6,500,000 which, if taken up would be conditional on the discharge of the litigation funder's charge over the Company. The funds to be drawn down (if any) are repayable out of proceeds from the litigation against Murchison and Grimaldi; and

Chameleon Mining NL and Its Controlled Entities**Half year ended 31 December 2010****DIRECTORS REPORT (Cont'd)**

- o Cape Lambert is entitled to appoint to the Board of Chameleon a sufficient number of directors so as to constitute 50% of the Chameleon board. The Board appointments of Antony Sage, Jason Bontempo and Paul Kelly were made on 13 September, 2010.

Also during the period (December 2010) Chameleon confirmed a \$1.6 million placement for two hundred million (200,000,000) ordinary fully paid shares at an issue price of 0.8 cents per share. The proceeds of the placement are being used to supplement Chameleon's working capital, its exploration activities, and its administration and corporate commitments.

By 31 December 2010, all of the Company's outstanding options were exercised or lapsed; save for those issued through the Cape Lambert placement as referred to above.

Exploration Operations

The group made an application to the Department of Mines and Petroleum for exemption from expenditure for Exploration License 80/3522 which we anticipate will be determined by April 2011.

Exploration

A key element of the alliance between the Company and Cape Lambert included Mr. Sage's commitment to bring his group's mining expertise to Chameleon.

The Company will also be utilising its resources to progress a number of opportunities introduced to the Company by Cape Lambert and others that provide broader opportunities for Chameleon shareholders' with regard to the possible acquisition and development of other significant exploration and mining prospects.

The Company is now well advanced in terms of finalising a transaction that would see the Company participate in the exploration of its Palm Springs gold interests.

The Chameleon Federal Court proceedings against Murchison Metals Ltd & Ors and Grimaldi

As against Murchison Metals and related Companies

The Federal Court decision confirmed Chameleon's claim that both Murchison and Grimaldi obtained funds from Chameleon in breach of their respective fiduciary duties or with knowledge of such breaches and used those funds in the acquisition of the Iron Jack Project.

The significant findings of fact in Chameleon's favour (see below) provide Chameleon with a strong foundation from which to proceed on appeal against the limited remedies awarded to Chameleon against Murchison.

In relation to the Orders against Murchison the Company was successful in establishing a series of facts that included the following findings by the Federal Court, namely:

- o That the value of funds obtained from Chameleon by breach of fiduciary duty applied for the benefit of Murchison comprised 24% of the cash consideration for the purchase of the "Iron Jack Project" (Murchison's flagship asset); and
- o Murchison was a knowing participant of the breaches of fiduciary duty proven by Chameleon at trial, and a knowing beneficiary of the funds obtained from those breaches of fiduciary duty; and
- o Chameleon's funds were paid directly from Chameleon to the vendor's of the Iron Jack Project; and
- o *But for* the receipt of the funds obtained through the breaches of fiduciary duty Murchison would not have obtained ownership of the Iron Jack Project

It is Chameleon's view that the relief ordered by His Honor to strip Murchison of the 'profits' it made as a consequence of its breaches of fiduciary duty, particularly in reference to 'income', is inadequate given the significant findings of fact in favour of Chameleon.

Accordingly, in light of the substantial findings of fact in its favour, Chameleon has appealed against the limited remedies awarded against Murchison.

As between Chameleon and Murchison costs have been reserved. Given the findings and Orders against Murchison, Chameleon expects (subject to any Appeal) that Murchison will ultimately be held liable to pay Chameleon's costs.

DIRECTORS REPORT (Cont'd)*As against Grimaldi*

The Federal Court ultimately expanded Grimaldi's liability to include an order that Grimaldi account in favour of Chameleon for a further 12 million Murchison options, effectively more than doubling Grimaldi's liability to Chameleon (from 10 Million Murchison shares to 10 million Murchison shares *plus* 12 million Murchison options that were exercisable at 20c).

The Court's determination on 24 February 2011 confirms that Chameleon may immediately proceed with the process of taking an account of the profits derived by Grimaldi from the breaches.

Given the very low option exercise price (20c) and the trading range for the Murchison shares in the relevant periods during which the Murchison shares were sold (up to circa \$5.50) the account of profit for this component of the Judgment may be significant. The Company will continue to take all steps to realise its Judgment against Grimaldi.

Given the findings and Orders against Grimaldi, Chameleon expects (subject to any Appeal) that Grimaldi will ultimately be held liable to pay Chameleon's costs.

Dispute with Litigation Funder

On 11 August 2010, International Litigation Partners ('ILP') – the Company's former litigation funder - appointed a receiver to Chameleon. That afternoon, the Company obtained an injunction restraining the receiver from exercising any right or power pursuant to the appointment document relied on by ILP.

On 16, 17 and 18 August 2010, both parties presented their respective cases in the NSW Supreme Court before His Honour Justice Hammerschlag pertaining to the operation of the funding deed.

On 31 August 2010, the Supreme Court made the following orders:

- o ILP has no entitlement to the Funding Fee it was claiming; and
- o ILP is entitled to payment of an Early Termination Fee, less any sums previously paid to it by CHM.

ILP appealed the decision and Chameleon filed a cross appeal based on the issue of ILP being legally required to hold a financial services license – *which it did not (and does not) hold*.

On 10 September 2010, the Court of Appeal made orders causing ILP to:

- o retire the receiver on 10 September, 2010; and
- o restrain ILP from taking any steps to enforce the charge ILP has over the Company's assets until final determination of the appeal.

The Appeal (and cross-appeal) was heard on 12 October, 2010. The litigation funder's entitlement to any further payment will be determined in the appeal.

The Court of Appeal decision is reserved. A decision is expected in the first quarter of 2011.

Dividends

No dividends have been paid or declared since the end of the previous financial year to the date of this report.

DIRECTORS REPORT (Cont'd)*Events Subsequent to Reporting Date**Federal Court Case against Murchison Metals Ltd & Ors*

On 4 February 2011 all parties in the Federal Court proceedings were granted leave to appeal. It is anticipated that the appeals will be heard together in early August 2011. As at the date of this report, Chameleon and Murchison have filed their respective appeals within the period ordered by the court.

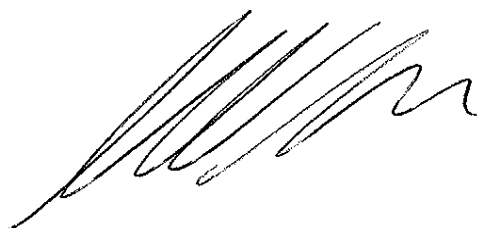
The account of profit exercise in respect of Grimaldi should commence immediately, however Grimaldi has indicated that he will appeal that ruling, in an attempt to stay the accounting profits so far as it relates to him.

The account of profit process in respect of Murchison has been stayed until the resolution of the appeal.

Lead Auditor's Independence Declaration

The lead auditors independence declaration is set out on page 8 and forms part of the Director's report for the half year ended 31 December 2010.

Signed in accordance with a resolution of the directors.



Mr. Anthony Karam
Managing Director

Dated at Sydney
11 March 2011

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010



AUDITOR'S DECLARATION OF INDEPENDENCE

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the directors of Chameleon Mining NL,

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010, there have been:

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

Philip A. Joannou & Associates

Mr. Brian R. Taylor

Partner

Dated at Sydney

11 March 2011

Liability limited by a
Scheme approved under
Professional Standards
Legislation

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

| Consolidated Group | | | |
|---|------|---------------------|---------------------|
| | Note | 31 December 2010 | 31 December 2009 |
| | | \$ | \$ |
| Revenue from non-operating activities | | 30,941 | 11,539,263 |
| Consulting fees | | (182,911) | (966,547) |
| Occupancy expenses | | (79,081) | (36,599) |
| Change in fair value of financial assets | | (71,449) | - |
| Financing expense | | (112,887) | (92,452) |
| Litigation expenses | 2 | (3,543,016) | (8,286,482) |
| Other expenses from ordinary activities | | (483,151) | (327,167) |
| (Loss)/profit from continuing operations before income tax | | <u>(4,441,554)</u> | <u>1,830,016</u> |
| Income tax expense | | - | - |
| (Loss)/profit from continuing operations | | <u>(4,441,554)</u> | <u>1,830,016</u> |
| Other comprehensive income for the period | | <u>-</u> | <u>-</u> |
| Net comprehensive (loss)/profit for the period | | <u>(4,441,554)</u> | <u>1,830,016</u> |
| Total comprehensive (loss)/income attributable to members of the parent entity | | <u>(4,441,554)</u> | <u>1,830,016</u> |
| Basic (loss)/profit per share (cents) | | (0.28) | 0.15 |
| Diluted (loss)/profit per share (cents) | | (0.24) | 0.11 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| Consolidated Group | | | |
|--|------|---------------------|------------------|
| | Note | 31 December 2010 | 30 June 2010 |
| | | \$ | \$ |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 3 | 2,807,488 | 47,296 |
| Trade and other receivables | 4 | 3,052,230 | 2,697,272 |
| Other financial assets | 5 | 173,500 | 1,313,700 |
| TOTAL CURRENT ASSETS | | <u>6,033,218</u> | <u>4,058,268</u> |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 20,877 | 22,087 |
| Exploration and evaluation expenditure | 6 | 1,740,096 | 1,583,009 |
| TOTAL NON-CURRENT ASSETS | | <u>1,760,973</u> | <u>1,605,096</u> |
| TOTAL ASSETS | | <u>7,794,191</u> | <u>5,663,364</u> |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 281,206 | 269,703 |
| Interest bearing loan and borrowings | 7 | 60,913 | 1,347,973 |
| TOTAL CURRENT LIABILITIES | | <u>342,119</u> | <u>1,617,676</u> |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 8 | 2,720,000 | 220,000 |
| TOTAL NON-CURRENT LIABILITIES | | <u>2,720,000</u> | <u>220,000</u> |
| TOTAL LIABILITIES | | <u>3,062,119</u> | <u>1,837,676</u> |
| NET ASSETS | | <u>4,732,072</u> | <u>3,825,688</u> |
| EQUITY | | | |
| Issued Capital | 9 | 23,772,731 | 18,450,931 |
| Reserves | 10 | 93,000 | 66,862 |
| Accumulated Losses | | (19,133,659) | (14,692,105) |
| TOTAL EQUITY | | <u>4,732,072</u> | <u>3,825,688</u> |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

| | Issued Capital | Share Based Payment Reserve | Accumulated Losses | Total Equity |
|---|-------------------|--------------------------------------|-----------------------|------------------|
| | \$ | \$ | \$ | \$ |
| 2009 | | | | |
| Balance at 1 July 2009 | 18,180,331 | 15,061 | (16,614,631) | 1,580,761 |
| Profit / (Loss) for the period | - | - | 1,830,016 | 1,830,016 |
| Share-based payments | - | 25,899 | - | 25,899 |
| Shares issued and options converted | 104,000 | - | - | 104,000 |
| Balance as at 31 December 2009 | <u>18,284,331</u> | <u>40,960</u> | <u>(14,784,615)</u> | <u>3,540,676</u> |
| Total attributable to members of parent entity | <u>18,284,331</u> | <u>40,960</u> | <u>(14,784,615)</u> | <u>3,540,676</u> |
| 2010 | | | | |
| Balance at 1 July 2010 | 18,450,931 | 66,862 | (14,692,105) | 3,825,688 |
| (Loss)/profit for the period | - | - | (4,441,554) | (4,441,554) |
| Share-based payments | - | 26,138 | - | 26,138 |
| Shares issued and options converted | 5,321,800 | - | - | 5,321,800 |
| Balance as at 31 December 2010 | <u>23,772,731</u> | <u>93,000</u> | <u>(19,133,659)</u> | <u>4,732,072</u> |
| Total attributable to members of parent entity | <u>23,772,731</u> | <u>93,000</u> | <u>(19,133,659)</u> | <u>4,732,072</u> |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

| | Consolidated Group | |
|---|---------------------|---------------------|
| | 31 December 2010 | 31 December 2009 |
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash proceeds from settlement | - | 351,000 |
| Cash payments in the course of operations | (1,717,594) | (1,471,943) |
| Interest received | 28,130 | 48,017 |
| Interest paid | (61,958) | (53,072) |
| Net cash (used in)/provided by operating activities | (1,751,422) | (1,125,998) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from share sales | 922,971 | 926,197 |
| Payments for shares in listed equities | (20,099) | (145,478) |
| Payments for exploration expenditure | (182,690) | (27,957) |
| Payments for property, plant and equipment | (1,965) | (1,650) |
| Refund of security deposit | - | 120,000 |
| Net cash provided by /(used in) investing activities | 718,217 | 871,112 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from options exercised and shares issued | 5,081,815 | 104,000 |
| Proceeds from short term loans | 66,000 | 85,000 |
| Repayments of short term loans | (584,418) | (39,521) |
| Repayments of debt facility | (770,000) | - |
| Net cash provided by /(used in) financing activities | 3,793,397 | 149,479 |
| Net increase/(decrease) in cash held | 2,760,192 | (105,407) |
| Cash at beginning of the half-year | 47,296 | 282,764 |
| Cash at the end of half-year | 2,807,488 | 177,357 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes



NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

(a) Statement of compliance

The interim financial reports are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This interim half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Company as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Chameleon Mining NL and its subsidiary during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below, under the heading of 'Adoption of new and revised Accounting Standards'.

(b) Basis of Preparation

The interim report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. Chameleon Mining NL is a company domiciled in Australia and all amounts are presented in Australian Dollars unless otherwise noted.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Chameleon Mining NL and its controlled entities (the group). It does not contain information that represents relatively insignificant changes that occurred during the half-year. This financial report should be read in conjunction with the 2010 consolidated financial report together with any public announcements made during the half-year.

(c) Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and if any future periods affected.

In preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(d) Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issue by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010. The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2010:

- *AASB 2009-5 Further Amendments to Australia Accounting Standards arising from the Annual Improvements Process:* A number of amendments are mainly technical, clarifying particular terms, or eliminating unintended consequences. Other changes include current/non-current classification of convertible instruments, the classification of expenditures on unrecognized assets in the statement of cash flows and the classification of leases of land and building.
- *AASB 2009-8 Amendments to Australia Accounting Standards- Group Cash-settled Share-based payment transactions:* This Amendment clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- *AASB 2009-10 Amendments to Australian Accounting Standards- Classification of Rights Issues:* Clarifies that rights, option or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class or its own non-derivative equity instruments.
- *AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project:* Amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements, including measurement of non-controlling interests in a business combination, transition requirements for contingent considerations from a business combination and transition requirements for amendments arising as a result of AASB 127.
- *AASB 136 Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, materials or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to the Group's accounting policies.

(e) Comparatives

Where required by Australian Accounting Standards, comparatives have been adjusted to conform to changes in presentation for the current financial period.

Chameleon Mining NL and Its Controlled Entities**Half year ended 31 December 2010****NOTES TO THE FINANCIAL STATEMENTS (Cont'd)****(f) Application of going concern**

The financial report has been prepared on a going concern basis as the shareholders continue to provide the necessary support to enable the Group to meet its obligations as and when they fall due. The directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

The Group has entered into a strategic alliance which will provide necessary financial support and mitigate the risks from ongoing and future litigation.

The Group has relied on shareholder funding and the establishment of other facilities. Ongoing commitments to legal proceedings and further exploration and development of one or more of the Group's leases may be dependent upon the Group's ability to obtain further financing through equity, debt financing arrangements or other means.

Despite securing a decision in its favour in the Federal Court proceedings against Murchison Metals Limited (& Ors) and Grimaldi, it is possible, although unlikely, that deposits and other debtors totaling \$2,615,794 made by the Group are at risk in the event of an adverse judgment on either of the appeals. An adverse judgment and a costs order made against the Company would have a corresponding impact on the Group's financial results. No provision has been made in these accounts for such an outcome.

Should the legal proceedings not go in favour of the Group, the Group's fund raising activities and agreements would need to be completed to enable the Group to continue as a going concern.

2. Litigation Funding Costs

| | Consolidated Group | |
|--------------------------|-----------------------------|-----------------------------|
| | 31 December 2010 | 31 December 2009 |
| | \$ | \$ |
| Litigation costs | - | 8,286,482 |
| Legal costs | 1,043,016 | - |
| Provision for litigation | 2,500,000 | - |
| | <u>3,543,016</u> | <u>8,286,482</u> |

Provision for litigation represents the Groups share of any termination fee payment under the litigation credit facility agreement. The balance would be funded from the Group's credit facility (subject to the terms of that facility).

3. Cash

| | Consolidated Group | |
|--------------|-----------------------------|-------------------------|
| | 31 December 2010 | 30 June 2010 |
| | \$ | \$ |
| Cash at bank | 2,807,488 | 47,296 |
| | <u>2,807,488</u> | <u>47,296</u> |

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**4. Receivables**

| | Consolidated Group | |
|--|---------------------------|------------------|
| | 31 December | 30 June |
| | 2010 | 2010 |
| | \$ | \$ |
| Current | | |
| Term deposits ¹ | 1,134,087 | 1,136,379 |
| Other term deposits | 42,785 | 42,785 |
| Security deposit ² | 977,000 | 977,000 |
| Settlement sum receivable | 504,707 | 504,707 |
| Other debtors | 393,651 | 36,401 |
| Sundry debtors ³ | 3,000,000 | 3,000,000 |
| Provision for non-recovery | (3,000,000) | (3,000,000) |
| | <u>3,052,230</u> | <u>2,697,272</u> |
| Non-current | | |
| Advance – other | 163,014 | 163,014 |
| Less: provision for non-recoverability | (163,014) | (163,014) |
| | <u>-</u> | <u>-</u> |

¹ All term deposits are used to cover bank guarantees required in litigation proceedings.

² Security deposits are used to cover undertakings required in litigation proceedings.

³ Following advice from the Company's auditor some pre-external administration receivables have been maintained and fully provided for and will be carried forward until such time as the underlying transactions have been fully determined and a final decision can be made by the directors as to their correct treatment.

5. Available For Sale Financial Assets*Available for Sale Listed Securities*

Current Investments in available for sale listed securities are based upon their approximate market value.

The table below states the available for sale investment:

| | Consolidated Group | |
|-----------------|---------------------------|------------------|
| | 31 December | 30 June |
| | 2010 | 2010 |
| | \$ | \$ |
| Current | | |
| Listed equities | 173,500 | 1,313,700 |
| | <u>173,500</u> | <u>1,313,700</u> |

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6. Exploration and Evaluation Expenditure

| | Consolidated Group | |
|--|---------------------|------------------|
| | 31 December 2010 | 30 June 2010 |
| | \$ | \$ |
| Exploration and evaluation phase expenditure costs carried forward at cost | 1,740,096 | 1,583,009 |
| | <u>1,740,096</u> | <u>1,583,009</u> |
| Reconciliation | | |
| Carrying amount at beginning of year | 1,583,009 | 1,448,569 |
| Exploration expenditure incurred | 157,087 | 134,440 |
| Carrying Amount at end of period | <u>1,740,096</u> | <u>1,583,009</u> |

The exploration expenditure carried forward at 31 December 2010 represents interests in the company's tenements in Western Australia. The recoupment of exploration costs carried forward depends on the successful development and commercialisation of those tenements having regard to including but not limited to the future price of commodities.

| | | | | |
|-----------|-------------------------|---|-------------|------------|
| M80/315 * | Palm Springs – Kimberly | Kimberly Gold P/L / Metals Australia P/L/ Ynema | Live | 21/08/2011 |
| M80/418 | Palm Springs – Kimberly | Kimberly Gold P/L | Live | 05/09/2016 |
| M80/106 * | Palm Springs – Kimberly | Kimberly Gold P/L / Metals Australia P/L/ Ynema | Live | 23/07/2028 |
| E52/1751 | Fortnum | Jamora Nominees P/L ⁺ | Live | 25/07/2011 |
| E52/1752 | Fortnum | Jamora Nominees P/L ⁺ | Live | 11/11/2011 |
| E52/1740 | Horseshoe | Raymondo Fazio ⁺ | Live | 11/07/2011 |
| E80/3522 | Palm Springs – Kimberly | Chameleon Mining NL | Planted *** | 28/09/2011 |
| E80/3087 | Palm Springs – Kimberly | Aztec Resources P/L | Live | 29/09/2015 |

* 95 % ownership via Kimberly Gold Ltd.

+Tenements are in the process of being transferred into the name of the Company.

*** The directors are confident that the complaints on this tenement will be successfully defended.

7. Borrowings

| | Consolidated Group | |
|-------------------------------------|---------------------|------------------|
| | 31 December 2010 | 30 June 2010 |
| Current | \$ | \$ |
| Debt facility | 60,913 | 830,913 |
| Unsecured loans – variable interest | - | 517,060 |
| | <u>60,913</u> | <u>1,347,973</u> |

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8. Provisions

| Non-Current | Consolidated Group | |
|--------------------------------|-----------------------------|-------------------------|
| | 31 December 2010 | 30 June 2010 |
| | \$ | \$ |
| Provision for mine restoration | 220,000 | 220,000 |
| Provision for Litigation | 2,500,000 | - |
| | <u>2,720,000</u> | <u>220,000</u> |

9. Contributed Equity

| | Consolidated Group | |
|---|-----------------------------|-------------------------|
| | 31 December 2010 | 30 June 2010 |
| | \$ | \$ |
| Issued and Paid up capital | | |
| 1,938,138,827 Ordinary shares fully paid (June 2010: 1,266,022,160) | 23,772,731 | 18,305,081 |
| Options exercisable at 0.4 cents (June 2010: 125,850,000) | - | 125,850 |
| Options exercisable at 15 cents (June 2010 20,000) | - | 20,000 |
| | <u>23,772,731</u> | <u>18,450,931</u> |

| | Consolidated Group | |
|------------------------------------|---------------------------|-------------------|
| | No. of Shares | \$ |
| Movement of shares on issue | | |
| Beginning of the financial year | 1,266,022,160 | 18,305,081 |
| Issued during the period | <u>672,116,667</u> | <u>5,447,650</u> |
| Balance at end of period | <u>1,938,138,827</u> | <u>23,752,731</u> |

Share Options

During the period, the Company; as part of the Cape Lambert strategic alliance, issued 100,000,000 options to related entities of Directors in accordance with the resolution passed by shareholders at the Annual General Meeting held 29 November 2010. The options are to acquire fully paid shares at an exercise price of 1.5 cents. The options expire on 31 December 2012.

Chameleon Mining NL and Its Controlled Entities

Half year ended 31 December 2010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10. Reconciliation of Movement in Reserves

| | Consolidated Group | |
|------------------------------|---------------------------|----------------|
| | 31 December | 30 June |
| | 2010 | 2010 |
| | \$ | \$ |
| Share-based payments reserve | 93,000 | 66,862 |
| Balance at end of period | 93,000 | 66,862 |
| Movements | | |
| Share-based payments reserve | | |
| Balance at 1 July | 66,862 | 15,061 |
| Value of options expensed | 26,138 | 51,801 |
| Balance at end of period | 93,000 | 66,862 |

The share-based payments reserve is used to recognise the fair value of options issued as payments for services but not exercised.

11. Segment Information

The Directors have considered the requirements of AASB 8 Operating Segments as well as internal reports that the Board have reviewed and have concluded that at this time there are no separately identifiable segments, as the economic entity operates in only one segment being mineral exploration in Australia.

12. Events Subsequent to Reporting Date

Federal Court Case against Murchison Metals Ltd & Ors

On 4 February 2011 all parties in the Federal Court proceedings were granted leave to appeal. All parties have indicated they will appeal. It is anticipated that the appeals will be heard together in August 2011.

13. Commitments, Contingent Assets and Liabilities

Since the last annual reporting date, there has been no material change in contingent liabilities other than the group being committed to the Department of Industry and Resources in Western Australia, to a minimum amount required over a one year period with respect to the statutory commercial costs for tenements held by the company and the group of \$231,200 (June 2010: \$202,775).

Chameleon Mining claim against Murchison Metals and Ors

As at the date of this report, the Company has provided and placed with the Court, \$2,615,794 in security for costs and other debtors for the Chameleon Claim.

Whilst the litigation to date has been funded by the Company, security for costs deposits and other debtors totaling \$2,615,794 made by the Company are at risk in the event of an adverse judgment on appeal, which would have a corresponding impact on the Company's financial results. No provision has been made in these accounts for such an outcome. The Company is confident of being successful with its claims and does not expect any adverse orders in

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

respect to cost and therefore has not provided for any additional amounts over and above the amounts provided as Security for Costs.

Should the Company be successful with its claims against Murchison and others, it is obliged to repay its commitments under any credit facility that may be in place at the time and other consulting fees in accordance to the terms of the respective agreements.

Litigation Funding Termination Fee

In the event the NSW Supreme Court of Appeal finds against Chameleon on the licensing issue, in the ILP litigation, then the Group will be committed to an early termination fee of \$9,000,000 less the net amount previously paid to ILP.

14. Related Parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2010 financial report.

15. Security

A fixed and floating charge has been granted by the company as part of the litigation funding agreement limited to terms and conditions relating to obligations of the Company under that agreement.

The operation of the charge is also subject to the Company's appeal against the litigation funder.

As at reporting date the total amount payable to the funder to redeem the deed of charge is \$8,495,292 (as per note 13).



DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, set out on pages 9 - 20, are in accordance with the *Corporations Act* 2001, including:
 - (a) complying with Accounting Standard AASB 134 '*Interim Financial Reporting*': and the Corporations Regulations 2001: and
 - (b) 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 based on the factors in note 1(f) to financial statements.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr. Anthony Karam
Managing Director

Dated at Sydney
11 March 2011



INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CHAMELEON MINING NL

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Chameleon Mining NL ("the company"), which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies and other selected explanatory notes and the directors' declaration. The consolidated entity comprises both the Company and the entities it controls at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company 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 *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 Auditing Standard on Review Engagements ASRE 2410 *Review of interim and Other Financial Reports 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 entities financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of Chameleon Mining NL, 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.

Chameleon Mining NL and Its Controlled Entities**Half year ended 31 December 2010****INDEPENDENT AUDITORS REPORT****Independence**

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

Material Uncertainty Regarding Continuation As A Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1(f) to the financial statements concerning the Group's ability to continue as a going concern. The Group is currently entered into legal proceedings and is also committed to ongoing exploration expenditure. Further finance, in the form of, or a combination of debt funding, capital raising, credit facilities and/or private placements may be needed to meet these commitments. The Directors believe that the Group will be able to raise adequate funds.

As the appeals in the Murchison litigation and the International Litigation Partners (ILP) litigation have not been determined, there remain uncertainties as to the future results and financial position of the Group.

Deposits and other debtors totaling \$2,615,794 made by the Company in the Murchison litigation are at risk in the event of an adverse judgment, which would have a corresponding impact on the Company's financial results, in addition unknown legal costs that may be incurred.

The effect, if any on the financial position and the appeals lodged in the Murchison litigation and the ILP litigation cannot be determined as these proceedings by their very nature are uncertain.

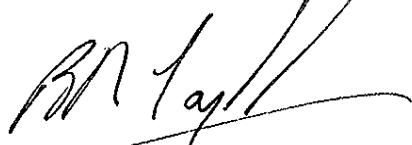
The half-year financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the matters referred to in note 1(f) not materialise.

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 Chameleon Mining NL is not in accordance with the *Corporations Act 2001*, including:

- (i) 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
- (ii) Complying with Australian Accounting Standard: *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

Philip A. Joannou & Associates



Mr. Brian R. Taylor

Partner

Dated at Sydney

11 March 2011

Liability limited by a
Scheme approved under
Professional Standards
Legislation