# CENTRAL IRON ORE LIMITED

Unaudited Interim Consolidated Financial Statements
**DECEMBER, 2010 and 2009**

**(Expressed in Australian dollars)**

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**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**



Notice of No Auditor Review of Interim Financial Statements

The accompanying Unaudited Interim Consolidated Financial Statements for the six months ended December 31, 2010 and 2009 have been prepared by management and have not been the subject of a review by the Company's independent auditor.

Vancouver BC
February 25, 2011

**CENTRAL IRON ORE LIMITED**
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010
(Expressed in Australian dollars)
(UNAUDITED)

| | DECEMBER 31, 2010 $ | JUNE 30 2010 $ |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | 537,215 | 188,700 |
| Receivables | 53,121 | 32,804 |
| Total current assets | 590,336 | 221,504 |
| **Non-Current** | | |
| Deposits | 159,937 | 157,110 |
| Plant and equipment | 1,062,547 | 1,176,761 |
| Mineral properties | 2,331,853 | 2,264,071 |
| Total non-current assets | 3,554,337 | 3,597,942 |
| **Total assets** | **4,144,673** | **3,819,446** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 620,484 | 535,484 |
| Loans payable | 773,352 | 754,182 |
| Asset retirement obligations | 50,000 | 50,000 |
| Total current liabilities | 1,443,836 | 1,339,666 |
| **Shareholders' equity** | | |
| Capital stock (Note 3) | 19,075,885 | 18,316,680 |
| Contributed surplus | 1,224,977 | 1,224,977 |
| Deficit | (17,600,025 | (17,061,877) |
| Total shareholders' equity | 2,700,837 | 2,479,780 |
| Total liabilities and shareholders' equity | **4,144,673** | **3,819,446** |

**Nature and continuance of operations** (Note 1)
**Commitments and contingencies** (Note 6)

APPROVED BY THE DIRECTORS:

On Behalf of the Board

| | |
|---|---|
| *"Brett Hodgins"* | *"Richard Homsany"* |
| Brett Hodgins, Director | 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, 2010 AND 2009
(Expressed in Australian dollars)
(UNAUDITED)

| | Three months ended December 31, 2010 | Three months ended December 31, 2009 | Six months ended December 31, 2010 | Six months ended December 31, 2009 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Amortization | $ 57,106 | $ 58,336 | $ 114,213 | $ 116,672 |
| Consulting fees | 124,220 | 180,725 | 227,664 | 197,073 |
| Interest | - | 21,509 | 19,170 | 38,988 |
| Professional fees | 82,890 | 23,969 | 94,067 | 51,606 |
| Listing and filing fees | 9,434 | 15,165 | 11,723 | 18,424 |
| Office and miscellaneous expenses | 31,149 | 39,200 | 58,065 | 71,529 |
| Property investigation costs | 20,879 | 71,046 | (25,378) | 94,817 |
| Salaries and management fees | 26,750 | - | 46,000 | 20,235 |
| Travel and accommodation | 21,738 | 22,888 | 23,366 | 23,910 |
| **Total expenses** | **374,166** | **432,838** | **568,890** | **633,254** |
| **Loss before other items** | **(374,166)** | **(432,838)** | **(568,890)** | **(633,254)** |
| Other items: | | | | |
| Interest income | 3,592 | 905 | 4,703 | 2,748 |
| Other income | 13,812 | 26,573 | 26,039 | 30,582 |
| | 17,404 | 27,478 | 30,742 | 33,330 |
| **Net loss before taxes** | **(356,762)** | **(405,360)** | **(538,148)** | **(599,924)** |
| Future income tax recovery/liability | - | - | - | - |
| **Net loss for the period** | **(356,762)** | **(405,360)** | **(538,148)** | **(599,924)** |
| Deficit, beginning of period | (17,243,263) | (15,217,183) | (17,061,877) | (15,022,619) |
| Deficit, end of period | $ (17,600,025) | $ (15,622,543) | $ (17,600,025) | $ (15,622,543) |
| **Basic and diluted loss per common share** | $ (0.00) | $ (0.00) | $ (0.00) | $ (0.00) |
| **Weighted average number of common shares outstanding** | 24,483,349 | 201,507,154 | 22,331,175 | 201,507,154 |

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

**CENTRAL IRON ORE LIMITED**
CONSOLIDATED STATEMENTS OF DEFICIT
SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009
(Expressed in Australian dollars)
(UNAUDITED)

| | SIX MONTHS ENDED DECEMBER 31, 2010 $ | SIX MONTHS ENDED DECEMBER 31, 2009 $ |
|---|---|---|
| Balance – beginning of period | (17,061,877) | (15,022,619) |
| Net loss for period | (538,148) | (599,924) |
| Future income tax recovery/liability | | - |
| Balance – end of period | (17,600,025) | (15,622,543) |

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, 2010 AND 2009
(Expressed in Australian dollars)
(UNAUDITED)

| | Three months ended December 31, 2010 | Three months ended December 31, 2009 | Six months ended December 31, 2010 | Six months ended December 31, 2009 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net loss for the period | $ (356,762) | $ (405,360) | $ (538,148) | $ (599,924) |
| Items not involving cash: | | | | |
| Amortization | 57,107 | 58,336 | 114,214 | 116,672 |
| Accrued interest | - | 18,063 | 19,170 | 35,542 |
| Stock based compensation | - | - | 100,000 | - |
| Write back exploration costs | - | - | (67,782) | - |
| *Changes in non-cash working capital items related to operations* | | | | |
| Receivables | (12,627) | (21,017) | (20,317) | (17,598) |
| Accounts payable and accrued liabilities | 63,994 | (145,441) | 85,000 | (46,388) |
| **Net Cash used in Operating Activities** | **(248,288)** | **(495,419)** | **(307,863)** | **(511,696)** |
| **INVESTING ACTIVITIES** | | | | |
| Restricted cash | (2,116) | - | (2,827) | (1,027) |
| Plant and equipment | - | - | - | - |
| Mineral exploration expenditures | - | - | - | (1,733) |
| **Net Cash used in Investing Activities** | **(2,116)** | **-** | **(2,827)** | **(2,760)** |
| **FINANCING ACTIVITIES** | | | | |
| Application monies for common shares | 659,205 | 683,084 | 659,205 | 1,072,015 |
| Proceeds to/from related parties | - | - | - | 15,004 |
| **Net Cash provided by Financing Activities** | **659,205** | **683,084** | **659,205** | **1,087,019** |
| **Increase(Decrease) in cash during period** | 408,801 | 187,665 | 348,515 | 572,563 |
| **Cash, beginning of period** | 128,414 | 394,652 | 188,700 | 9,754 |
| **Cash, end of period** | $ 537,215 | $ 582,317 | $ 537,215 | $ 582,317 |
| **Cash paid during the period for interest** | $ - | $ - | $ - | $ - |
| **Cash paid during the period for income tax** | $ - | $ - | $ - | $ - |

There were no significant non-cash transactions for the period ended December 31, 2010.
The accompanying notes are an integral part of these financial statements.

(Expressed in Australian dollars)

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Central Iron Ore Limited (the "Company") is in the business of the exploration and development of its mineral properties. The Company was incorporated in Victoria, Australia on February 21, 1996 and currently resides in Brisbane, 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.

| | DECEMBER 31, 2010 | JUNE 30, 2010 |
|---|---|---|
| Deficit | $(17,600,025) | $(17,061,877) |
| Working capital | $(853,500) | $(1,118,162) |

## 2. SIGNIFICANT ACCOUNTING POLICIES

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

(Expressed in Australian dollars)

## 3. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2010 | June 30, 2010 |
|---|---|---|
| Plant and equipment | | |
| Plant and equipment | $ 450,960 | $ 450,960 |
| Accumulated depreciation | (211,190) | (188,936) |
| | 239,770 | 262,024 |
| Office equipment | 32,722 | 32.722 |
| Accumulated depreciation | (24,596) | (23,066) |
| | 8,126 | 9,656 |
| Mine property | 1,442,679 | 1,442,679 |
| Accumulated depreciation | (628,028) | (537,598) |
| | 814,651 | 905,081 |
| | $ 1,062,547 | $ 1,176,761 |

## 4. CAPITAL STOCK

| | Number of Shares | Capital Stock | Contributed Surplus |
|---|---|---|---|
| Authorized | | | |
| Unlimited common voting shares, without par value | | | |
| Issued | | | |
| Balance June 30, 2009 | 9,595,580 | $ 17,426,771 | $ 607,672 |
| Private placement | 10,555,138 | 889,909 | 150,924 |
| Share cancellation | (200,000) | - | - |
| Stock based compensation | - | - | 466,381 |
| Balance June 30, 2010 | 19,950,718 | $ 18,316,680 | $ 1,224,977 |
| Consulting fees re mineral exploration | 1,000,000 | 100,000 | - |
| Balance September 30, 2010 | 20,950,718 | $ 18,416,680 | $ 1,224,977 |
| Subscription agreement – Tranche 1 | 5,000,000 | 259,738 | - |
| Subscription agreement – Tranche 2 (part) (Shares issued in January 2011) | - | 399,467 | - |
| Balance December 31, 2010 | 25,950,718 | $ 19,075,885 | $ 1,224,977 |

## 4. CAPITAL STOCK (cont'd )

During the six months ended December 31, 2010:

i) 1,000,000 common shares at a market price of CAD $0.10 were issued as partial consideration for services rendered by three arms' length consultants in relation to identification of prospective iron ore exploration areas.

ii) An aggregate of 5,000,000 common shares at CAD $0.0525 per share were issued equally to Brooklyn Bay Pty Ltd and Golden Sword Investments Pty Ltd each share with an attached warrant exercisable at CAD $0.10 up to 36 months from date of issue.

During the year ended June 20, 2010:

i) At the Annual General Meeting of the Company held on November 30, 2009 approval was given by shareholders to consolidate the share capital on a 10 for 1 basis. All capital stock amounts in these financial statements have been adjusted to reflect the share consolidation.

ii) 10,555,138 common shares were issued at a price of $0.10 per share ($0.10 CAD) for gross proceeds of 1,072,016. Agents were paid a cash commission of $31,183 and received an aggregate of 910,514 warrants. Each warrant entitles the holder to purchase one common share of the Company at $0.50 per share for a period of two years. The agents warrants were valued using the Black Scholes model which resulted in a value of $150,924 (Assumptions: 2 year life, 1.26% risk free rate, 224% Volatility, 0.00% dividend yield).

iii) On March 14, 2010 a share certificate for 200,000 common shares was cancelled due to non-payment of subscription monies. No value had been recorded as share capital prior.

**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.

(Expressed in Australian dollars)

## 4. CAPITAL STOCK (cont'd…)

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

| | December 31, 2010 | | | June 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Number of Options | | CAD $ Weighted Average Exercise Price | Number of Options | | CAD $ Weighted Average Exercise Price |
| Outstanding, beginning of period | 2,015,000 | $ | 0.25 | 750,000 | $ | 0.11 |
| Granted | - | | - | 2,015,000 | | 0.25 |
| Exercised | - | | - | - | | - |
| Expired/cancelled | - | | - | (750,000) | | 0.11 |
| Outstanding, 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, 2010 are as follows:

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

**Stock-based compensation**

During the year ended June 30, 2010 the Company granted 2,015,000 stock options to directors, officers and consultants.

The Company measures the cost of cash-settled share based payments at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted.

2,015,000 options were issued on January 25, 2009 at a fair value of $0.24 per option, for a total value of $466,381.

The above amounts are being expensed over their vesting period as stock-based compensation as the options vest in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders' equity and reduced by the options exercised during the year. The weighted average fair value of options granted during the year was $0.24.

(Expressed in Australian dollars)

## 4. CAPITAL STOCK (cont'd…)

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year:

| | December 31, 2010 | June 30, 2010 |
|---|---|---|
| Risk-free interest rate | - | 1.54% |
| Expected life of options | - | 3 years |
| Annualized volatility | - | 199% |
| Dividend rate | - | 0.00% |

**Warrants**

| | December 31, 2010 | | | June 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Number of Warrants | | CAD $ Weighted Average Exercise Price | Number of Warrants | | CAD $ Weighted Average Exercise Price |
| Outstanding, beginning of period | 910,514 | $ | 0.50 | - | $ | - |
| Granted | 5,000,000 | | 0.10 | 910,514 | | 0.50 |
| Expired | 910,514 | | 0.50 | | | |
| Outstanding, end of period | 5,000,000 | $ | 0.10 | 910,514 | $ | 0.50 |

Warrants outstanding at December 31, 2010 are as follows:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 5,000,000 | CAD $ 0.10 | October 27, 2013 |

## 5. SEGMENTED INFORMATION

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

## 6. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. The fair value of these instruments approximates their carrying value, unless otherwise noted.

**Currency**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company does not use derivative instruments to reduce its foreign currency risk.

**Interest rate risk**

The Company's exposures to interest rate risk arise predominantly from assets and liabilities bearing variable interest rates as the Company intends to hold fixed rate assets and liabilities to maturity.

**Credit risk**

The credit risk in respect to financial assets of the Company which have been recognized in the balance sheet is generally the carrying amount, net of any provision for diminution in value.

## 7. COMMITMENTS AND CONTINGENCIES

The Company has entered into operating lease agreements for premises. The annual lease commitments under these leases are as follows:

| | |
|---|---|
| 2011 | $ 27,546 |
| | $ 27,546 |

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 | $ 350,000 |
| Later than one year but not later than five years | 350,000 |
| | $ 700,000 |

## 8. SUBSEQUENT EVENTS

**Part closing of Tranche 2 – CAD $402,000**

On January 4, 2011 the Company announced that it had partly closed Tranche 2 of its previously announced capital raising of CAD $1.76 million for gross proceeds of CAD $402,000. The Company has now received CAD $664,500 for the issue of:

- 2.5 million common shares of the Company (“Shares”) with 2.5 million attached warrants exercisable at CAD $0.10 up to 36 months from the issue to Golden Sword Investments Pty Ltd (“GSI”).
- 9.2 million Shares with 3.84 million attached warrants exercisable at CAD $0.10 up to 36 months from the issue to Brooklyn Bay Pty Ltd (“Brooklyn”),

Proceeds from the issuance of the securities will be used for repayment of liabilities, for general and administrative expenses and to provide the Company with a working capital reserve. The securities issued in Tranche 1 and 2 are subject to a four month hold period.

Each Share issued under Tranche 2 had an attached one-fifth of one warrant, each whole warrant exercisable at CAD $0.10 up to 36 months from the issue date.

**Closing of balance of Tranche 2 completes capital raising of CAD $1,760,000**

On January 26, 2011 the Company announced that further to its press release dated January 4, 2011 it had closed the balance of Tranche 2 of its previously announced capital raising of CAD $1.76 million for gross proceeds of CAD $1,098,000. Pursuant to the balance of Tranche 2 the Company issued:

- 15.8 million common Shares of the Company (approximately 31% of the outstanding Shares on an undiluted basis based on a total of 50,950,741 Shares currently outstanding) and 3.16 million attached warrants exercisable at CAD $0.10 until January 26, 2014 to Brooklyn.

- 2.5 million Shares (approximately 4.9% of the outstanding Shares on an undiluted basis based on a total of 50,950,741 Shares currently outstanding) and 0.5 million attached warrants exercisable at CAD $0.10 until January 26, 2014 to GSI.

In accordance with the terms and conditions of Tranche 2, the Company agreed with Brooklyn and GSI that, on the closing of Tranche 2 and following payment of specified liabilities up to April 2011, two directors of the Company (apart from Messrs Hodgins and Homsany) will resign from the Board thereby reducing the number of directors of the Company from five to three.

Pursuant to the capital raising, a total of 25,000,000 Shares were issued to Brooklyn representing approximately 49.1% of the total issued and outstanding Shares (approximately 55.2% of the total issued and outstanding Shares assuming all of the 7,000,000 warrants held by Brooklyn are exercised); and a total of 5,000,000 Shares were issued to GSI representing approximately 9.8% of the total issued and outstanding Shares (approximately 14.8% of the total issued and outstanding Shares assuming all of the 3,000,000 warrants held by GSI are exercised).

## 8. SUBSEQUENT EVENTS (cont'd)

A finder's fee consisting of $50,000 and 1,760,000 Shares at a deemed issue price of $0.07, being the closing price of the Shares for the last trading session prior to the announcement of the capital raising on October 15, 2010, will be paid to Minc Stockbroking's nominee in connection with the capital raising.

## 9. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the quarter:

a) The Company received $24,674 (2009: $15,779) in rent from Macarthur Minerals Ltd, a company of which Alan Phillips was a director (resigned November 10, 2009), for offices sub-let by the company in Perth.

b) Paid or accrued $18,410 (2009: $31,382) in consulting and directors fees to Capital Street Group, a company of which David Taylor is a director.

c) Paid or accrued $38,500 (2009: $14,250) in directors fees to other directors of the Company.

d) Paid or accrued $NIL (2009: $10,000) for rent to Strategic Capital, a company of which Alan Phillips is a director, for office space in Brisbane.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.