

## **DIRECTORS' REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

The Directors present their report together with the financial report of Lincoln Minerals Limited for the half year ended 31 December 2010 together with the Auditor's review report thereon.

### **DIRECTORS**

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

<b><i>Name</i></b>	<b><i>Period of directorship</i></b>
<b><i>Non-executive</i></b>	
Richard V. Ryan	Appointed 10 November 2006 and Chairman from that date
Peter E. Cox	Appointed 16 October 2006
Robert A. Althoff	Appointed 5 July 2005
Eng H. Lim	Appointed 5 October 2010
<b><i>Executive</i></b>	
Dr A John Parker	Appointed 16 October 2006 as Managing Director from that date

### **RESULTS**

The Group made a loss after tax of \$699,000 (2009: \$1,934,520). In six months to 31 December 2010 the Group capitalised \$760,953 (2009: \$303,580 net write-down) of net exploration and evaluation expenditure and expensed \$110,311 (2009: \$571,664) of such expenditure that was unable to be carried forward. The Group also acquired land for development at Gum Flat in the period incurring \$499,055. Interest income was \$62,969 (2009: \$57,846). Cash at the end of December 2010 was \$1,669,559 (2009: \$2,923,210).

### **REVIEW OF OPERATIONS**

#### **SUMMARY**

##### *Ongoing Growth*

- Scoping studies completed on advanced Gum Flat iron ore project in SA
- Mining Lease Application in progress on advanced Gum Flat iron ore project in SA
- Production target for Stage 1 Gum Flat hematite DSO mine mid-2012
- Drilling undertaken at Gum Flat and Eurilla targeting additional hematite iron resources
- Secured highly prospective new exploration areas for iron ore on central Eyre Peninsula
- New aeromagnetic survey to be flown over high priority copper targets
- Acquired land for development of Gum Flat

*Gum Flat Iron Ore Project (SA's Eyre Peninsula; LML 100%)*

- 103 million tonne iron ore Inferred and Indicated Mineral Resource
- Potential to commence mining 0.5 Mtpa DSO hematite in 2012 subject to mineable reserves, port access, finance and regulatory approvals
- Low grade hematite (45-55% Fe) can be upgraded to >55% Fe by gravity and magnetic separation
- Potential to mine and beneficiate magnetite in 2015 after hematite DSO
- Increased exploration target (\*\*) 350-850 Mt @ 20-35% Fe including magnetic targets near Port Lincoln and Tulka
- Purchased freehold property over Barns Prospect
- Drilling program undertaken to test hematite DSO targets at Barns
- Two new zones of elevated hematite mineralisation (45-55% Fe) located
- Additional groundwater monitoring wells established
- Conceptual Stage 1 mine plan prepared
- Baseline fauna and flora studies undertaken for Mining Lease Application
- Export road transport and storage options reviewed
- Community consultation program in progress

*Eurilla Iron Ore – Uranium Project (SA's Eyre Peninsula; LML 100%)*

- 22 million tonne iron ore Inferred Mineral Resource
- Iron ore exploration target (\*\*) 50-100 Mt @ 30-35% Fe
- Drilling program undertaken to test iron and uranium targets

*Nantuma Iron Ore Project (SA's Eyre Peninsula; LML 100%)*

- New exploration license application adjacent to Warramboe-Central Eyre Iron Project
- Significant iron ore potential over more than 20km strike length

*Cockabidnie Nickel-Cobalt-Scandium Project (SA's Eyre Peninsula; LML has rights to all metals except iron)*

- Scandium anomalies up to 51 ppm Sc associated with nickel-cobalt mineralisation

*Tumby Bay Copper, Uranium & Base Metals Project (SA's Eyre Peninsula; LML has rights to all metals except iron)*

- High resolution aeromagnetic and radiometric survey to be flown

*Timor Manganese Project (Indonesia)*

- High grade manganese identified in western Timor

*Corporate*

- Exploration Licenses and applications in South Australia expanded to total 5,103 km<sup>2</sup>
- Former Wanilla JV on EL 3702 now 100% owned by LML
- Founding member of Eyre Peninsula Mining Alliance.

*\*\* It is emphasized that exploration target tonnage estimates given in this report are entirely conceptual in nature. There has been insufficient drilling in the immediate areas of these targets and it is uncertain if further exploration will result in the estimation of a Mineral Resource.*

## AUSTRALIAN OPERATIONS

### **Gum Flat Iron Ore Project – EL 4643** (*LML has exclusive rights to all minerals*)

Lincoln's flagship Gum Flat Iron Ore Project is located on eastern Eyre Peninsula which is a major world-class iron ore province and which potentially contains more than 10 billion tonnes (Bt) of iron ore extending from the Middleback Ranges to Port Lincoln.

Gum Flat EL 4643 (formerly EL 3422) contains a number of priority magnetic targets including Barns, Rifle Range and the Port Lincoln-Tulka suite. All are within 20km of Port Lincoln, an existing port capable of handling Panamax ships up to 15m draft, and within 100km of a proposed new bulk minerals handling port planned for loading Cape-size ships at Sheep Hill.

More than 100 million tonnes of iron ore have been identified in the Barns-Rifle Range area, most of it magnetite but with some hematite suitable for direct shipping (DSO). The magnetite would need to be processed into a high grade concentrate before it can be exported.

Subject to proving sufficient reserves, access to appropriate port facilities and obtaining suitable project finance and all necessary approvals, Lincoln Minerals proposes to commence exporting Direct Shipping Ore (DSO) in the latter half of 2012 via the main wharf at Port Lincoln.

The Company is currently considering a three-stage development option:

- Stage 1 – mine and export 500,000 tonnes per annum hematite DSO via Port Lincoln
- Stage 1b – mine ~1 million tonnes per annum (Mtpa) lower grade hematite and process to produce about 400,000 tonnes p.a. upgraded fines for export via Port Lincoln
- Stage 2 – mine 10 Mtpa magnetite and process onsite to produce about 2 Mtpa high grade concentrate for export via Port Lincoln or maybe Sheep Hill.

EL 4643 is also prospective for polymetallic minerals including gold, uranium, base metals (copper, lead, zinc, nickel) and graphite.

#### *Gum Flat Resources*

- Total magnetite Inferred Resource 99 Mt at 24.4% Fe (20.6% DTR magnetite concentrate)
- Barns hematite DSO Indicated Resource 0.9 Mt at 54.2% Fe or 58% CaFe (calcined Fe after removal of water)
- Total Inferred and Indicated hematite 3.6 Mt at 46.2% Fe
- Total high priority Exploration Targets (\*\*) for magnetite and hematite in the Barns-Port Lincoln-Tulka area (including the above resources) 350-850 Mt @ 20-35% Fe

#### *Scoping Study*

Early during the July-September quarter, a scoping study was completed into the costs of potential mining, development and export of both the hematite DSO and magnetite iron ore at Gum Flat.

Options considered included:

#### Hematite

- Mine & export 0.5 Mtpa DSO fines (55% Fe)
- Mine 1 Mtpa low grade hematite and process to produce ~0.4 Mtpa upgraded fines (>55% Fe)

#### Magnetite

- Mine 5 Mtpa or 10 Mtpa ore and process onsite to produce, respectively, 0.97 Mtpa or 1.95 Mtpa high grade concentrate (67% Fe)
- Mine 5 Mtpa or 10 Mtpa ore and part process to produce a coarse low grade concentrate (~35-40% Fe) for sale to a third party

The Scoping Study was jointly undertaken by WorleyParsons Pty Ltd (calculation of operating and capital expenditures), AMC Consultants Pty Ltd (resource modelling and mine optimisation), Aldam Geoscience Pty Ltd (groundwater), Calibre Projects Pty Ltd (hematite metallurgy) and Ferrum Consultants Pty Ltd (marketing advice) with input from Lincoln Minerals' own staff as and where appropriate.

#### *Mining and Processing (Stage 1)*

A draft or conceptual mine plan has been drawn up for Stage 1 mining of the Barns Prospect DSO hematite deposit:

- Mine 0.5 Mtpa DSO hematite from open cut pit
- Crush ore to minus 10mm hematite fines product and transport to Port Lincoln in containers or covered trucks
- Stage 1b would involve constructing a gravity concentration plant at Barns to produce a fines concentrate for export
- Capital expenditure and long term operating costs are likely to be among the lowest in Australia – initial hematite DSO capital expenditure is \$30-50 million depending on storage options, and the operating cost will be about \$20/t.

#### *Transport*

Three transport options are being considered to move ore and concentrate from Gum Flat to Port Lincoln: road, rail and, for magnetite only, a slurry pipeline.

- The road option under consideration for Stage 1 would typically involve about 4 B-Double trucks/hour, 12 hours/day, 5.5 days/week, a truck wash at the mine site and Port Lincoln, an upgrade of approximately 10km of Duck Pond Road and modification of the Flinders Highway intersection. Road transport is the only viable option for Stage 1.
- The rail option would involve building either a spur line into Barns or a loading facility at Coomunga, plus a rail unloader at Port Lincoln. This is not a viable option.
- A slurry pipeline would follow Duckpond Road and the rail easement into Port Lincoln. A dewatering filtration system would be installed in the storage shed and water returned to mine site. This option is only viable for Stage 2 magnetite.

Stage 1 production would involve one Panamax ship every 5-6 weeks.

Other alternatives considered are road to the planned new Sheep Hill bulk commodities port 70km northeast of Port Lincoln and road to Lucky Bay (near Cowell) where a barging operation has been proposed.

#### *Material Storage and Handling*

There are two options, both subject to approvals, for storage and handling at Port Lincoln: containers and bulk.

- Containers are being used successfully by IMX Resources Limited at Port Adelaide and a similar system could be installed and operated at Port Lincoln. Containerised ore would be stored on the wharf or nearby and loaded into ships' holds either from the main wharf or offshore via barges using a tippler or similar system with mist spray to control any dust.
- The alternative is to store ore in a negatively-pressured shed at Port Lincoln and load it directly into ships' holds via a negatively-pressured or fully enclosed conveyor system. Trucks would be unloaded in an enclosed shed.

#### *Drilling Program*

A 3km long zone of potential hematite alteration and enrichment has been identified at the Barns Prospect. Not all of this zone may be enriched but the exploration target (\*\*\*) for hematite along this zone is 2.4 Mt to 13.8 Mt at an average grade of 45-60% Fe including some DSO.

A 5,000m Reverse Circulation (RC) drilling program commenced in mid November 2010 to test this zone and exploration targets for potential DSO hematite and to establish inferred and/or indicated Mineral Resources for such.

Up to the end of December 2010, a total of 3,712m of drilling was completed including some groundwater monitoring wells.

Only limited assay results have been received to date but they include two zones of elevated hematite mineralisation. Neither zone contains DSO >55% Fe but there are intervals where CaFe is above 55%. Both zones may be suitable for simple beneficiation using a jig, gravity spiral and/or Wilfley table.

### *Mining Lease Application*

During the 6 months, Lincoln commenced baseline studies in preparation for a Mining Lease Application at Gum Flat. Studies include ongoing groundwater observations, pump testing and modelling, environmental baseline studies in regard to flora and fauna, community engagement and more detailed planning and engineering work to optimise mine development.

The flora and fauna surveys were undertaken by EBS Ecology and included:

- establishing trap sites in the Barns Prospect area to trap and record the main fauna communities;
- establishing survey sites in representative locations to define and map vegetation associations, assess the condition, and maximise the species diversity observed;
- identifying the diversity, abundance, and distribution of exotic weed species;
- mapping the vegetation associations of the proposed Haul Road alignment; and
- conducting a fauna habitat assessment of the proposed Haul Road alignment.

Fourteen vegetation sites were established and eight sites were surveyed for mammals, reptiles, frogs, and birds for up to four consecutive nights. The final report is pending and will be released with the Mining Lease Application.

### *Forward Planning*

The proposed timetable for development at Gum Flat is to lodge the ML application mid 2011, seek all necessary approvals by early 2012, commence mining (overburden removal) mid 2012 and start exporting DSO late 2012. It is emphasised that this is subject to obtaining regulatory approvals and project finance.

### **Eurilla Iron Ore and Uranium Project – EL 3690** (*LML has exclusive rights to all minerals*)

The Eurilla Project area is along strike from the Wilcherry Hill magnetite (gold) and Menninnie Dam zinc-lead-silver deposits to the northwest and has potential for iron ore, uranium, gold and/or base metal mineralisation possibly with associated hydrothermal iron oxide and/or sericite alteration.

The *in situ* Inferred Mineral Resource for the Eurilla South iron ore prospect is 21.7 Mt @ 33.3% Fe. Based on a 1.6km strike length of high intensity aeromagnetic anomalies, Lincoln considers the combined exploration target (\*\*) for the Eurilla South and Jungle Dam prospects is 50-100 Mt @ 30-35% Fe with potential for a small amount of direct shipping iron ore (DSO).

In addition to iron ore at Eurilla, Lincoln has previously identified within EL 3690, a zone of uranium mineralisation approximately 200m wide and at least 200m long open both to the north and south along strike. Drilling results from 2007 and 2008 include intervals grading up to 0.06% U accompanied by up to 0.5% base metal (Zn+Pb+Ni+Cu+Co) in a weathered cap rock overlying pyritic and graphitic units of the Middleback Subgroup.

During the 6 months to end December 2010, Lincoln Minerals undertook an aircore/slimhole RC drilling program of 3,277m, focusing on extensions to iron ore resources, both along strike and at depth, and evaluating the strike and depth extent of the uranium mineralisation.

### **Nantuma Iron Ore Project – ELA 384/10** (*LML has applied for the rights to all metals*)

Lincoln Minerals is set to expand its iron ore footprint on South Australia's Eyre Peninsula and has applied for a licence area immediately west of Iron Road Limited's Warramboe-Central Eyre Iron Project.

The Nantuma target area comprises 510 square kilometres and includes the western extensions of the Warramboe and Kopi suites of magnetic anomalies.

There is a total of at least 25km of moderate to high intensity aeromagnetic anomalies within ELA 384/10. This represents a significant exploration target for iron ore at similar grades to what Iron Road has identified at Warramboe.

Importantly, it adds to Lincoln Minerals' iron ore footprint at a time when Eyre Peninsula – home to Australia's first iron ore mining operations – is re-emerging under modern exploration technologies and methods as an Australian iron province with substantial remaining upside.

### **Cockabidnie Nickel-Cobalt-Scandium Project – EL 3609** *(LML has rights to all metals except iron)*

Recently, Lincoln Minerals re-evaluated results from its 2008 lateritic nickel-cobalt drilling program. Results obtained from portable XRF analysis showed occurrences of anomalous scandium. Of these, several pulps with anomalous scandium were subsequently re-assayed (laboratory ICPMS). The new assays gave values ranging between 13 ppm and 51 ppm Sc (mean 33.5 ppm) with six samples having above 40 ppm Sc.

The scandium mineralisation is spatially associated with anomalous nickel in the Coompana Syncline, and has a strike extent of 700 m and a width of 300 m. Because the initial sampling did not capture all of the anomalous scandium detected by portable XRF, the scandium mineralisation may be distributed over a much wider area.

A program to define the extent of the scandium mineralisation and identify economic grades is being planned.

### **Tumby Bay-Koppio-White Flat-Greenpatch base metals – ELs 3611, 3731 and 3877** *(LML has rights to all metals except iron)*

Eyre Iron Pty Ltd, the JV company established between Centrex Metals Limited (CXM), the SA Iron Ore Group Pty Ltd and Wuhan Iron and Steel Group (WISCO), contracted Fugro Airborne Surveys Pty Ltd to fly a 15,422 line kilometre combined aeromagnetic and radiometric survey over the Lincoln Uplands commencing in late January 2011. The survey will be flown at a nominal height of 40m above ground level and 40m line spacing.

Under the terms of the Coordination and other agreements between the CXM group and Lincoln Minerals, the survey data and maps will be shared with Lincoln Minerals.

This is a large, very detailed survey and will greatly facilitate Lincoln Minerals exploration for copper, nickel, vanadium and other metals excluding iron in this region. In particular, the radiometrics will be invaluable for uranium exploration. There are several uranium prospects in the proposed survey area including Carinya and White Flat where mapping using a field portable Niton XRF analyser identified uranium mineralisation grading up to 1.08% U.

Results from the aeromagnetic-radiometric survey are expected about March 2011.

### **Other South Australian Projects**

Lincoln Minerals has the rights for all metals and minerals other than iron ore on the majority of Centrex Metals Limited's ELs on Eyre Peninsula.

CXM and its Chinese joint venture partners, the Baogang Group and WISCO, are undertaking major drilling programs at, respectively, Bungalow (EL 3610) near Cowell and on their southern tenements near Port Neill and Tumby Bay (ELs 3611, 3731, 3877 and 4384).

Lincoln Minerals is maintaining an active role in monitoring these drilling programs and examining drillcore for other minerals including copper and vanadium that might be of interest.

No significant exploration was undertaken on Lincoln's other South Australian tenements during the 6 months to end December 2010.

### **INDONESIAN OPERATIONS**

Lincoln Minerals has continued to review and undertake due diligence on a number of projects in Indonesia with particular emphasis on western Timor. The Company is focusing on areas close to established infrastructure including existing port facilities and has its own drilling rig and Indonesian field crew.

Geological reconnaissance and surface geochemical sampling were undertaken on projects in western Timor. Shallow surface outcrops have located up to 55% Mn along a 4km long zone of mineralisation near Lampung. Follow-up work is being planned.

## **EVENTS SUBSEQUENT TO BALANCE DATE**

On 3 February 2011, the Company announced a one for seven non-renounceable rights issue to raise approximately \$2.5 million partially underwritten to the extent of \$2.0 million. It is intended that the net proceeds from the rights issue will be used for the following purposes:

- To provide funding for further exploration at the Gum Flat iron ore project,
- To provide funding for further feasibility studies at the Gum Flat iron ore project, and
- To provide funding for exploration work on the Company's other exploration licences.

On 9 March 2011, the Company announced that shareholders subscribed for 16,404,034 shares in the 1 for 7 rights issue raising approximately \$2.46 million before associated costs. The shortfall of the rights issue, which closed on 4 March 2011, was 304,529 shares.

## **AUDITOR'S INDEPENDENCE DECLARATION**

We have obtained the independence declaration from our auditor KPMG, a copy of which is attached to and forms part of this report.

Dated at Adelaide, South Australia this 11<sup>th</sup> day of March 2011 and signed in accordance with a resolution of the Directors.

R V Ryan, Director

*Information in this report that relates to exploration activity and results was compiled by Dr A J Parker who is a Member of the Australasian Institute of Geoscientists. Dr Parker is Managing Director of Lincoln Minerals Limited and has sufficient experience relevant to the styles of mineralisation and to the activities which are being reported to qualify as a Competent Person as defined by the JORC code, 2004. Dr Parker consents to the release of the information compiled in this report in the form and context in which it appears.*



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

To: the directors of Lincoln Minerals Limited

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 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*

KPMG

A handwritten signature in black ink, appearing to read 'Derek Meates', written in a cursive style.

Derek Meates  
*Partner*

Adelaide

11 March 2011

**LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY**  
**ABN 50 050 117 023**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the six months ended**

	Note	<u>31 December 2010</u>	<u>31 December 2009</u>
		\$	\$
Overhead recoveries – joint venture partner		-	7,833
<b>TOTAL REVENUE</b>		<b>-</b>	<b>7,833</b>
Exploration and evaluation expenditure previously capitalised written off		-	(909,173)
Exploration and evaluation expenditure not capitalised – current period	10	(110,311)	(571,664)
Corporate and administrative expenses	6	(651,658)	(519,362)
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>(761,969)</b>	<b>(1,992,366)</b>
Finance income - interest		62,969	57,846
<b>LOSS BEFORE INCOME TAX</b>		<b>(699,000)</b>	<b>(1,934,520)</b>
Income tax expense	7	-	-
<b>NET LOSS FOR THE PERIOD</b>		<b>(699,000)</b>	<b>(1,934,520)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>(699,000)</b>	<b>(1,934,520)</b>
Basic loss per share (cents)		(0.60)	(1.78)
Diluted loss per share (cents)		(0.60)	(1.78)

The accompanying notes form part of these financial statements

**LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 31 December 2010

	<u>Issued capital</u>	<u>Accumulated</u> <u>losses</u>	<u>Share based</u> <u>payments</u> <u>reserve</u>	<u>Total equity</u>
	\$	\$	\$	\$
Balance at 1 July 2010	18,422,597	(4,825,204)	84,696	13,682,089
Total comprehensive income for the period				
Loss for the half year	-	(699,000)	-	(699,000)
Total comprehensive income for the period	-	(699,000)	-	(699,000)
Transactions with owners, recorded directly to equity				
Share issues	-	-	-	-
Total transactions with owners	-	-	-	-
Balance at 31 December 2010	18,422,597	(5,524,204)	84,696	12,983,089
Balance at 1 July 2009	9,328,068	(2,856,663)	84,696	6,556,101
Total comprehensive income for the period				
Loss for the half year	-	(1,934,520)	-	(1,934,520)
Total comprehensive income for the period	-	(1,934,520)	-	(1,934,520)
Transactions with owners, recorded directly to equity				
Share issues	837,482	-	-	837,482
Share issue expenses	(39,299)	-	-	(39,299)
Total transactions with owners	798,183	-	-	798,183
Balance at 31 December 2009	10,126,251	(4,791,183)	84,696	5,419,764

The accompanying notes form part of these financial statements

**LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<u>Note</u>	<u>31 December 2010</u> \$	<u>30 June 2010</u> \$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	8	1,669,559	3,456,894
Trade and other receivables		124,069	451,251
<b>TOTAL CURRENT ASSETS</b>		<b>1,793,628</b>	<b>3,908,145</b>
NON CURRENT ASSETS			
Plant and equipment	9	211,816	228,042
Exploration and evaluation	10	10,876,307	10,115,354
Intangibles	9	33,959	2,916
Land – at cost	9	499,055	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>11,621,137</b>	<b>10,346,312</b>
<b>TOTAL ASSETS</b>		<b>13,414,765</b>	<b>14,254,457</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables		367,346	505,177
Employment entitlements – annual leave		64,330	67,191
<b>TOTAL CURRENT LIABILITIES</b>		<b>431,676</b>	<b>572,368</b>
<b>TOTAL LIABILITIES</b>		<b>431,676</b>	<b>572,368</b>
<b>NET ASSETS</b>		<b>12,983,089</b>	<b>13,682,089</b>
<b>EQUITY</b>			
Contributed equity	11	18,422,597	18,422,597
Reserves	12	84,696	84,696
Accumulated Losses		(5,524,204)	(4,825,204)
<b>TOTAL EQUITY</b>		<b>12,983,089</b>	<b>13,682,089</b>

The accompanying notes form part of these financial statements

**LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended

	<u>Note</u>	<u>31 December 2010</u> \$	<u>31 December 2009</u> \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(683,931)	(481,357)
Overhead recoveries – joint venture partner		-	13,503
Interest received		74,241	50,989
Income tax R&D grant received		313,153	24,875
Net cash (outflow) from operating activities		<u>(296,537)</u>	<u>(391,990)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Exploration expenditure		(893,229)	(1,013,999)
Less, exploration expenditure – joint venture contributions		-	112,530
Less, SA Govt PACE Grant received		-	50,000
Payments for acquisition of property, plant and equipment		(20,860)	(19,226)
Payments for acquisition of land		(539,055)	-
Payments for acquisition of intangibles		(37,654)	-
Net cash inflow/(outflow) from investing activities		<u>(1,490,798)</u>	<u>(870,695)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share issues		-	837,482
Share issue expenses		-	(115,089)
Net cash inflow/(outflow) from financing activities		<u>-</u>	<u>722,393</u>
Net increase/(decrease) in cash and cash equivalents		<u>(1,787,335)</u>	<u>(540,292)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<u>3,456,894</u>	<u>3,463,502</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	<u>1,669,559</u>	<u>2,923,210</u>

The accompanying notes form part of these financial statements

# LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Lincoln Minerals Limited (the Company) is a company domiciled in Australia, whose shares are publicly traded on ASX Limited.

The condensed consolidated interim financial report of the Company for the six months ended 31 December 2010 comprises the Company and its wholly owned subsidiary Lincoln Asia-Pacific Limited which was incorporated in Australia on 9 November 2009 (together referred to as the "Consolidated Entity").

### 2. STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not contain all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2010. The 2010 annual financial report is available from the Company's registered office at 28 Greenhill Road, Wayville SA 5034 or at [www.lincolnminerals.com.au](http://www.lincolnminerals.com.au)

The consolidated interim financial report was approved by the Board of Directors on 11 March 2011.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2010.

None of the Australian Accounting Standards or Interpretations available for early adoption has been early adopted by the Company as none is considered to have a significant impact on the Consolidated Entity.

#### (i) **Presentation of transactions recognised in other comprehensive income**

From 1 July 2010 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated loss per share or net loss.

### 4. ESTIMATES

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, 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 statement as at and for the year ended 30 June 2010.

## LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY

### 5. GOING CONCERN

The financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. As at 31 December 2010 the Consolidated Entity had accumulated losses of \$5.5m. However, net assets are \$12.9m and the Directors believe that the Consolidated Entity has sufficient cash of \$1.7m to pay its debts as and when they fall due, and to fund near-term anticipated exploration and corporate activities for 12 months from the date of this report. It is the intention of the Directors to continue to explore the Consolidated Entity's areas of interest for which rights of tenure are current. The Directors consider that the Consolidated Entity has the ability to fund its projects through a combination of use of existing cash, partnership arrangements and access to equity markets including the non-renounceable rights issue described in note 15. The Directors will take appropriate action to ensure these funds are available as and when they are required.

### 6. CORPORATE AND ADMINISTRATIVE EXPENSES

	<u>Six months ended</u> <u>31 December 2010</u>	<u>Six months ended</u> <u>31 December 2009</u>
	\$	\$
ASX fees	25,986	29,453
Audit fees	15,000	11,000
Depreciation and amortisation of non-current assets	9,301	5,034
Directors' fees	77,000	60,000
Employee benefits expense	128,966	144,436
Head office administration	246,635	127,015
Legal fees	43,644	15,206
Payroll tax	10,015	12,783
Operating lease payments	29,542	28,561
Public relations and shareholder report costs	50,505	67,050
Share registry	15,064	18,824
	<hr/> 651,658	<hr/> 519,362

### 7. INCOME TAX EXPENSE

The Consolidated Entity has no income tax expense for the period. Deferred tax assets in excess of the Consolidated Entity's deferred tax liability arising mainly from evaluation and exploration expenditure have not been recognised in respect of tax losses and deductible temporary differences (net of taxable temporary differences) because it is not probable that future taxable profit will be available against which the Consolidated Entity will be able to utilise the benefits.

### 8. CASH AND CASH EQUIVALENTS

	<u>31 December 2010</u>	<u>30 June 2010</u>
	\$	\$
Cash at bank and in hand	134,140	149,052
Short term deposits	1,535,419	3,307,842
	<hr/> 1,669,559	<hr/> 3,456,894

The Company has no available undrawn loan facilities.

# LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY

## 9. INTANGIBLES, LAND, PLANT AND EQUIPMENT

During the six months ended 31 December 2010 the Consolidated Entity acquired plant and equipment, and intangible assets with a cost of \$58,515. On 30 November 2010 the Consolidated Entity acquired land at Gum Flat for \$499,055. There were no disposals during the period and there are no capital commitments at the interim balance sheet.

## 10. EXPLORATION AND EVALUATION

	<u>2010</u>	<u>2009</u>
Balance at 1 July	10,115,354	2,840,066
Expenditure for the half year	871,264	1,242,529
Less, Joint venture contributions	-	(65,272)
Less, Exploration and evaluation written-off	(110,311)	(1,480,837)
Balance at 31 December	<u>10,876,307</u>	<u>2,536,486</u>

## 11. CONTRIBUTED EQUITY

### (a) Share capital

	<u>31 December 2010</u>	<u>30 June 2010</u>
Fully paid ordinary shares	<u>18,422,597</u>	<u>18,422,597</u>

### Movements in share capital:

#### Fully paid ordinary shares

	<u>Number</u>	<u>\$</u>
Balance at 1 July 2009	90,046,511	9,328,068
Rights issue shortfall, issued July 2009	10,449,775	835,982
Less, share issue expenses	-	(39,299)
Exercise of listed 30 cent options	5,000	1,500
Balance at 31 December 2009	<u>100,501,286</u>	<u>10,126,251</u>
Placement shares	15,000,000	8,250,000
Exercise of unlisted 20 cent options	200,000	40,000
Exercise of listed 30 cent options	1,258,652	377,596
Less, share issue expenses	-	(371,250)
Balance at 30 June 2010 and 31 December 2010	<u>116,959,938</u>	<u>18,422,597</u>

## 12. RESERVES

	<u>31 December 2010</u>	<u>30 June 2010</u>
Share-based payments reserve	\$	\$
Balance at beginning and at the end of the period	<u>84,696</u>	<u>84,696</u>

## LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY

### 13. SEGMENT INFORMATION

During the six months ended 31 December 2010 the Consolidated Entity operated in the mineral exploration industry in Australia. In addition, the Consolidated Entity contributed to a joint venture seeking iron ore and sought to obtain other exploration opportunities in Indonesia. Contributions by geographical segment for the six months ended 31 December 2010 are:

	<u>Australia</u> <u>exploration</u> <u>2010</u> \$	<u>Australia</u> <u>exploration</u> <u>2009</u> \$	<u>Indonesia</u> <u>exploration</u> <u>2010</u> \$	<u>Indonesia</u> <u>exploration</u> <u>2009</u> \$	<u>Unallocated</u> <u>2010</u> \$	<u>Unallocated</u> <u>2009</u> \$	<u>Total</u> <u>2010</u> \$	<u>Total</u> <u>2009</u> \$
Segment revenue	-	7,833	-	-	62,969	57,846	62,969	65,679
Segment result	(24,045)	(621,464)	(79,981)	(851,540)	(594,974)	(461,516)	(699,000)	(1,934,520)
Segment assets	11,576,457	2,671,287	70,642	61,496	1,767,666	3,092,451	13,414,765	5,825,233

### 14. RELATED PARTY TRANSACTIONS

Transactions with Key Management Personnel

Geosurveys Australia Pty Ltd is an entity associated with Dr AJ Parker. During the six months ended 31 December 2010 Geosurveys Australia Pty Ltd provided vehicle and equipment hire to the Consolidated Entity totaling \$3,383 at equal to or less than commercial rates in connection with the business of the Company.

### 15. EVENTS SUBSEQUENT TO BALANCE DATE

On 3 February 2011, the Company announced a one for seven non-renounceable rights issue to raise approximately \$2.5 million partially underwritten to the extent of \$2.0 million. It is intended that the net proceeds from the rights issue will be used for the following purposes:

- To provide funding for further exploration at the Gum Flat iron ore project,
- To provide funding for further feasibility studies at the Gum Flat iron ore project, and
- To provide funding for exploration work on the Company's other exploration licences.

On 9 March 2011, the Company announced that shareholders subscribed for 16,404,034 shares in the 1 for 7 rights issue raising approximately \$2.46 million before associated costs. The shortfall of the rights issue, which closed on 4 March 2011, was 304,529 shares.

# LINCOLN MINERALS LIMITED AND ITS CONTROLLED ENTITY

## DIRECTORS' DECLARATION

In the opinion of the directors of Lincoln Minerals Limited:

1. The financial statements and notes are in accordance with the Corporations Act 2001 including:
  - (i) giving a true and fair view of the Company's financial position as at 31 December 2010 and of its performance for the six months ended on that date;
  - (ii) complying with 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.

Signed in accordance with a resolution of Directors

On behalf of the Board

Richard V Ryan  
Chairman

Dated this 11<sup>th</sup> day of March 2011.  
Adelaide, South Australia



## **Independent auditor's review report to the members of Lincoln Minerals Limited**

### **Report on the financial report**

We have reviewed the accompanying half-year financial report of Lincoln Minerals Limited, which comprises the condensed statement of financial position as at 31 December 2010, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year period ended on that date, a statement of accounting policies and other explanatory notes 1 to 15 and the directors' declaration of the Consolidated Entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period ("Consolidated Entity").

#### *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 the *Corporations Act 2001*. This responsibility includes establishing and maintaining control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Lincoln Minerals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### *Independence*

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



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Lincoln Minerals Limited is not in accordance with the *Corporations Act 2001*, including:

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

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Derek Meates'.

Derek Meates  
*Partner*

Adelaide

11 March 2011