

Mirabela Nickel Limited  
Condensed interim financial report  
for six months ending  
31 December 2005

ABN 23 108 161 593

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## Mirabela Nickel Ltd

### Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2005 and the review report thereon.

### Directors

The directors of the company at any time during or since the end of the half-year are:

| <b>Name</b>                             | <b>Period of directorship</b> |
|---|-------------------------------|
| Bill Clough – Non Executive Chairperson | Appointed 3 March 2004        |
| Nick Poll - Managing Director           | Appointed 3 March 2004        |
| Craig Burton - Executive Director       | Appointed 3 March 2004        |

### Review of operations – Half year ending 30 December 2005

#### Highlights

- A JORC Inferred Resource of 47mt grading 0.62% Ni was announced for the Santa Rita nickel sulphide discovery in August 2005. A scoping study was completed in September with positive results and a bankable feasibility study commenced in November.
- Infill drilling in the Northern zone at Santa Rita has returned excellent results. Drilling to the north and south has now extended the mineralization to beyond 1,700m strike length. A hole designed to test the northern extent of mineralization returned 75m grading 0.86% Ni - a thick and high-grade intersection, whilst hole MBS 80 extended mineralization southwards with an intersection of 36m grading 0.58% nickel.
- The bankable feasibility study is well underway with resource and metallurgy currently providing the main focus. It is due to be completed in February 2007.
- Inco Limited (Inco) has entered into a farm-in agreement to explore for large, massive, nickel-sulphide deposits upon Mirabela's extensive ground position in Brazil. In addition, a placement to Inco of 7 million shares at 80 cents each raised A\$5.6 million. The joint exploration effort allows Mirabela to focus on the feasibility study whilst maintaining an intense exploration program for additional nickel sulphide resources near Santa Rita through Inco.
- Granting of the Sao Francisco nickel sulphide exploration project to Mirabela was announced in September. The exploration tenements cover a mafic-ultramafic intrusion extending for over 50km in strike length. There are known occurrences of nickel-copper sulphides in the project area. An EM geophysical survey will be flown over this area in March as part of the Inco agreement.
- Prior to the Inco subscription agreement, a placement was made to Dundee Resources of 2.2 million shares at 60 cents each, raising A\$1.32 million in October. More recently, a placement to Rand Merchant Bank of 2 million shares at 85 cents each raised A\$1.7 million in February 2006. The placements will fund the Santa Rita bankable feasibility study.

## Santa Rita resource and drilling

Mirabela announced the following resource in August.

### Santa Rita Deposit August 2005 JORC Inferred Resource Estimate 0.40% Ni Cut off

| Class    | Million<br>Tonnes | Ni % | Cu % | Grade |        |        | Metal<br>Ni T |
|----------|-------------------|------|------|-------|--------|--------|---------------|
|          |                   |      |      | Co %  | Pt g/t | Pd g/t |               |
| Inferred | 47.1              | 0.62 | 0.16 | 0.02  | 0.120  | 0.054  | 292,000       |

To our knowledge, this is the largest greenfields nickel sulphide discovery in the last 10 years (based on an announced resource). Since this resource announcement, mineralization has been extended an additional 200m.

The drill out of the Santa Rita deposit to JORC Indicated Resource status commenced in November 2005. The program initially focused on the Northern zone, as this area has the best potential to provide pay back on capital deployed. The results from the Northern zone have exceeded expectations. A summary is provided in the table below.

### Composite intersections summary for new drill holes within the Northern zone (0.4% Ni cut off):

| Hole ID  | From (m) | Downhole<br>width | Ni%  |
|--|----------|-------------------|------|
| MBS-83   | 51       | 23                | 0.71 |
| MBS-84   | 134      | 25                | 0.56 |
| MBS-86   | 94       | 63                | 0.82 |
| MBS-87   | 120      | 10                | 0.66 |
| MBS-88   | 61       | 47                | 0.77 |
| MBS-89   | 96       | 24                | 0.55 |
| MBS-90   | 43       | 76                | 0.84 |
| MBS-92   | 12       | 87                | 0.73 |
| MBS-93   | 92       | 43                | 0.65 |
| MBS-94   | 27       | 32                | 0.66 |
| MBS-95   | 109      | 30                | 0.73 |
| MBS-96   | 43       | 24                | 0.67 |
| MBS-97   | 75       | 6                 | 0.78 |
| MBS-98   | 134      | 44                | 0.68 |
| MBS-99   | 62       | 27                | 0.87 |
| MBS-100  | 166      | 85                | 0.79 |
| MBS-101  | 71       | 55                | 0.79 |
| MBS-102  | 231      | 45                | 1.04 |
| MBS-103  | 73       | 23                | 0.77 |
| MBS-104  | 153      | 26                | 0.87 |
| MBS-105  | 5        | 75                | 0.86 |
| MBS-106  | 2        | 11                | 0.47 |
| MBS-107  | 147      | 19                | 0.59 |
| <b>Average composite width and grade 39m @ 0.77 % Ni</b> |          |                   |      |

The above table includes all new holes drilled within the Northern zone with the exception of MBS 85 (collared above the mineralization) and MBS 91 (just beyond the northern limit of mineralization). Holes MBS 86, 90, 92, 100 and 105 are amongst the best results received at Santa Rita to date and confirm that thick, high-grade mineralization is a characteristic of the Northern zone.

The Northern zone mineralisation is proving to be consistent and predictable with all 23 holes returning ore grade results. The weighted average width and grade of the above composite intersections is 39m @ 0.77% Ni. This grade is higher than expected, as the current global resource at Santa Rita grades 0.62% Ni. The average width is consistent with expectations for the Northern zone. The in-fill drilling focused on the shallower part of the Northern mineralisation, so it is particularly encouraging that we are obtaining consistent width and grade in shallow mineralisation.

This confirms that the Northern zone will provide an excellent resource for early stage mining and payback at Santa Rita. Preliminary work suggests that the upper part of the deposit could produce the project's first 12mt at 0.70% Ni with a strip ratio of about 2:1. This ensures highly favourable economics for the first 3 to 4 years of the project and will enable rapid payback of capital deployed.

Hole MBS 105 was designed to test the northern limit of mineralization and returned 75m at 0.86% Ni. This is an excellent high-grade, near surface result that extends existing thick mineralization in MBS 10 (104m @ 0.68% Ni) and reopens the northern limit of mineralization. Follow up drilling of this intersection has been prioritised.

Hole MBS 80 in the Southern zone returned a composite intersection of 36m grading 0.58% Ni. This intersection now defines the southern limit of mineralization for a total strike length of 1,700m. More drilling is required further to the south.

### **Santa Rita feasibility study**

Mirabela believes that the best approach for the Santa Rita feasibility study is to manage the project in-house and use credible external consultants to verify key project parameters. The following people have now been appointed during the period to assist in preparing the feasibility study.

- David Chapman – Project Manager
- Richard Procter – Mining Engineer
- Brett Gossage (RSG) – Independent resource geologist
- Narayan Krishnan (OM) – Metallurgy
- Brian McNab (Orway) – Comminution and grind circuit
- Gary Dempers (D&S) – Geotechnical
- Arcoverde – Environmental

The two main project drivers are resource and metallurgy. The JORC Indicated Resource is still expected by end of June 2006. The critical path for metallurgy is now to conduct incremental float tests on samples from a large composite sample to allow for the selection of appropriate float reagents and conditions. Two large composite samples have been prepared from existing drill core to represent pyroxenite and peridotite host rocks.

Test work on physical rock properties are needed to design a grind circuit for the flotation plant. Initial Bond Ball and Rod Mill Work Index determinations have been completed on the composite samples and a preliminary comminution variability test program is currently underway.

Geotechnical and environmental work has commenced and experts visited the site in February.

### **Inco Deal**

Mirabela's recent focus on the Santa Rita disseminated nickel discovery has delayed testing for satellite deposits in the Santa Rita area and commencement of exploration at Sao Francisco. The Inco farm-in will allow Mirabela to continue to focus on developing the Santa Rita project whilst at the same time enabling rapid advancement of exploration by Inco with Mirabela's assistance.

Inco are focused on the potential for the discovery of a large, high-grade nickel deposit near Santa Rita, because many disseminated sulphide ore bodies are associated with nearby massive sulphide (high-grade) ore bodies. The Voisey's Bay nickel deposit in Canada is one such example.

The key points of the Inco deal are as follows:

- Mirabela placed 7 million shares at 80 cents each to Inco Limited to raise A\$5,600,000 in February. Under a standstill agreement, Inco has the option to retain a strategic 10% shareholding (but not more) in Mirabela by participating in subsequent placements.
- Under a farm-in agreement, Inco is to explore for large nickel sulphide deposits upon all Mirabela's nickel sulphide project areas in Brazil. Inco may earn a 70% equity interest by completing a bankable feasibility study on a discovery of more than 100,000 tonnes of contained nickel. Thereafter, Mirabela may contribute at 30% equity or be loan carried into production at 15% equity.
- The Santa Rita project and any open cut disseminated nickel discoveries at Santa Rita or Palestina are excluded from the Inco farm-in and retained 100% by Mirabela. The Company's laterite deposits are also excluded.

### **Sao Francisco exploration project**

Mirabela was granted 7 exploration tenements for a total of 13,500 ha over the São Francisco Ni-Cu project in the state of Sergipe, Brazil. Mirabela has a 100% interest in this project. Applications have been submitted for another 11 surrounding tenements totalling 20,500 ha. Mirabela has priority for the granting of these tenements. See attached map for location and geology. Mirabela has acquired the whole of a large mafic-ultramafic belt containing previous Ni-Cu hits.

There are over 5 known nickel sulphide prospects on these tenements. Previous drilling returned the following significant intersection within fresh gabbroic host rocks.

| Hole ID | From (m) | To (m) | Downhole width | Ni % | Cu % |
|---------|----------|--------|----------------|------|------|
| PR-05   | 100      | 102    | 2              | 0.62 | 0.30 |
| PR-05   | 106      | 110    | 4              | 0.62 | 0.40 |

Infrastructure in the area is excellent. The project area lies about 15 km from the neighbouring towns of Piranhas and Caninde de São Francisco (combined population: 30,000) and about 150km from the coast. The hydroelectric power station of São Francisco (3,000 MW) lies 5km north of Caninde de São Francisco, about 20 km from the project area.

### **Serra Azul saprolite project**

Representatives from a smelter visited the Serra Azul project for evaluation and due diligence drilling in January 2006 and negotiations are continuing with this smelter.

### **Subsequent Events**

On 17th January 2006 the Company issued a Notice of Meeting and Explanatory Memorandum for a shareholders meeting to be held on 20th February 2006 to ratify and approve the share placements to Dundee Resources Ltd and Inco Limited as had been previously announced by the Company during 2005 and for the conversion of Performance Shares into Ordinary Shares. All the resolutions put to the meeting were passed on a unanimous show of hands and the valid proxies received were heavily in favour of all the resolutions.

On 7<sup>th</sup> February 2006 the Company announced the placement to RMB Limited of a further 2,000,000 shares at 85 cents each to raise an additional \$1,700,000 in working capital for the funding of the Santa Rita Bankable Feasibility. These were issued on 10 February 2006.

**Comparative Information**

Comparative information is presented for the 10 month period ended 31 December 2004, being the initial period of operation for the consolidated entity.

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

The lead auditor's independence declaration is set out on page 7 and forms part of the directors' report for the half-year ended 31 December 2005.

Dated at Perth this 15<sup>th</sup> day of March 2006.

Signed in accordance with a resolution of the directors:



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Craig Burton  
Director




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

To: the directors of Mirabela Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in 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.

  
KPMG  
T R HART  
Partner

Perth  
15 March 2006

## Mirabela Nickel Ltd

### Condensed consolidated interim income statement

For the period ended 31 December 2005

|  | Note | \$<br>31 Dec 2005 | \$<br>31 Dec 2004 |
|--|------|-------------------|-------------------|
| Revenue  | 2(a) | 18,954            | 49,467            |
| Other income   |      | -                 | -                 |
| Written off exploration expenditure                                |      | -                 | (14,402)          |
| Administrative expenses  | 2(b) | (334,008)         | (448,161)         |
| Depreciation expenses  |      | (13,306)          | (12,823)          |
| Unrealised foreign exchange gain                                   |      | -                 | -                 |
| <b>Loss before tax</b>   |      | <b>(328,360)</b>  | <b>(425,919)</b>  |
| Income tax expense attributable to members of the parent entity    |      | -                 | -                 |
| <b>Loss for the period</b>   |      | <b>(328,360)</b>  | <b>(425,919)</b>  |
| Basic loss per share attributable to ordinary equity holders (AUD) | 6    | (0.01)            | (0.02)            |

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 26.

Comparative information is for the 10-month period ended 31 December 2004.

## Mirabela Nickel Ltd

### Condensed statement of changes in equity

| <b>Half-year ended 31 December 2005</b>   | <b>Ordinary<br/>Shares</b> | <b>Convertible<br/>Performance<br/>Shares</b> | <b>Accumulated<br/>Losses</b> | <b>Reserves</b> | <b>Total</b>     |
|---|----------------------------|---|-------------------------------|-----------------|------------------|
| Opening balance at 1 July 2005  | 6,436,097                  | 11,000  | (620,741)                     | 720             | 5,827,076        |
| Equity settled share based payment transaction  | -                          | -   | -                             | 125,336         | 125,336          |
| Shares issued   |                            |   |                               |                 |                  |
| - 2,200,000 shares placed at 60 cents per share   | 1,320,000                  | -   | -                             | -               | 1,320,000        |
| - 1,000,000 shares placed at 80 cents per share   | 800,000                    | -   | -                             | -               | 800,000          |
| Transaction costs of share issues   | (8,578)                    | -   | -                             | -               | (8,578)          |
| Effect of translation of foreign operations to group presentation currency  | -                          | -   | -                             | 672,254         | 672,254          |
| Net loss for the period (recognised income and expense)   | -                          | -   | (328,360)                     | -               | (328,360)        |
| <b>Balance at 31 December 2005</b>  | <b>8,547,519</b>           | <b>11,000</b>                                 | <b>(949,101)</b>              | <b>798,310</b>  | <b>8,407,728</b> |
| <b>Half-year ended 31 December 2004</b>   | <b>Ordinary<br/>Shares</b> | <b>Convertible<br/>Performance<br/>Shares</b> | <b>Accumulated<br/>Losses</b> | <b>Reserves</b> | <b>Total</b>     |
| Opening balance at 1 April 2004   | -                          | -   | -                             | -               | -                |
| Shares issued   |                            |   |                               |                 |                  |
| - 21,000,000 shares placed at 0.1 cents per shares  | 21,000                     | -   | -                             | -               | 21,000           |
| - 1,000,000 shares placed at 0.1 cents per shares   | 1,000                      | -   | -                             | -               | 1,000            |
| - Conversion of 11,000,000 shares at 0.1 cents per share to 11,000 convertible performance shares at \$1.00 per share | (11,000)                   | 11,000  | -                             | -               | -                |
| - 4,500,000 shares placed at 10 cents per shares  | 450,000                    | -   | -                             | -               | 450,000          |
| - 15,000,000 shares placed at 20 cents per shares   | 3,000,000                  | -   | -                             | -               | 3,000,000        |
| Transaction costs of share issues   | (169,506)                  | -   | -                             | -               | (169,506)        |
| Options Issues – 3,600,000 options excisable at 20c on or before 31 May 2008  | -                          | -   | -                             | 720             | 720              |
| Effect of translation of foreign operations to group presentation currency  | -                          | -   | -                             | -               | -                |
| Net loss for the period (recognised income and expense)   | -                          | -   | (425,919)                     | -               | (425,919)        |
| <b>Balance at 31 December 2004</b>  | <b>3,291,494</b>           | <b>11,000</b>                                 | <b>(425,919)</b>              | <b>720</b>      | <b>2,877,295</b> |

The statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 26. Comparative information is for the 10-month period ended 31 December 2004.

# Mirabela Nickel Ltd

## Condensed consolidated interim balance sheet

As at 31 December 2005

|  | \$               | \$               |
|--|------------------|------------------|
| Note                                   | 31 Dec 2005      | 30 June 2005     |
| <b>Current Assets</b>                  |                  |                  |
| Cash and cash equivalents              | 767,459          | 1,762,998        |
| Trade and other receivables            | 59,860           | 74,339           |
| Prepayments                            | 36,838           | 12,716           |
| <b>Total current assets</b>            | <u>864,157</u>   | <u>1,850,053</u> |
| <b>Non-current assets</b>              |                  |                  |
| Property, plant and equipment          | 4 148,719        | 118,663          |
| Exploration and evaluation expenditure | 7,583,241        | 4,555,681        |
| <b>Total non-current assets</b>        | <u>7,731,960</u> | <u>4,674,344</u> |
| <b>Total assets</b>                    | <u>8,596,117</u> | <u>6,524,397</u> |
| <b>Current Liabilities</b>             |                  |                  |
| Trade and other payables               | 188,389          | 228,417          |
| <b>Total current liabilities</b>       | <u>188,389</u>   | <u>228,417</u>   |
| <b>Total liabilities</b>               | <u>188,389</u>   | <u>228,417</u>   |
| <b>Net assets</b>                      | <u>8,407,728</u> | <u>6,295,980</u> |
| <b>Equity</b>                          |                  |                  |
| Issued capital                         | 5 8,558,519      | 6,447,097        |
| Reserves                               | 126,056          | 720              |
| Foreign Exchange Translation Reserve   | 672,254          | 468,904          |
| Accumulated losses                     | (949,101)        | (620,741)        |
| <b>Total equity</b>                    | <u>8,407,728</u> | <u>6,295,980</u> |

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 26.

# Mirabela Nickel Ltd

## Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2005

|  | <i>Note</i> | 31 Dec 2005        | 31 Dec 2004        |
|--|-------------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>              |             |                    |                    |
| Cash paid to suppliers and employees                     |             | (380,122)          | (225,847)          |
| Interest received  |             | 18,954             | 49,467             |
| <b>Net cash from operating activities</b>                |             | <u>(361,168)</u>   | <u>(176,380)</u>   |
| <b>Cash flows from investing activities</b>              |             |                    |                    |
| Cash payments for exploration and evaluation expenditure |             | (2,702,431)        | (1,674,127)        |
| Acquisition of subsidiary, net of cash acquired          |             | -                  | (177,105)          |
| Payments for acquisition of fixed assets                 |             | (43,362)           | (7,000)            |
| <b>Net cash from investing activities</b>                |             | <u>(2,745,793)</u> | <u>(1,858,232)</u> |
| <b>Cash flows from financing activities</b>              |             |                    |                    |
| Proceeds from the issue of share capital                 |             | 2,120,000          | 3,472,720          |
| Payment of transaction costs                             |             | (8,578)            | (169,506)          |
| Cash acquired on acquisition of controlled entity        |             | -                  | 50,767             |
| <b>Net cash from financing activities</b>                |             | <u>2,111,422</u>   | <u>3,353,981</u>   |
| Net increase in cash and cash equivalents                |             | (995,539)          | 1,319,369          |
| Cash and cash equivalents at 1 July 2005                 |             | 1,762,998          | -                  |
| Effect of exchange rate fluctuations on cash held        |             | -                  | 6,150              |
| <b>Cash and cash equivalents at 31 December 2005</b>     |             | <u>767,459</u>     | <u>1,325,519</u>   |

This statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 26.

Comparative information is for the 10-month period ended 31 December 2004.

## Notes to the condensed consolidated interim financial statements

### 1. Significant accounting policies

Mirabela Nickel Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The condensed consolidated interim financial report was authorised for issue by the directors on 15<sup>th</sup> March 2006.

#### (a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS"), to distinguish from previous Australian GAAP. The interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report; however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Mirabela Nickel Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 13. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

#### (b) Basis of Preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

#### (b) **Basis of Preparation (continued)**

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. Except for the change in accounting policy relating to classification and measurement of financial instruments (refer note 14), the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 13. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

#### (c) **Basis of consolidation**

##### (i) **Subsidiaries**

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

##### (ii) **Transactions eliminated on consolidation**

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

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates net profit" accounts.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

#### (d) Foreign currency

##### (i) Foreign currency transactions

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

##### (ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. The revenues, expenses, assets and liabilities of foreign operations in hyperinflationary economies are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Prior to translating the financial statements of foreign operations in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

##### (iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

#### (e) Property, plant and equipment

##### (i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy g). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

##### (ii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

**(iii) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(g) Impairment**

The carrying amounts of the consolidated entity's assets other than exploration expenditure (see accounting policy (p)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

**(i) Calculation of recoverable amount**

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(ii) Reversals of impairment**

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

**(h) Share capital**

**(i) Dividends**

Dividends on preference shares classified as a liability are recognised as a liability and expensed on an effective interest yield basis. Other dividends are recognised as a liability in the period in which they are declared.

**(ii) Transaction costs**

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

**(i) Benefits**

**(i) Share-based payment transactions**

The fair value of options granted is recognised as an expense with a corresponding increase in equity, to the extent that such changes are not related to the exploration and evaluation of the consolidated entity's tenements. In such cases the expenses are capitalised in accordance with accounting policy p. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial black scholes model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vested.

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

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

**(j) Provisions**

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

**(i) Site restoration**

In accordance with the consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated over the useful life of the mineral reserve. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**(k) Trade and other payables**

Trade and other payables are stated cost and settled within 30 days.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

**(l) Expenses**

**(i) Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

**(m) Income tax**

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised, or to the extent that the group has deferred tax liabilities with the same taxation authority.

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

**(n) Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## Notes to the condensed consolidated interim financial statements

### Significant accounting policies (continued)

#### (o) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### (p) Exploration Expenditure

Exploration costs are accumulated in respect of each separate areas of interest.

Exploration costs are carried forward where the right tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where the exploration activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed annually at the end of each accounting period and accumulated costs written off to the extent they will not be recoverable in the future.

#### 2(a) Revenue

|                  | 2005          | 2004          |
|------------------|---------------|---------------|
|                  | \$            | \$            |
| Interest Revenue | 18,954        | 49,467        |
| Total Revenue    | <u>18,954</u> | <u>49,467</u> |

#### 2(b) Administrative Expenses

|                               |                |                |
|-------------------------------|----------------|----------------|
| Office costs                  | 89,638         | 6,794          |
| Professional fees             | 72,618         | 218,693        |
| Administration fees           | 63,955         | 146,577        |
| Employment expenses           | 107,797        | 73,703         |
| Other                         | -              | 2,394          |
| Total Administrative Expenses | <u>334,008</u> | <u>448,161</u> |

## Notes to the condensed consolidated interim financial statements

### 3. Income taxes

#### Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

#### Deferred tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented.

### 4. Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of \$43,362 (six months ended 31 December 2004: \$123,216).

### 5. Capital and reserves

#### Share capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares.

#### For the six months ended 31 December 2005

|                                     | Share Capital    |                  |                  |
|-------------------------------------|------------------|------------------|------------------|
|                                     | \$               | \$               | \$               |
|                                     | 31 Dec 2005      | 30 June 2005     | 31 Dec 2004      |
| Ordinary Shares                     | 8,547,519        | 6,436,097        | 3,291,494        |
| Convertible Performance Shares      | 11,000           | 11,000           | 11,000           |
| <b>Total issued paid up capital</b> | <b>8,558,519</b> | <b>6,447,097</b> | <b>3,302,494</b> |

| Ordinary Shares   | Shares            |                   | \$               |                  |
|---|-------------------|-------------------|------------------|------------------|
|   | 2005              | 2004              | 2005             | 2004             |
| On issue at beginning of the period                             | 37,150,000        | -                 | 6,436,097        | -                |
| Issued on 4 March 2004 fully paid to 0.1c per share             | -                 | 21,000,000        | -                | 21,000           |
| Issued on 19 April 2004 fully paid to 0.1c per share            | -                 | 1,000,000         | -                | 1,000            |
| Conversion of 0.1c per shares to Convertible Performance Shares | -                 | (11,000,000)      | -                | (11,000)         |
| Issued on 6 May 2004 fully paid to 10c per share                | -                 | 4,500,000         | -                | 450,000          |
| Issued on 9 July 2004 fully paid to 20c per share               | -                 | 15,000,000        | -                | 3,000,000        |
| Issued on 31 October 2005 full paid to 60c per share            | 2,200,000         | -                 | 1,320,000        | -                |
| Issued on 16 December 2005 full paid to 80c per share           | 1,000,000         | -                 | 800,000          | -                |
| Share issue costs   | -                 | -                 | (8,578)          | (169,506)        |
| <b>On issue at 31 December – fully paid</b>                     | <b>40,350,000</b> | <b>30,500,000</b> | <b>8,547,519</b> | <b>3,291,494</b> |

## Notes to the condensed consolidated interim financial statements

### 5. Capital and reserves (continued)

| Convertible Performance Shares   | Shares        |               | \$            |               |
|--|---------------|---------------|---------------|---------------|
|  | 2005          | 2004          | 2005          | 2004          |
| On issue at beginning of the period                                    | 11,000        | -             | 11,000        | -             |
| Conversion of 0.1c per shares to \$1.00 Convertible Performance Shares | -             | 11,000        | -             | 11,000        |
| Share issue costs  | -             | -             | -             | -             |
| <b>On issue at 31 December – fully paid</b>                            | <b>11,000</b> | <b>11,000</b> | <b>11,000</b> | <b>11,000</b> |

#### Dividends

No dividends were paid by the consolidated entity.

### 6. Earnings per share

#### Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the loss attributable to ordinary shareholders of \$328,360 (ten months ended 31 December 2004: (\$425,919)) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 37,976,300 (ten months ended 31 December 2004: 28,271,014), calculated as follows:

| <b>Profit attributable to ordinary shareholders</b>       | <b>31 Dec 2005</b> | <b>31 Dec 2004</b> |
|---|--------------------|--------------------|
| Profit attributable to ordinary shareholders              | (328,360)          | (425,919)          |
| <b>Weighted average number of ordinary shares</b>         | <b>31 Dec 2005</b> | <b>31 Dec 2004</b> |
| Issued ordinary shares at beginning of period             | 37,161,000         | -                  |
| Effect of share issue                                     | 815,300            | 28,271,014         |
| Weighted average number of ordinary shares at 31 December | 37,976,300         | 28,271,014         |

#### Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on the loss attributable to ordinary shareholders of \$328,360 (ten months ended 31 December 2004: (\$425,919)) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 41,983,282 (ten months ended 31 December 2004: 31,871,014), calculated as follows:

| <b>Profit attributable to ordinary shareholders</b>                 | <b>31 Dec 2005</b> | <b>31 Dec 2004</b> |
|---|--------------------|--------------------|
| Profit attributable to ordinary shareholders                        | (328,360)          | (425,919)          |
| <b>Weighted average number of ordinary shares</b>                   | <b>31 Dec 2005</b> | <b>31 Dec 2004</b> |
| Issued ordinary shares at beginning of period                       | 37,161,000         | -                  |
| Effect of share placement   | 815,300            | 28,271,014         |
| Effect of share options on issue                                    | 4,006,982          | 3,600,000          |
| Weighted average number of ordinary shares (diluted) at 31 December | 41,983,282         | 31,871,014         |

## Notes to the condensed consolidated interim financial statements

### 7. Share Based Payments

#### Expense recognised in the consolidated interim income statement

The expense recognised in the consolidated interim income statement consists of the current service costs, interest on the obligation for employee benefits, the expected return on plan assets and past service cost. For the six months ended 31 December 2005, the consolidated entity recognised expense of \$3,557 and recognised an increase of exploration expenditure of \$122,779 (six months ended 31 December 2004 is nil).

#### Fair value of share options and assumptions For the six months ended 31 December 2005

|  | 2005    |         |         |         |         |         | 2004 |
|--|---------|---------|---------|---------|---------|---------|------|
|  | 0.3811  | 0.3811  | 0.3811  | 0.3811  | 0.3811  | 0.3811  |      |
| Fair value at measurement date   | 0.3811  | 0.3811  | 0.3811  | 0.3811  | 0.3811  | 0.3811  | -    |
| Share price  | 54      | 54      | 54      | 54      | 54      | 54      | -    |
| Exercise price   | 60      | 60      | 60      | 60      | 60      | 60      | -    |
| Grant date   | 16/6/05 | 16/6/05 | 16/6/05 | 16/6/05 | 16/6/05 | 16/6/05 | -    |
| Vesting date   | 1/1/04  | 1/7/04  | 1/4/05  | 1/4/05  | 1/11/05 | (1)     | -    |
| Vesting period (years)   | 3       | 2       | 2       | 2       | 2       |         | -    |
| Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula) | 100     | 100     | 100     | 100     | 100     | 100     | -    |
| Option life (expressed as weighted average life used in the modelling under the Black Scholes formula)               | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years | -    |
| Expected dividends   | -       | -       | -       | -       | -       | -       | -    |
| Risk-free interest rate (based on national government bonds)   | 5.305   | 5.305   | 5.305   | 5.305   | 5.305   | 5.305   | -    |

(1) The Company's Managing Director, Mr Nick Poll, was granted 400,000 Director Options following shareholder approval on 28 April 2005. The options are subject to 3 specific milestones being achieved, as detailed in the Notice of Meeting distributed to shareholders. The milestones and relevant option tranches are as follows:

- 100,000 options- the first commercial shipment of saprolite ore by the company;
- 100,000 options- completion of a bankable feasibility study on the Santa Rita nickel project in a form capable of supporting an application for finance of the Santa Rita nickel project;
- 200,000 options- completion of financing for the development of the Santa Rita project, which in the case of debt financing occurs upon receipt of approval for the draw down of such financing.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, a non-market performance condition related to sales volumes and profitability of their units. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The fair value of the SARs at grant date is determined based on the Black-Scholes formula. The model inputs were the share price of 54 cents, the exercise price of 60 cents, expected volatility of 100 percent, no expected dividends, a term of 4 years and a risk-free interest rate of 5.305 percent. The fair value of the liability is remeasured at each balance sheet date and at settlement date. During the six months ended 31 December 2005, the consolidated entity recognised expense of \$3,557 related to the fair value of the SARs (six months ended 31 December 2004: nil), with \$122,779 being capitalised as a component of exploration expenditure and development.

## Notes to the condensed consolidated interim financial statements

### 8. Contingent liabilities

Contingent on the occurrence of certain events (outlined below), the Consolidated Entity will be required to pay certain fees, fines or royalties under the Exploration and Mining Lease Agreement executed between the Consolidated Entity and CBPM of Brazil.

| <b>Contingent Liabilities:</b>  | <b>2005</b>    | <b>2004</b>    |
|---|----------------|----------------|
|   | <b>\$</b>      | <b>\$</b>      |
| Compensation payable to CPBM if the Company's acts or omissions result in the loss of mineral rights  | 278,567        | 278,567        |
| Transfer premium payable to CBPM and/or Rio Salitre upon entering into a mining lease in favour of the Company. If not paid the Company's rights to the respective tenement will be relinquished. | 284,138        | 284,138        |
| Penalty payable upon termination of the mining lease.   | 278,567        | 278,567        |
| <b>Total</b>  | <b>841,272</b> | <b>841,272</b> |

### 9. Related parties

Directors received compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits (see note 12). Directors received total compensation of \$207,003 for the six months ended 31 December 2005 (10 month period ended 31 Dec 2004: \$375,509). Total remuneration is included in "personnel expenses."

Director related entities were paid a total of \$31,463 for professional services provided during the six months ending 31 December 2005 (10 month period ended 31 December 2004 is nil).

### 10. Financial Instruments

#### **Fair values**

The carrying amount and fair value of financial assets at 31 December 2005 is \$864,158 (30 June 2005: carrying amount and fair value of \$1,850,053).

The carrying amount and fair value of financial liabilities at 31 December 2005 is \$188,389 (30 June 2005: carrying amount and fair value of \$228,417).

#### **Estimation of fair values**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

#### **Cash at bank**

Fair value is determined by the cash balance held at the balance sheet date.

#### **Trade and other receivables / payables**

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

#### **Liabilities**

For liabilities with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other liabilities are discounted to determine the fair value.

## Notes to the condensed consolidated interim financial statements

### 11. Segment Reporting

The Consolidated entity operates in one business and geographical segment, namely mineral exploration in Brazil.

### 12. Subsequent event

On 17<sup>th</sup> January 2006 the Company issued a Notice of Meeting and Explanatory Memorandum for a shareholders meeting to be held on 20<sup>th</sup> February 2006 to ratify and approve the share placements to Dundee Resources Ltd and Inco Limited as had been previously announced by the Company during 2005 and for the conversion of Performance Shares into Ordinary Shares. All the resolutions put to the meeting were passed on a unanimous show of hands and the valid proxies received were in favour of all the resolutions.

|              |  |
|--------------|--|
| Resolution 1 | Ratification of Issue of Shares to Dundee Resources Ltd<br>(2,200,000 shares issued at 60 cents each on 31 October 2005) |
| Resolution 2 | Ratification of Issue of Shares to Inco Limited<br>(1,000,000 shares issued at 80 cents each on 16 December 2005)        |
| Resolution 3 | Approval of Issue of Shares to Inco Limited<br>(6,000,000 shares issued at 80 cents each on 28 February 2006)            |
| Resolution 4 | Approval for Issue of Shares<br>(Approval granted for a future issue of 6,000,000 shares)                                |
| Resolution 5 | Variation to Terms of Performance Shares<br>(Approval to amend the milestone event for immediate conversion)             |

On 7<sup>th</sup> February 2006 the Company announced the placement to RMB Limited of a further 2,000,000 shares at 85 cents each to raise an additional \$1,700,000 in working capital for the funding of the Santa Rita Bankable Feasibility. These were issued on 10 February 2006.

### 13. Explanation of transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards - AIFRS.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the ten months ended 31 December 2004 and the financial statements for the period ended 30 June 2005. The consolidated entity has not prepared an opening AIFRS balance sheet at 1 July 2004 as its first reporting period was for the 16 months ended 30 June 2005.

In preparing the comparative information for the ten months ended 31 December 2004 and financial statements for the period ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

## Notes to the condensed consolidated interim financial statements

## 13. Explanation of transition to AIFRS (continued)

|  |                  |            | Effect of        |                  | Effect of      |                  |
|--|------------------|------------|------------------|------------------|----------------|------------------|
|  | Previous         | Transition | AIFRSs           | Previous         | transition     | AIFRSs           |
|  | GAAP             | to AIFRSs  |                  | GAAP             | to AIFRSs      |                  |
| Note                                   | 31 December 2004 |            |                  | 30 June 2005     |                |                  |
| <b>Assets</b>                          |                  |            |                  |                  |                |                  |
| Cash and cash equivalents              | 1,325,519        | -          | 1,325,519        | 1,762,998        | -              | 1,762,998        |
| Trade and other receivables            | 50,000           | -          | 50,000           | 74,339           | -              | 74,339           |
| Prepayments                            | 6,525            | -          | 6,525            | 12,716           | -              | 12,716           |
| <b>Total current assets</b>            | <b>1,382,044</b> | <b>-</b>   | <b>1,382,044</b> | <b>1,850,053</b> | <b>-</b>       | <b>1,850,053</b> |
| Property Plant and Equipment           | (a) 123,216      | -          | 123,216          | 115,991          | 2,672          | 118,663          |
| Exploration and evaluation expenditure | (a) 1,704,519    | -          | 1,704,519        | 4,128,182        | 427,499        | 4,555,681        |
| <b>Total non-current assets</b>        | <b>1,827,735</b> | <b>-</b>   | <b>1,827,735</b> | <b>4,244,173</b> | <b>430,171</b> | <b>4,674,344</b> |
| <b>Total assets</b>                    | <b>3,209,779</b> | <b>-</b>   | <b>3,209,779</b> | <b>6,094,226</b> | <b>430,171</b> | <b>6,524,397</b> |
| <b>Liabilities</b>                     |                  |            |                  |                  |                |                  |
| Trade and other payables               | 332,484          | -          | 332,484          | 228,417          | -              | 228,417          |
| <b>Total current liabilities</b>       | <b>332,484</b>   | <b>-</b>   | <b>332,484</b>   | <b>228,417</b>   | <b>-</b>       | <b>228,417</b>   |
| Trade and other payables               | -                | -          | -                | -                | -              | -                |
| <b>Total non-current liabilities</b>   | <b>-</b>         | <b>-</b>   | <b>-</b>         | <b>-</b>         | <b>-</b>       | <b>-</b>         |
| <b>Total liabilities</b>               | <b>332,484</b>   | <b>-</b>   | <b>332,484</b>   | <b>228,417</b>   | <b>-</b>       | <b>228,417</b>   |
| <b>Net assets</b>                      | <b>2,877,295</b> | <b>-</b>   | <b>2,877,295</b> | <b>5,865,809</b> | <b>430,171</b> | <b>6,295,980</b> |
| <b>Equity</b>                          |                  |            |                  |                  |                |                  |
| Issued capital                         | 3,302,494        | -          | 3,302,494        | 6,447,097        | -              | 6,447,097        |
| Reserves                               | 720              | -          | 720              | 720              | -              | 720              |
| Foreign Currency Translation Reserve   | -                | -          | -                | -                | 468,904        | 468,904          |
| Retained earnings                      | (425,919)        | -          | (425,919)        | (582,008)        | (38,733)       | (620,741)        |
| <b>Total equity</b>                    | <b>2,877,295</b> | <b>-</b>   | <b>2,877,295</b> | <b>5,865,809</b> | <b>430,171</b> | <b>6,295,980</b> |

## Notes to the condensed consolidated interim financial statements

### 13. Explanation of transition to AIFRS (continued)

#### Notes to the reconciliation of equity

The impact on deferred tax, if any of the adjustments described below is set out in note (o).

- (a) The consolidated entity has applied AASB 121 “The Effects of Changes in Foreign Exchange Rates” in respect of the translation for reporting purposes of its foreign operation. Under the requirements of AASB 121 the Assets and Liabilities of the group’s foreign operations are translated at the rate of exchange at the balance date, with items of income and expense being translated at the rates of exchange at the date of the transaction. Previously the groups controlled entities were considered to be integrated operations, with certain non-monetary assets being translated at historical rates of exchange and all exchange differences being recognised through the Profit and Loss. Under AASB 121, the gain or losses arising from the translation of these operations will be recognised through the Foreign Currency Translation Reserve as a component of equity. .

This has resulted in an adjustment as at 30 June 2005 as follows

|   |           |
|---|-----------|
| Property Plant and Equipment                  | 2,672     |
| Exploration Expenditure                       | 427,499   |
| Foreign Exchange Gain/Loss (Income Statement) | 430,171   |
| Foreign Exchange Gain/Loss (Income Statement) | (468,904) |
| Foreign Currency Translation Reserve          | 468,904   |

- (b) Under AIFRS the balance sheet method of tax effect accounting is adopted rather than the liability method previously applied under GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group presently offsets deferred tax assets and deferred tax liabilities relating to the same taxation authority.

The residual of any deferred tax assets are not presently recognised as they do not meet the ‘highly probable’ requirements of AASB 112.

Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

## Notes to the condensed consolidated interim financial statements

### 13. Explanation of transition to AIFRS (continued)

#### Notes to the reconciliation (continued)

#### Reconciliation of profit for 2005

|                                      | Note | For the ten months ended<br>31 Dec 2004 |                                      |           | For the year ended<br>30 Jun 2005 |                                      |           |
|--------------------------------------|------|---|--------------------------------------|-----------|-----------------------------------|--------------------------------------|-----------|
|                                      |      | Previous<br>GAAP                        | Effect of<br>transition<br>to AIFRSs | AIFRSs    | Previous<br>GAAP                  | Effect of<br>transition<br>to AIFRSs | AIFRSs    |
|                                      |      | Revenue                                 | 49,467                               | -         | 49,467                            | 86,490                               | -         |
| Other Income                         | -    | -                                       | -                                    | -         | -                                 | -                                    |           |
| <b>Total Income</b>                  |      | 49,467                                  | -                                    | 49,467    | 86,490                            | -                                    | 86,490    |
| Depreciation Expense                 |      | 12,823                                  | -                                    | 12,823    | 26,545                            | -                                    | 26,545    |
| Administrative expenses              |      | 448,161                                 | -                                    | 448,161   | 664,967                           | -                                    | 664,967   |
| Other operating expenses             | (a)  | 14,402                                  | -                                    | 14,402    | (36,339)                          | 38,733                               | 2,394     |
| <b>Profit before financing costs</b> |      | (425,919)                               | -                                    | (425,919) | (568,683)                         | (38,733)                             | (607,416) |
| Financial income                     |      | -                                       | -                                    | -         | -                                 | -                                    | -         |
| Financial expenses                   |      | -                                       | -                                    | -         | 13,325                            | -                                    | 13,325    |
| <b>Net financing costs</b>           |      | -                                       | -                                    | -         | (13,325)                          | -                                    | (13,325)  |
| <b>Profit before tax</b>             |      | (425,919)                               | -                                    | (425,919) | (582,008)                         | (38,733)                             | (620,741) |
| Income tax expense                   |      | -                                       | -                                    | -         | -                                 | -                                    | -         |
| <b>Profit after tax</b>              |      | (425,919)                               | -                                    | (425,919) | (582,008)                         | (38,733)                             | (620,741) |

### 14. Change in accounting policy

#### Reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005

In the current financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has not resulted in any material impacts to the balance sheet or income statement.

## Directors' declaration

In the opinion of the directors of Mirabela Nickel Limited ("the company"):

1. the financial statements and notes set out on pages 8 to 26, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 15<sup>th</sup> day of March 2006.

Signed in accordance with a resolution of the directors:



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Craig Burton  
*Director*



## **Independent review report to the members of Mirabela Nickel Limited**

### ***Scope***

#### *The financial report and directors' responsibility*

The financial report comprises the condensed consolidated interim income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Mirabela Nickel Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Mirabela Nickel Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

#### *Review approach*

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.



***Statement***

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Mirabela Nickel Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 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; and
- b) other mandatory financial reporting requirements in Australia.

*KPMG*

KPMG

T R HART  
*Partner*

Perth

*15* March 2006