

# **CENTRAL IRON ORE LIMITED**

Condensed Interim Consolidated Financial Statements  
**DECEMBER 31, 2011 AND 2010**

**(Expressed in Australian dollars)**

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**CENTRAL IRON ORE LIMITED****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

AS AT DECEMBER 31, 2011

(Expressed in Australian dollars)

(UNAUDITED)

	DECEMBER 31 2011 \$	JUNE 30 2011 \$	JULY 1 2010 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents (Note 4)	2,506,249	3,154,859	188,700
Receivables (Note 5)	45,861	61,525	32,804
Total current assets	2,552,110	3,216,384	221,504
<b>Non-Current</b>			
Deposits (Note 6)	169,200	165,734	157,110
Plant and equipment (Note 7)	886,090	971,669	1,176,761
Exploration & evaluation assets (Note 8)	2,419,416	2,358,837	2,264,071
Total non-current assets	3,474,706	3,496,240	3,597,942
<b>Total assets</b>	<b>6,026,816</b>	<b>6,712,624</b>	<b>3,819,446</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities (Note 9)	65,114	234,628	349,241
Due to related party (Note 15)	-	40,007	186,243
Loans payable (Note 10)	-	-	754,182
Provision for closure and restoration (Note 7)	50,000	50,000	50,000
Total current liabilities	115,114	324,635	1,339,666
<b>Shareholders' equity</b>			
Capital stock (Note 11)	23,131,329	23,131,329	18,316,680
Reserves	1,600,977	1,600,977	1,224,977
Deficit	(18,820,604)	(18,344,317)	(17,061,877)
Total shareholders' equity	5,911,702	6,387,989	2,479,780
Total liabilities and shareholders' equity	<b>6,026,816</b>	<b>6,712,624</b>	<b>3,819,446</b>

**Nature and continuance of operations** (Note 1)**Commitments and contingencies** (Note 14)

APPROVED AND AUTHORIZED BY THE BOARD ON FEBRUARY 28, 2012:

On Behalf of the Board

"Brett Hodgins"  
Brett Hodgins, Director

"Richard Homsany"  
Richard Homsany, Director

The accompanying notes are an integral part of these financial statements

**CENTRAL IRON ORE LIMITED****CONSOLIDATED STATEMENTS OF OPERATIONS COMPREHENSIVE LOSS AND DEFICIT**

THREE AND SIX MONTHS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Australian dollars)

(UNAUDITED)

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
<b>Expenses</b>				
Amortization	\$ 62,562	\$ 57,106	\$ 125,112	\$ 114,213
Consulting fees	166,576	124,220	218,822	227,664
Interest	-	-	-	19,170
Professional fees	107,984	82,890	151,448	94,067
Listing and filing fees	13,532	9,434	12,323	11,723
Office and miscellaneous expenses	7,504	31,149	29,183	58,065
Property investigation costs	47,553	20,879	57,500	(25,378)
Salaries and management fees	49,571	26,750	81,328	46,000
Travel and accommodation	2,744	21,738	4,093	23,366
<b>Total expenses</b>	<b>458,026</b>	<b>374,166</b>	<b>679,809</b>	<b>568,890</b>
<b>Loss before other items</b>	<b>(458,026)</b>	<b>(374,166)</b>	<b>(679,809)</b>	<b>(568,890)</b>
Other items:				
Interest income	11,274	3,592	47,410	4,703
Other income	150,000	13,812	156,112	26,039
	161,274	17,404	203,522	30,742
<b>Net loss before taxes</b>	<b>(296,752)</b>	<b>(356,762)</b>	<b>(476,287)</b>	<b>(538,148)</b>
Future income tax recovery/liability	-	-	-	-
<b>Net loss for the period</b>	<b>(296,752)</b>	<b>(356,762)</b>	<b>(476,287)</b>	<b>(538,148)</b>
Deficit, beginning of period	(18,523,852)	(17,243,263)	(18,344,317)	(17,061,877)
Deficit, end of period	\$ (18,820,604)	\$ (17,600,025)	\$ (18,820,604)	\$ (17,600,025)
<b>Basic and diluted loss per common share</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>	<b>72,710,718</b>	<b>24,483,349</b>	<b>72,710,741</b>	<b>22,331,175</b>

The accompanying notes are an integral part of these financial statements.

**CENTRAL IRON LIMITED****CONSOLIDATED STATEMENTS OF CASH FLOWS**

THREE AND SIX MONTHS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Australian dollars)

(UNAUDITED)

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (296,752)	\$ (356,762)	\$ (476,287)	\$ (538,148)
Items not involving cash:				
Amortization	62,562	57,107	125,112	114,214
Accrued interest	(3,466)	-	(3,466)	19,170
Stock based compensation	-	-	-	100,000
Write back exploration costs	-	-	-	(67,782)
<i>Changes in non-cash working capital items related to operations</i>				
Receivables	4,785	(12,627)	15,664	(20,317)
Accounts payable and accrued liabilities	25,729	63,994	(169,514)	85,000
<b>Net Cash used in Operating Activities</b>	<b>(207,142)</b>	<b>(248,288)</b>	<b>(508,491)</b>	<b>(307,863)</b>
<b>INVESTING ACTIVITIES</b>				
Restricted cash	-	(2,116)	-	(2,827)
Plant and equipment	(12,848)	-	(39,533)	-
Mineral exploration expenditures	(7,655)	-	(60,579)	-
<b>Net Cash used in Investing Activities</b>	<b>(20,503)</b>	<b>(2,116)</b>	<b>(100,112)</b>	<b>(2,827)</b>
<b>FINANCING ACTIVITIES</b>				
Application monies for common shares	-	659,205	-	659,205
Proceeds to/from related parties	(40,007)	-	(40,007)	-
<b>Net Cash provided by Financing Activities</b>	<b>(40,007)</b>	<b>659,205</b>	<b>(40,007)</b>	<b>659,205</b>
<b>Increase(Decrease) in cash during period</b>	<b>(267,652)</b>	<b>408,801</b>	<b>(648,610)</b>	<b>348,515</b>
<b>Cash, beginning of period</b>	<b>2,773,901</b>	<b>128,414</b>	<b>3,154,859</b>	<b>188,700</b>
<b>Cash, end of period</b>	<b>\$ 2,506,249</b>	<b>\$ 537,215</b>	<b>\$ 2,506,249</b>	<b>\$ 537,215</b>
<b>Cash paid during the period for interest</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the period for income tax</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

There were no significant non-cash transactions for the period ended December 31, 2011.

The accompanying notes are an integral part of these financial statements..

**CENTRAL IRON ORE LIMITED****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Australian Dollars)

(UNAUDITED)

	Number of Shares	Contributed Equity	Deficit	Reserves	Total
<b>Balance at July 1, 2010</b>	19,950,718	\$ 18,316,680	\$ (17,061,877)	\$ 1,224,977	\$ 2,479,780
Net loss for the period	-	-	(538,148)	-	(538,148)
Issuance of shares for services	1,000,000	100,000	-	-	100,000
Subscription agreements - Tranche 1	5,000,000	259,738			259,738
- Tranche 2	-	399,467			399,467
<b>Balance at December 31, 2010</b>	25,950,718	19,075,885	(17,600,025)	1,224,977	2,700,837
<b>Balance at July 1, 2010</b>	19,950,718	\$ 18,316,680	\$ (17,061,877)	\$ 1,224,977	\$ 2,479,780
Net loss for the year	-	-	(1,282,440)	-	(1,282,440)
Private placements	50,000,000	5,648,878	-	-	5,648,878
Issuance of shares for services	1,000,000	100,000	-	-	100,000
Shares issued to agent	1,760,000	123,200	-	-	123,200
Share issuance costs - cash	-	(558,229)	-	-	(558,229)
Share issuance costs – non-cash	-	(499,200)	-	376,000	(123,200)
<b>Balance at June 30, 2011</b>	<u>72,710, 718</u>	<u>23,131,329</u>	<u>(18,344,317)</u>	<u>1,600,977</u>	<u>6,387,989</u>
<b>Balance at July 1, 2011</b>	72,710, 718	23,131,329	(18,344,317)	1,600,977	6,387,989
Net loss for the period	-	-	(476,287)	-	(476,287)
Stock-based compensation	-	-	-	-	-
<b>Balance at December 31, 2011</b>	<u>72,710, 718</u>	<u>\$ 23,131,329</u>	<u>\$ (18,820,604)</u>	<u>\$ 1,600,977</u>	<u>\$ 5,911,702</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CENTRAL IRON ORE LIMITED****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010**

(Expressed in Australian dollars)

**UNAUDITED****1. NATURE AND CONTINUANCE OF OPERATIONS**

Central Iron Ore Limited (the "Company") is in the business of the exploration and evaluation of its mineral properties. The Company was incorporated in Victoria, Australia on February 21, 1996 and currently resides in Sydney, Australia. The address of the Company's corporate office and principal place of business is Level 8, 49-51 York Street, Sydney, NSW 2000, Australia.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet.

	<b>DECEMBER 31, 2011 \$</b>	<b>JUNE 30, 2011 \$</b>
Deficit	(18,820,604)	(18,344,317)
Working capital	2,436,996	2,891,749

**2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS**

The Company commenced reporting under International Financial Reporting Standards ("IFRS") for reporting period commencing July 1, 2011. The transitional date for the Company of July 1, 2010 required restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

Previously the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set in the Handbook of the Canadian Institute of Chartered Accountant ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011.

**CENTRAL IRON ORE LIMITED****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010**

(Expressed in Australian dollars)

**UNAUDITED**

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**2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS (cont'd...)**

These are the Company's IFRS interim consolidated financial statements which have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting. These interim unaudited consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies in Note 3. The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at February 28, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS, that are given effect in the Company's annual consolidated financial statements for the year ended June 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended June 30, 2011. The disclosure in Note 16 provides IFRS information for the comparative year commencing July 1, 2010 that is material to the understanding of these interim consolidated financial statements prepared under IFRS.

**3. SIGNIFICANT ACCOUNTING POLICIES****Use of estimates**

The preparation of financial statements in conformity with IFRS requires that management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Significant accounts that require estimates relate to stock-based compensation, valuation allowance for income taxes, and impairment assessment of long lived assets, and future reclamation provisions.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated upon consolidation. The Company has nine subsidiaries:

- a) Mineral Evaluation Limited: Was involved in the Tanzanian properties, currently dormant.
- b) International Gold Mining Pty Ltd: Dormant subsidiary.
- c) Central West Resources Pty Ltd: Holding company for Iron Ore tenements.
- d) Central East Resources Pty Ltd.
- e) Central South Resources Pty Ltd.
- f) Central North Resources Pty Ltd.

**CENTRAL IRON ORE LIMITED****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010**

(Expressed in Australian dollars)

UNAUDITED

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Principles of consolidation (cont'd...)**

g) South Darlot Mines Pty Ltd: Joint Venturer in the Barrick Joint Venture.

h) South Darlot Gold Pty Ltd.

i) South Darlot Resources Pty Ltd

Note: d, e, f, h and i) were incorporated to acquire Iron Ore tenements from Central Iron Ore Limited. To date the companies have not been used and are dormant.

**Cash**

Cash is comprised of cash held in banks and on hand and term deposits.

**Mineral exploration and evaluation properties**

The interests in which the Company has committed to earn an interest are located in Western Australia.

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation. Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable project has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mines under construction within mine properties, plant and equipment.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

At a future date when the Company transitions from exploration and evaluation activities for the Project to the development stage of the Project, it will apply the following policy.

**Provision for closure and restoration**

An obligation to incur closure and restoration costs arises with the retirement of tangible long-lived assets that the Company is required to settle. Such costs arising from the decommissioning of plant, mines and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.



**CENTRAL IRON ORE LIMITED****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010**

(Expressed in Australian dollars)

UNAUDITED

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Provision for closure and restoration (cont'd...)**

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss. Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

For the period presented, the Company has recorded \$50,000 in provisions for closure and restoration.

**Functional currency**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and each of its subsidiaries is the Australian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Australian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statements of operations, comprehensive loss and deficit.

**Stock-based compensation**

Stock based compensation benefits are provided to employees, directors, officers and consultants via the Company's Stock Option Plan.

The fair value of options granted under the Company's Stock Option Plan is recognized as a stock based compensation expense with a corresponding increase in equity. Their fair value is measured and expensed at grant date as the Company's options are fully vested upon granting.

The fair value at grant date is determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of share purchase options, the fair value of the Company's shares and the risk-free interest rate.

If share purchase options are exercised then the fair value of the options is re-classified from reserves in equity to share capital.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment on non-financial assets**

On an annual basis the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

**Income taxes**

Deferred tax is recorded using the 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. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations.

**CENTRAL IRON ORE LIMITED**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010**

(Expressed in Australian dollars)

UNAUDITED

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the consolidated statement of operations.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the consolidated statement of operations.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in the consolidated statement of operations.

*Other financial liabilities*: This category includes amounts due to related parties and accounts payables and accrued liabilities which are recognized at amortized cost.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **Comprehensive income/(loss)**

Comprehensive income/(loss) is defined as the change in equity (net assets) from transactions and other events from non-owner sources.

#### **New accounting standards and interpretations**

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after July 1, 2011 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

Amendments to IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that were not reclassified.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, and consequential revisions to IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (all effective January 1, 2013) provide revised guidelines on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of "control" for identifying entities which are to be consolidated.

IFRS 13 *Fair Value Measurement* (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

The Company is currently evaluating the impact of these new and amended standards on its financial statements.

#### **Comparative figures**

Certain comparative figures have been reclassified to conform to the current period's presentation.

### **4. CASH AND CASH EQUIVALENT**

	31-Dec-11	30-Jun-11	01-Jul-10
Cash at bank and on hand	1,006,249	754,859	187,833
Term deposits	1,500,000	2,400,000	-
Cash in trust account	-	-	867
	<u>2,506,249</u>	<u>3,154,859</u>	<u>188,700</u>

**CENTRAL IRON ORE LIMITED****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Australian dollars)

UNAUDITED

**5. RECEIVABLES**

The Company's receivables arise from trade and GST receivables that are in the normal course of business. These are broken down as follows:

	31-Dec-11	30-Jun-11	01-Jul-10
Trade receivables	11,102	4,617	-
GST receivable	34,759	56,908	26,402
Accrued from related party	-	-	4,100
Accrued interest receivable	-	-	2,302
	<u>45,861</u>	<u>61,525</u>	<u>32,804</u>

**6. DEPOSITS**

The deposits for the Company are broken down as follows:

	31-Dec-11	30-Jun-11	01-Jul-10
Security deposit - office premises	26,981	26,981	25,611
Indemnity for bank guarantee - Eureka	68,534	66,756	65,010
Indemnity for performance bond - British King	73,685	71,997	66,489
	<u>169,200</u>	<u>165,734</u>	<u>157,110</u>

**7. PLANT AND EQUIPMENT**

	Mine Property	PP&E	Office equipment	Total
Period end December 31, 2011				
Opening net book value	752,151	212,940	6,578	971,669
Additions	36,854	2,679		39,533
Depreciation charge	(90,111)	(33,044)	(1,957)	(125,112)
Closing net book amount	<u>698,894</u>	<u>182,575</u>	<u>4,621</u>	<u>886,090</u>
At December 31, 2011				
Cost or Fair Value	1,494,994	460,303	32,722	1,988,019
Accumulated depreciation	<u>(796,100)</u>	<u>(277,728)</u>	<u>(28,101)</u>	<u>(1,101,929)</u>
	<u>698,894</u>	<u>182,575</u>	<u>4,621</u>	<u>886,090</u>

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**7. PLANT AND EQUIPMENT (cont'd...)**

	Mine Property \$	PP&E \$	Office equipment \$	Total \$
Year end June 30, 2010				
Opening net book value	1,085,161	313,511	15,192	1,413,864
Additions	799	-	-	799
Depreciation charge	(180,879)	(51,487)	(5,536)	(237,902)
Closing net book amount	905,081	262,024	9,656	1,176,761
At July 1, 2010				
Cost or Fair Value	1,442,679	450,960	32,722	1,926,361
Accumulated depreciation	(537,598)	(188,936)	(23,066)	(749,600)
Net book amount	905,081	262,024	9,656	1,176,761
Year end June 30, 2011				
Opening net book value	905,081	262,024	9,656	1,176,761
Additions	27,929	6,664	-	34,593
Depreciation charge	(180,859)	(55,748)	(3,078)	(239,685)
Closing net book amount	752,151	212,940	6,578	971,669
At June 30, 2011				
Cost or Fair Value	1,470,608	457,624	32,722	1,960,954
Accumulated depreciation	(718,457)	(244,684)	(26,144)	(989,285)
Net book amount	752,151	212,940	6,578	971,669

**British King Gold Mine**

The British King Gold Mine is located north of Kalgoorlie, Western Australia. The Company acquired a 100% interest in the British King Mine through the issuance of 10,000,000 common shares at \$0.10 per share.

The Company estimates that the provision for closure and restoration will be approximately \$50,000 for this property. Assumptions used in the calculation for the estimated cash flows were as follows: inflation at the rate of 3% and discount rate of 6%. Certain minimum amounts of the provision will occur each year with the significant amounts to be paid on abandonment of the mineral property interests.

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**8. EXPLORATION AND EVALUATION ASSETS**

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in Western Australia.

For the period ended December 31, 2011, the Company's exploration and evaluation assets consist of:

	Yilgarn Iron Ore Project	South Darlot Gold Project	Eureka Mine	Total
Acquisition Costs:				
Balance, June 30, 2011	-	-	2,196,900	2,196,900
Additions	-	-	-	-
Balance, September 30, 2011	-	-	2,196,900	2,196,900
Exploration Costs:				
Balance, June 30, 2011	-	-	161,937	161,937
Field expenses	43,654	-	16,925	60,579
Balance, December 31, 2011	43,654	-	178,862	222,516
Total Costs	43,654	-	2,375,762	2,419,416

For the year ended June 30, 2011, the Company's exploration and evaluation assets consist of:

	Balance June 30, 2011 Eureka Gold Mine
Acquisition costs:	
Balance, July 1, 2010	\$ 2,196,900
Additions	-
Asset retirement obligations	-
Balance, June 30, 2011	2,196,900
Exploration costs:	
Balance, July 1, 2011	67,171
Field expenses	94,766
Balance, June 30, 2011	161,937
Write-offs/Disposals	-
Total costs	\$ 2,358,837

Note: The total balance at July 1, 2010 was \$2,264,071.

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**8. EXPLORATION AND EVALUATION ASSETS (cont'd...)****Eureka Gold Mine**

The Eureka Gold Mine is located north of Kalgoorlie, Western Australia. The Company acquired a 100% interest in the Eureka Gold Mine through the issuance of 20,000,000 common shares at \$0.10 per share.

**Yilgarn Iron Ore Project**

The Yilgarn Iron Ore Project is located within the Yilgarn Iron Ore Province of Western Australia (Yilgarn).

Through its subsidiary Central West Resources Pty Ltd, the Company has entered into a farm in and joint venture agreement with the Australian Stock Exchange listed Pacific Ore Limited (ASX:PSF) ("Pacific") in respect of the Company's Perinvale North Iron Ore Hub ("Perinvale North Hub") for \$15 million ("Perinvale Joint Venture"). The Perinvale North Hub is located approximately North East of Perth, Western Australia in the Yilgarn Iron Ore Province.

The farm in and joint ventures agreement entitles Pacific to earn up to a 90% interest in the Perinvale Joint Venture by funding expenditure on the Perinvale North Hub in the following manner:

Earn 51% by spending \$1.5 million within 2 years.

Earn an additional 19% by spending a further \$3.5 million within 3.5 years.

Earn an additional 20% by spending a further \$10 million within 5 years.

The Company may elect to maintain its interest in the Perinvale Joint Venture at each stage of the farm in once Pacific has earned a 51% interest.

The Company expensed \$3,383 in project investigation costs related to the project during the quarter.

**South Darlot Gold Project**

The South Darlot Gold Project is North West of Kalgoorlie and includes the British King gold mine which is 100% owned.

During the year ended June 30, 2011 an agreement was entered between the Company (through a 100% owned subsidiary, South Darlot Mines Pty Ltd) and Barrick (Plutonic) Limited and Barrick (Darlot) NL (together Barrick) ("Barrick Agreement") to joint venture by way of earn-in into Barrick's Southern Darlot Gold Project area ("Barrick Joint Venture").

The Barrick Joint Venture tenements are situated south west of Barrick's Darlot gold mine and are contiguous with CIO's current holdings in the area which includes the British King gold mine.

The Barrick Agreement outlines the conditions under which the Company may progressively acquire an initial 51% interest, and management of the Barrick Joint Venture area, with an option to then increase its interest to 70% should it so choose. The agreed initial earn-in period is 24 months from the date of execution of the Barrick Agreement. The total spend required over this period is \$450,000. A further spend of \$250,000 over a further 12 months is required to earn CIO a 70% joint venture interest.



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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities for the Company are broken down as follows:

	31-Dec-11	30-Jun-11	01-Jul-10
Trade Payables	65,114	193,626	259,241
Other Payables	-	41,002	90,000
	<u>65,114</u>	<u>234,628</u>	<u>349,241</u>

All payables and accrued liabilities for the Company fall due within the next 12 months.

**10. LOANS PAYABLE**

Loans payable are unsecured, payable on demand and bear interest at 10% per annum. During the year ended June 30, 2011, the Company repaid all outstanding balances.

**11. CAPITAL STOCK**

Authorized

Unlimited common voting shares, without par value

During the three months ended December, 2011:

The company did not issue any common shares.

**Stock options**

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, employees and consultants, to acquire up to 10% of issued and outstanding common stock. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options granted to employees, directors and officers vest fully four months after the grant date. Options issued to consultants must vest in stages over 12 months with one quarter of the options vesting in any three month period.

The fair value of all share purchase options are expensed over their vesting period and estimated term, with a corresponding increase in contributed surplus.

Upon exercise of share purchase options, the consideration paid by the option holder, together with the amounts previously recognized in contributed surplus, is recorded as an increase to share capital.

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**11. CAPITAL STOCK (cont'd...)****Stock options (cont'd...)**

Stock option transactions and the number of stock options outstanding are summarized as follows:

	December 31, 2011		June 30, 2011	
	Number of Options	CAD \$ Weighted Average Exercise Price	Number of Options	CAD \$ Weighted Average Exercise Price
Outstanding, beginning and end of period	2,015,000	\$ 0.25	2,015,000	\$ 0.25
Options exercisable, end of period	2,015,000	\$ 0.25	2,015,000	\$ 0.25

Stock options outstanding at December 31, 2011 are as follows:

Number of Options	Exercise Price	Expiry Date
2,015,000	\$ 0.25	January 25, 2013

**Stock-based compensation**

During the year ended June 30, 2011 the Company granted no stock options.

**Warrants**

	December 31, 2011		June 30, 2011	
	Number of Warrants	CAD \$ Weighted Average Exercise Price	Number of Warrants	CAD \$ Weighted Average Exercise Price
Outstanding, beginning of period	22,910,514	0.23	910,514	0.50
Granted	-	-	22,000,000	0.20
Expired	(910,514)	-	-	-
Outstanding, end of period	22,000,000	0.23	22,910,514	0.23

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**11. CAPITAL STOCK (cont'd...)****Stock-based compensation (cont'd...)**

Warrants outstanding at December 31, 2011 are as follows:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
5,000,000	\$0.10	October 27, 2013
5,000,000	\$0.10	January 26, 2014
10,000,000	\$0.30	May 26, 2013
2,000,000	\$0.20	May 26, 2013

**12. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the exploration and evaluation of mineral properties in Australia. All of the Company's mineral properties and plant and equipment are located in Western Australia.

**13. FINANCIAL INSTRUMENTS**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, and due to related parties approximate carrying value, which is the amount payable on the consolidated statements of financial position. The Company's other financial instruments, cash and cash equivalents, and deposits, under the fair value hierarchy, are based on level one quoted prices in active markets for identical assets or liabilities.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

**13. FINANCIAL INSTRUMENTS (cont'd...)**

*Credit risk (cont'd...)*

The Company's cash and cash equivalents are held at large Canadian and Australian financial institutions with a portion in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist mainly of tax credits due from the government of Australia. As such, the Company does not believe it is subject to significant credit risk.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2011, the Company had a cash and cash equivalent balance of \$2,506,249 (June 30, 2011 - \$3,154,859) to settle current liabilities of \$115,114 (June 30, 2011 - \$324,635). Management believes that it has sufficient funds to meet its current liabilities as they become due.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has cash balances and term deposits. The interest earned on the term deposits approximates fair value rates, and the Company is not at a significant risk to fluctuating interest rates. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at December 31, 2011, the Company had a total of \$1,500,000 in short-term deposits.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because of the short-term nature of these investments.

b) Foreign currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Canadian dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using cash flow forecasting.

Consolidated companies are required to manage their foreign currency risk against their functional currency. The financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The Company does not hedge its foreign exchange risk exposure.

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**13. FINANCIAL INSTRUMENTS (cont'd...)***Market risk (cont'd...)*

## c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and iron ore, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**14. COMMITMENTS AND CONTINGENCIES**

The Company has entered into an operating lease agreement for premises. The annual lease commitments under the lease are as follows:

Not later than one year	\$ 49,995
Later than one year but not later than five years	<u>70,826</u>
	<b><u>\$ 120,821</u></b>

In order to maintain current rights to tenure to exploration tenements, the Company is required to perform minimum expenditure requirements specified by various governments. The expenditure obligations are subject to renegotiation when application for a mining lease and/or renewal of exploration permits is made. The commitments under these expenditure obligations are as follows:

Not later than one year	\$ 695,520
Later than one year but not later than five years	<u>5,231,726</u>
	<b><u>\$ 5,927,246</u></b>

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**15. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

(a) Paid or accrued \$48,585 (December 31, 2010 : \$56,910) in accounting fees, wages, office and miscellaneous expenses to directors of the Company.

(b) Paid or accrued \$25,200 (December 31, 2010: \$Nil) in consulting fees to officers of the Company.

(c) Paid or accrued \$38,678 (December 31, 2010: \$Nil) in legal fees to Cardinals Corporate Pty Ltd trading as Cardinals Lawyers and Consultants, a related party by way of common directors.

Included in due to related party is \$Nil (June 30, 2011 - \$40,007) (July 1, 2010 - \$90,000) due to directors, former directors and for accounting fees to an officer of the Company.

Included in non-current liabilities – loans payable at December 31, 2011 was \$Nil (June 30, 2011 - \$Nil) (July 1, 2010 - \$754,182) owed to companies owned by directors and former directors of the Company.

These transactions were in the normal course of operations and, in management's opinion, were undertaken with the same terms and conditions as transactions with unrelated parties.

**16. FIRST TIME ADOPTION OF IFRS**

As stated in Note 2, these financial statements are for the period covered by the Company's first interim unaudited financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the financial statements for the periods ended December 31, 2011 and 2010, the financial statements for the year ended June 30, 2011, and the opening IFRS statement of financial position on July 1, 2010, the "Transition Date".

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's consolidated statements of financial position, loss and comprehensive loss and deficit or cash flows for the periods ended December 31, 2011 and 2010, the year ended June 30, 2011 or the opening statement of financial position on July 1, 2010.

**First time exemptions applied**

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening standard of financial position on our transition date of July 1, 2010, and allows certain exemptions on the transition of IFRS. The elections the Company has chosen to apply and that are considered significant to the Company include:

**16. FIRST TIME ADOPTION OF IFRS**

**First time exemptions applied (cont'd...)**

(i) Provision for closure and restoration

Applying International Financial Reporting Interpretation Committee 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1") as of the date of transition to IFRS. IFRIC 1 requires specified changes in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life. The Company has determined the impact on its closure and restoration obligation was immaterial.

(ii) Stock-based compensation charges

IFRS 1 permits first-time adopters to not apply IFRS 2, "Share-based Payments", to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company elected to apply IFRS 2 to equity instruments granted after November 7, 2002 that had not vested by the transition date.

Under Canadian GAAP, share-based compensation expenses can be calculated based on the straight line method or graded method. Under IFRS, only the graded method is permitted. As the Company historically calculated stock based compensation charges using the straight line method, the Company adopted the graded method upon the IFRS transition. The quantitative differences between the methods were Nil and the Company did not recognize stock-based compensation charges on the statement of operations upon transition on July 1, 2010.

(iii) Applying IFRS 1 to eliminate the cumulative foreign translation balance as of the date of transition to IFRS. This balance was combined with the deficit balance in shareholders' equity.

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its Canadian GAAP estimates for the same date.