WESTERN AREAS NL

**ABN 68 091 049 357**

# AUDITED INTERIM FINANCIAL REPORT

# FOR THE SIX MONTHS ENDED 31 DECEMBER 2010

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## CORPORATE DIRECTORY

**Directors**
Terry Streeter (Chairman)
David Cooper
Robin Dunbar
Julian Hanna
David Southam (Appointed 15 November 2010)
Daniel Lougher
Richard Yeates

**Company Secretary**
Joseph Belladonna

**Auditors**
Crowe Horwath Perth Audit Partnership
256 St Georges Terrace
Perth WA 6000

**Bankers**
ANZ Banking Group Limited
77 St Georges Terrace
Perth WA 6000

**Share Registry**

**Australia**
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000

**Canada**
Computershare Investor Services INC
100 University Ave, Suite 800
Toronto Ontario M5J 2Y1

**Stock Exchange**
Australian Stock Exchange Limited &
Toronto Stock Exchange Group
Code : WSA

**Solicitors**
Allion Legal
Level 2, 50 Kings Park Road
West Perth WA 6005

**Registered Office**
Suite 3, Level 1
11 Ventnor Avenue
West Perth WA 6005
Phone (08) 9334 7777
Fax (08) 9486 7866

**Treasury Advisers**
Oakvale Capital Ltd
Level 3, 50 Colin Street
West Perth WA 6005

## DIRECTORS' REPORT

The directors submit the financial report of the consolidated entity for the six months ended 31 December 2010.

The consolidated financial statements are a general purpose financial report prepared in accordance with the Corporations Act 2001, AASB 134 "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report be read in conjunction with the 30 June 2010 annual financial report and any other public announcements made by Western Areas NL during the year in accordance with continuous disclosure requirements arising under the Corporations Act 2001. The financial report covers Western Areas NL and its controlled entities (the "Consolidated Entity"). Western Areas NL is a listed public company, incorporated and domiciled in Australia. The accounting policies adopted are consistent with those of the previous financial year.

The effective date of this report is 14 February 2011.

All amounts in this discussion are expressed in Australian dollars unless otherwise identified.

**Auditor's Declaration**
The lead auditor's independence declaration under s 307C of the Corporations Act 2001 is set out on page 19 for the half-year ended 31 December 2010.

**Forward Looking Statements**
The following Directors report may contain forward-looking statements that involve numerous risks and uncertainties. Actual results of the Company could differ materially from those discussed in such forward-looking statements as a result of the risks and uncertainties inherent in the business.

The Company disclaims any intention or obligation to update or revise the forward looking statements whether as a result of new information or change in business circumstance.

**Directors**
The names of the Company's directors in office during the six months ended and until the date of this report are as below. Unless noted, directors were in office for this entire period.

| | |
|---|---|
| Terence Streeter | Non Executive Chairman |
| David Cooper | Non Executive Director |
| Robin Dunbar | Non Executive Director |
| Richard J Yeates | Non Executive Director |
| Julian Hanna | Managing Director and Chief Executive Officer |
| David Southam | Finance Director (Appointed 15 November 2010) |
| Daniel Lougher | Director of Operations |

**Company Secretary**
Joseph Belladonna

## REVIEW OF OPERATIONS

Mine production has increased significantly during the last two quarters with upward trends in both ore tonnes and grade. High grade ore sources are now available from the completely developed T4 deposit and the large T5 deposit. Production from Flying Fox increased to an average of 1,300 nickel tonnes in ore per month for the Sept and Dec quarters and should sustain these levels in the coming year. Nickel sales were also strong in the half year and the majority of the backlog of concentrate stockpiles has now been sold to BHP Billiton and Jinchuan.

At the Spotted Quoll mine, the Tim King pit is ahead of forecast with an average of 1,400 nickel tonnes in ore per month for the first six months. First high grade ore was intersected in the open pit in the June Qtr and production for the half year has been exceptional due to the high grade and additional ore in the north lode. Development for the Spotted Quoll underground mine will commence early in the June 11 quarter. Current ore reserves at Spotted Quoll should support an 8 to 10 year mine life.

Cash costs for the June and December quarters at the Forrestania Operations were well below guidance of US$2.50, at US$1.86 /lb nickel in concentrate. This places Western Areas well into the lower quartile of nickel sulphide producers.

The exploration expenditure has been increased to advance exploration activity at our regional Sandstone project, additional drilling for resource extensions (Flying Fox and Spotted Quoll) and exploration along the Forrestania tenements.

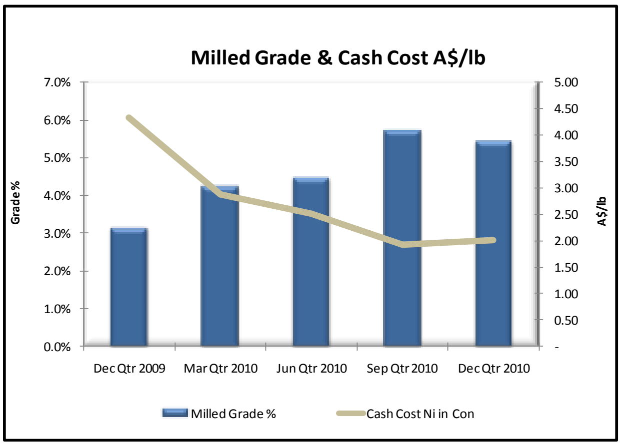
## OPERATIONAL HIGHLIGHTS

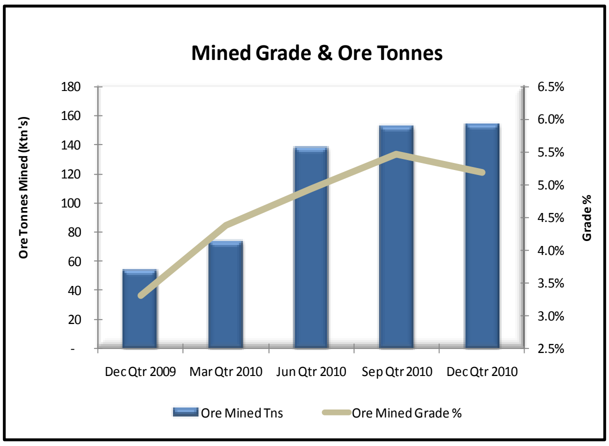
1. Production from Flying Fox mine for the half year was **181,570 tonnes mined at 4.3% nickel for 7,822 tonnes (17.2M lbs) contained nickel.**
2. Production from the Tim King Pit at Spotted Quoll for the half year was **123,674 tonnes mined at 6.8% nickel for 8,439 tonnes (18.6M lbs) contained nickel.**
3. **254,569 ore tonnes were milled to produce 12,654 tonnes (27.9M lbs) nickel in concentrate for the half year**. The average **plant recovery was 89%.**
4. Cash costs (before smelting/refining charges) for the half year were **US$1.86/lb nickel, 26% below the long term guidance target of US$2.50/lb nickel.**
5. **Stockpiles at 31 December 2010 contain an estimated 5,936 tonnes (13.1M lbs) nickel** in ore and concentrate which should contribute to ongoing strong sales.
6. At 31 December Western Areas had a total of **A$167.7M cash plus nickel sales receivables** compared with A$82.1M at the end of June 2010.
7. Spotted Quoll Stage One underground mine feasibility confirmed a **robust 8 year project with IRRs ranging from 41% (US$6/lb Ni) to 96% (US$10/lb Ni).**
8. Drilling below Spotted Quoll **indicates the high grade deposit may extend to at least twice the depth of the planned Stage One underground mine.**
9. **$20M pa exploration program underway** with drilling to test Flying Fox T6/T7/T8 deposits, plus new targets at Forrestania and regional nickel projects.
10. The **2012 convertible bond was partly restructured** to extend the maturity date & reduce the coupon rate. A bond repayment account was established with $40m.
11. Western Areas welcomed **David Southam as Finance Director** in November.

**FLYING FOX & SPOTTED QUOLL MINES and COSMIC BOY MILL PRODUCTION**

| | | 2009/2010 | | | 2010/2011 | | FYTD |
|---|---|---|---|---|---|---|---|
| **Tonnes Mined** | | **Dec Qtr** | **Mar Qtr** | **Jun Qtr** | **Sep Qtr** | **Dec Qtr** | **Total** |
| **Flying Fox** | | | | | | | |
| Ore Tonnes Mined | Tn's | 53,618 | 67,072 | 91,437 | 84,935 | 96,635 | 181,570 |
| Grade | Ni % | 3.3% | 4.5% | 4.0% | 4.0% | 4.6% | 4.3% |
| Ni Tonnes Mined | Tn's | 1,776 | 2,990 | 3,697 | 3,363 | 4,459 | 7,822 |
| **Spotted Quoll** | | | | | | | |
| Ore Tonnes Mined | Tn's | - | 6,293 | 46,258 | 66,978 | 56,696 | 123,674 |
| Grade | Ni % | 0.0% | 3.5% | 6.7% | 7.4% | 6.2% | 6.8% |
| Ni Tonnes Mined | Tn's | - | 220 | 3,113 | 4,939 | 3,500 | 8,439 |
| **Total - Ore Tonnes Mined** | Tn's | 53,618 | 73,365 | 137,695 | 151,913 | 153,331 | 305,244 |
| **Grade** | Ni % | 3.3% | 4.4% | 4.9% | 5.5% | 5.2% | 5.3% |
| **Total Ni Tonnes Mined** | **Tn's** | **1,776** | **3,210** | **6,810** | **8,302** | **7,959** | **16,261** |
| **Tonnes Milled and Sold** | | **Dec Qtr** | **Mar Qtr** | **Jun Qtr** | **Sep Qtr** | **Dec Qtr** | **Total** |
| Ore Processed | Tns | 64,985 | 61,662 | 83,639 | 131,542 | 123,027 | 254,569 |
| Grade | % | 3.1% | 4.2% | 4.5% | 5.7% | 5.4% | 5.6% |
| Ave. Recovery | % | 88% | 92% | 88% | 89% | 90% | 89% |
| **Ni Tonnes in Concentrate** | **Tns** | **1,791** | **2,416** | **3,303** | **6,678** | **5,976** | **12,654** |
| Ni Tonnes in Concentrate Sold | Tns | 3,091 | 2,444 | 2,307 | 6,151 | 5,602 | 11,753 |
| Ni Tonnes in Ore Sold | Tns | - | - | 241 | 987 | 507 | 1,494 |
| **Total Nickel Sold** | **Tns** | **3,091** | **2,444** | **2,548** | **7,138** | **6,109** | **13,247** |
| **Stockpiles** | | | | | **Sep Qtr** | **Dec Qtr** | |
| Ore | Tns | | | | 73,293 | 92,405 | |
| Grade | % | | | | 4.6% | 4.4% | |
| Concentrate | Tns | | | | 11,386 | 13,052 | |
| Grade | % | | | | 14.1% | 14.1% | |
| **Contained Ni in Stockpiles** | **Tns** | | | | **4,977** | **5,936** | |
| **Financial Statistics** | | **Dec Qtr** | **Mar Qtr** | **Jun Qtr** | **Sep Qtr** | **Dec Qtr** | **Total** |
| **Group Production Cost/lb** | | | | | | | |
| Mining Cost (*) | *A$/lb* | 3.30 | 2.03 | 1.72 | 1.36 | 1.36 | 1.36 |
| Haulage | *A$/lb* | 0.14 | 0.11 | 0.09 | 0.07 | 0.08 | 0.07 |
| Milling | *A$/lb* | 0.96 | 0.59 | 0.56 | 0.37 | 0.40 | 0.39 |
| Admin | *A$/lb* | 0.16 | 0.17 | 0.17 | 0.15 | 0.19 | 0.17 |
| By Product Credits | *A$/lb* | (0.21) | (0.02) | (0.03) | (0.02) | (0.02) | (0.02) |
| **Cash Cost Ni in Con (***)** | ***A$/lb*** | **4.34** | **2.88** | **2.51** | **1.93** | **2.01** | **1.97** |
| ***Cash Cost Ni in Con/lb (***)*** | ***US$/lb (**)*** | **3.95** | **2.61** | **2.22** | ***1.75*** | ***1.99*** | ***1.86*** |
| ***Exchange Rate US$ / A$*** | | **0.91** | **0.90** | **0.88** | ***0.90*** | ***0.99*** | ***0.95*** |

(*) Mining Costs are net of deferred waste costs and inventory stockpile movements
(**) US$ FX for Relevant Quarter is RBA ave daily rate (Dec Qtr = A$1:US$0.99)
(***) Payable terms are not disclosed due to confidentiality conditions of the offtake agreements. Cash costs exclude royalties.
Note. Grade and recovery estimates are subject to change until the final assay data are received.
Note. All reported numbers in this table exclude Lounge Lizard..




On behalf of the Board

**Julian Hanna**
**Director**
Dated 14 February 2011

# CONSOLIDATED INCOME STATEMENT
## For The Six Months Ended 31 December 2010

| | Notes | Consolidated Entity | |
|---|---|---|---|
| | | Six months ended 31 December | |
| | | **2010** | **2009** |
| | | **$'000** | **$'000** |
| Sales | | 230,873 | 85,531 |
| Cost of sales | | (101,664) | (68,696) |
| Gross profit | | 129,209 | 16,835 |
| Other income | 2 | 2,622 | 21,810 |
| Finance costs | 3 | (18,116) | (14,837) |
| Administration expenses | | (2,684) | (2,088) |
| Employee benefits expenses | | (4,209) | (2,029) |
| Foreign exchange adjustments | | (2,335) | (13) |
| Share based payments | | (2,081) | (1,920) |
| Unrealised movement in market value of derivatives | | (2,244) | (871) |
| Realised movement in market value of derivatives | | (95) | - |
| Impairment of exploration expenditure | | (1,026) | - |
| **Profit before income tax** | | 99,041 | 16,887 |
| Income tax expense | | (31,877) | (6,212) |
| **Profit for the period** | | **67,164** | **10,675** |
| **Earnings per share** | | | |
| Basic earnings per share (cents per share) | | **37.6** | **6.0** |
| Diluted earnings per share (cents per share) | | **37.6** | **6.0** |

The accompanying notes form part of these financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For The Six Months Ended 31 December 2010

| | Consolidated Entity | |
|---|---|---|
| | Six months ended 31 December | |
| | 2010 $'000 | 2009 $'000 |
| Profit for the period | 67,164 | 10,675 |
| **Other comprehensive income** | | |
| Net profit / loss on mark to market valuation of hedging instruments | 895 | (1,560) |
| Net profit / loss on revaluation of investments | 647 | (617) |
| Convertible note reserve | 1,207 | - |
| Foreign exchange translation reserve | (95) | - |
| **Total comprehensive income for the period** | **69,818** | **8,498** |

# CONSOLIDATED BALANCE SHEET
## As At 31 December 2010

| | Notes | Consolidated Entity | |
|---|---|---|---|
| | | **31 Dec 2010 $'000** | **30 Jun 2010 $'000** |
| **Current Assets** | | | |
| Cash and cash equivalents | | 125,075 | 65,368 |
| Trade and other receivables | | 42,609 | 16,700 |
| Inventories | | 33,128 | 25,228 |
| Other financial assets | | 7,592 | - |
| **Total Current Assets** | | 208,404 | 107,296 |
| **Non-Current Assets** | | | |
| Property, plant & equipment | 6 | 107,652 | 111,108 |
| Intangible asset | 7 | 506 | 506 |
| Exploration & evaluation | 8 | 82,237 | 94,895 |
| Mine development | 9 | 203,787 | 180,403 |
| Deferred tax assets | | - | 24,228 |
| Other financial assets | | 2,536 | 2,303 |
| **Total Non-Current Assets** | | 396,718 | 413,443 |
| **Total Assets** | | 605,122 | 520,739 |
| **Current Liabilities** | | | |
| Trade and other payables | | 47,319 | 46,765 |
| Short term borrowings | 10 | 83 | 83 |
| Short term provisions | | 2,042 | 1,057 |
| Other financial liabilities | | 8,972 | 496 |
| **Total Current Liabilities** | | 58,416 | 48,401 |
| **Non-Current Liabilities** | | | |
| Long term borrowings | 10 | 295,101 | 295,370 |
| Long term provisions | | 4,986 | 4,886 |
| Deferred tax liabilities | | 7,649 | - |
| **Total Non-Current Liabilities** | | 307,736 | 300,256 |
| **Total Liabilities** | | 366,152 | 348,657 |
| **Net Assets** | | **238,970** | **172,082** |
| **Equity** | | | |
| Issued capital | 13 | 202,611 | 202,611 |
| Reserves | | 78,912 | 74,177 |
| Accumulated losses | | (42,933) | (104,706) |
| **Total Parent Equity** | | **238,590** | **172,082** |
| Non Controlling Interest | | 380 | - |
| **Total Equity** | | **238,970** | **172,082** |

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
### For The Six Months Ended 31 December 2010

| | Issued Capital $'000 | Capital Raising Expenses $'000 | Option Reserve $'000 | Hedge Reserve $'000 | Investment Reserve $'000 | Convertible Note Reserve $'000 | Foreign Exchange Reserve $'000 | Accumulated Losses $'000 | Total Equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Total Equity at 1 July 2009** | **209,060** | **(10,168)** | **10,854** | **576** | **(4,254)** | **44,739** | **-** | **(113,525)** | **137,282** |
| Shares issued during the year | 3,773 | | | | | | | | 3,773 |
| Share issue expense | | (56) | | | | | | | (56) |
| Share based payments expense | | | 1,920 | | | | | | 1,920 |
| Total comprehensive income for the period | | | | (1,560) | (617) | - | - | 10,675 | 8,498 |
| **Total Equity at 31 December 2009** | **212,833** | **(10,224)** | **12,774** | **(984)** | **(4,871)** | **44,739** | **-** | **(102,850)** | **151,417** |
| **Total Equity at 1 July 2010** | **212,833** | **(10,222)** | **15,585** | **12** | **(5,305)** | **63,885** | **-** | **(104,706)** | **172,082** |
| Share based payments expense | | | 2,081 | | | | | | 2,081 |
| Total comprehensive income for the period | | | | 895 | 647 | 1,207 | (95) | 67,164 | 69,818 |
| Dividends paid | | | | | | | | (5,391) | (5,391) |
| **Total Equity at 31 December 2010** | **212,833** | **(10,222)** | **17,666** | **907** | **(4,658)** | **65,092** | **(95)** | **(42,933)** | **238,590** |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS
## For The Six Months Ended 31 December 2010

| | Six Months Ended 31 December | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| **Cash Flows From Operating Activities** | | |
| Cash receipts in the course of operations | 192,103 | 72,188 |
| Cash payments to suppliers & employees | (54,661) | (28,179) |
| Royalties paid | (8,547) | (3,050) |
| Interest received | 1,015 | 1,318 |
| Finance costs | (13,084) | (11,011) |
| Other receipts | (2) | 19,761 |
| Derivative settlement | (1,084) | (670) |
| **Net Cash Received from Operating Activities** | **115,740** | **50,357** |
| **Cash Flows From Investing Activities** | | |
| Purchase of plant & infrastructure | (3,714) | (9,098) |
| Profit from sale of investments | - | 318 |
| Mine development expenditure | (32,299) | (23,794) |
| Exploration & evaluation activities | (11,491) | (10,297) |
| Investment in other entities | (50) | (570) |
| **Net Cash Used in Investing Activities** | **(47,554)** | **(43,441)** |
| **Cash Flows From Financing Activities** | | |
| Proceeds from share issues for non controlling interest | 380 | - |
| Proceeds from option conversion | - | 3,773 |
| Capital raising costs | - | (56) |
| Finance leases | (76) | (36) |
| Borrowing costs | (3,392) | (140) |
| Dividends paid | (5,391) | - |
| **Net Cash From Financing Activities** | **(8,479)** | **3,541** |
| Net increase in cash held | 59,707 | 10,457 |
| Cash at beginning of financial period | 65,368 | 80,210 |
| **Cash as at 31 December** | **125,075** | **90,667** |

The accompanying notes form part of these financial statements.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**For The Six Months Ended 31 December 2010**

**Statement of compliance**
The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

**Note 1: Basis of preparation**

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditure on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
## For The Six Months Ended 31 December 2010

| | Consolidated Entity | |
|---|---|---|
| | 31 Dec 2010 $'000 | 31 Dec 2009 $'000 |

### Note 2: Other Income

| | 31 Dec 2010 $'000 | 31 Dec 2009 $'000 |
|---|---|---|
| - Infrastructure access fee | - | 20,000 |
| - Interest received | 1,182 | 1,490 |
| - Profit on disposal of asset | - | 318 |
| - Profit on bond swap | 1,440 | - |
| - Other income | - | 2 |
| **Total Other Income** | **2,622** | **21,810** |

### Note 3: Profit from Ordinary Activities

The following expense items are relevant in explaining the financial performance for the interim period:

| | 31 Dec 2010 $'000 | 31 Dec 2009 $'000 |
|---|---|---|
| - Amortisation of mine development assets | 31,433 | 12,419 |
| - Depreciation of non-current assets | 7,276 | 3,150 |
| - Rental expenditure – operating leases | 226 | 187 |
| - Finance costs expensed: | | |
| Interest expense – borrowings | 12,206 | 12,421 |
| Bond accretion expense | 4,076 | 2,405 |
| Interest expense - finance leases | 4 | 6 |
| Amortisation of finance costs | 1,724 | - |
| Other financing costs | 106 | 424 |
| Total financing costs | 18,116 | 15,256 |
| Less: interest expense capitalised | - | (279) |
| Less: borrowing costs capitalised | - | (140) |
| Total Financing Costs Expensed | 18,116 | 14,837 |

### Note 4: Dividends

Distributions paid

| | 31 Dec 2010 $'000 | 31 Dec 2009 $'000 |
|---|---|---|
| Final unfranked ordinary dividend declared on 25 August 2010 of 3 cents (2010: $0) per share. | 5,391 | - |

Distributions proposed

| | 31 Dec 2010 $'000 | 31 Dec 2009 $'000 |
|---|---|---|
| On 14 February 2011, the directors declared a fully franked interim dividend of 10 cents per share to the holders of fully paid ordinary shares in respect of the half year ended 31 December 2010, to be paid on 28 March 2011. This dividend has not been included as a liability in the financial statements. | 17,974 | - |

### Note 5: Contingent Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
## For The Six Months Ended 31 December 2010

| | Consolidated Entity | |
|---|---|---|
| | 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
| **Note 6: Property, Plant and Equipment** | | |
| Property – at cost | 20,720 | 19,260 |
| Accumulated depreciation | (3,771) | (3,034) |
| | 16,949 | 16,226 |
| Plant & equipment – at cost | 107,501 | 105,141 |
| Accumulated depreciation | (16,995) | (10,519) |
| | 90,506 | 94,622 |
| Plant & equipment under lease | 579 | 579 |
| Accumulated depreciation | (382) | (319) |
| | 197 | 260 |
| Total Property, Plant & Equipment - at Cost | 128,800 | 124,980 |
| Accumulated Depreciation | (21,148) | (13,872) |
| **Total** | **107,652** | **111,108** |

*Assets Pledged as Security*
The property, plant and equipment are assets over which a mortgage has been granted as security over loans. The terms of the mortgage preclude the assets from being sold or being used as security for further mortgages without the permission of the existing mortgagor.

Assets under lease are pledged as security for the associated lease liabilities.

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current period:

| | 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
|---|---|---|
| **Property** | | |
| Written down value at the beginning of the period | 16,226 | 17,665 |
| - Additions | 1,460 | 11 |
| - Depreciation expense | (737) | (1,450) |
| Written down value at the end of the half year | **16,949** | **16,226** |
| **Plant & Equipment** | | |
| Written down value at the beginning of the period | 94,622 | 63,749 |
| - Additions | 2,360 | 36,678 |
| - Depreciation expense | (6,476) | (5,805) |
| Written down value at the end of the half year | **90,506** | **94,622** |
| **Plant & Equipment under Lease** | | |
| Written down value at the beginning of the period | 260 | 299 |
| - Additions | - | 24 |
| - Depreciation expense | (63) | (63) |
| Written down value at the end of the half year | **197** | **260** |

### Note 7: Intangible Assets

| | 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
|---|---|---|
| Capitalised patents and trademarks - at cost | **506** | **506** |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**For The Six Months Ended 31 December 2010**

| | Consolidated Entity 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
|---|---|---|
| **Note 8: Exploration & Evaluation** | | |
| Exploration & Evaluation Expenditure | | |
| - At cost | 119,412 | 110,044 |
| - Transferred to mine development | (21,000) | - |
| - Impairment loss write off | (16,175) | (15,149) |
| Total Exploration and Evaluation | **82,237** | **94,895** |

### Movement in carrying amount:

Movement in the carrying amounts for exploration and evaluation expenditure between the beginning and the end of the current interim period:

| | 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
|---|---|---|
| **Exploration & Evaluation Expenditure** | | |
| Written down value at the beginning of the period | 94,895 | 80,059 |
| - Expenditure incurred during the period | 9,368 | 15,048 |
| - Transferred to mine development | (21,000) | - |
| - Impairment loss | (1,026) | (212) |
| Written down value at the end of the period | **82,237** | **94,895** |

### Carry Forward Exploration & Evaluation Expenditure

The recovery of the costs of exploration and evaluation expenditure carried forward is dependent upon the discovery of commercially viable mineral and other natural resource deposits and their development and exploration or alternatively their sale.

| | 31 Dec 2010 $'000 | 30 Jun 2010 $'000 |
|---|---|---|
| **Note 9: Mine Development** | | |
| Development Expenditure | | |
| - Mine development | 138,115 | 124,296 |
| - Exploration transferred to mine development | 21,000 | - |
| - Deferred mining expenditure | 145,170 | 125,172 |
| - Capitalised restoration costs | 4,307 | 4,307 |
| - Capitalised interest | 11,175 | 11,175 |
| - Accumulated amortisation | (115,980) | (84,547) |
| Total Mine Development | **203,787** | **180,403** |

### Movement in carrying amount:

Movement in the carrying amounts for mine development expenditure between the beginning and the end of the current interim period:

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**For The Six Months Ended 31 December 2010**

**Note 9: Mine Development (Cont)**

| | Consolidated Entity | |
|---|---|---|
| | **31 Dec 2010 $'000** | **30 Jun 2010 $'000** |
| **Development Expenditure** | | |
| Written down value at the beginning of the period | 180,403 | 141,511 |
| - Additions | 33,817 | 72,965 |
| - Exploration expenditure transferred to mine development | 21,000 | - |
| - Increase in restoration cost provision | - | - |
| - Capitalised interest | - | 443 |
| - Amortisation charge for the period | (31,433) | (34,516) |
| Written down value at the end of the period | **203,787** | **180,403** |

**Note 10: Borrowings**

| | | |
|---|---|---|
| **Current** | | |
| Lease liability | 83 | 83 |
| | **83** | **83** |
| **Non-Current** | | |
| Corporate loan facility borrowing cost | (506) | (720) |
| Convertible bonds | 305,553 | 304,527 |
| Convertible bond borrowing costs | (9,974) | (8,495) |
| Lease liability | 28 | 58 |
| | **295,101** | **295,370** |

The carrying values of assests secured under the corporate loan facility are as follows:

Mine development - $203.8M (2009: $180.4M)

Property, plant & equipment - $107.5M (2009: $110.9M)

(a) The lease liability is secured over the assets under the lease. The finance leases have an average term of 4 years and an average implicit discount rate of 7.38%. Refer to note 6 for the carrying value of the assets under lease.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**
**For The Six Months Ended 31 December 2010**

## Note 11: Subsequent Events

There are no events or circumstances that have arisen since the end of the six months that have significantly affected or may significantly affect the operation of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in the subsequent financial years.

## Note 12: Statement of Operations by Segments

**Identification of reportable segment**

The group identifies its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operates primarily in nickel mining and exploration in Australia and exploration in Finland. The financial information in relation to the operations in Finland is not reported separately to the chief operating decision maker and as a result, the financial information presented in the income statements and balance sheet is the same as that presented to chief operating decision maker.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker is in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

## Note 13: Contributed Equity

a) **Issued capital**

| | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|
| Ordinary shares fully paid | **202,611** | **202,611** |

b) **Movements in issued capital**

| | 31 December 2010 | |
|---|---|---|
| | **Number of Shares** | **$'000** |
| Balance at beginning of the financial period | 179,735,899 | 202,611 |
| - Issued via option conversions | - | - |
| - Transaction cost relating to share issue | - | - |
| Balance at end of the financial period | **179,735,899** | **202,611** |

| | 30 June 2010 | |
|---|---|---|
| | **Number of Shares** | **$'000** |
| Balance at beginning of the financial year | 178,826,649 | 198,892 |
| - Issued via option conversions | 909,250 | 3,773 |
| - Transaction cost relating to share issue | - | (54) |
| Balance at end of the financial year | **179,735,899** | **202,611** |

**Note 13: Contributed Equity (Cont)**

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. There were no changes to the consolidated entity's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### c) Share Options on Issue

The movement in the various classes of options for the six months ended 31 December 2010 were as follows:

| | -- Option Terms (Exercise Price and Maturity) -- | | | | | | |
|---|---|---|---|---|---|---|---|
| | Employee $7.50 Jan 11 | Employee $15.00 May 11 | Employee $17.00 May 11 | Director $17.00 May 11 | Director $7.50 Nov 12 | Employee $7.25 Sep 12 | **TOTAL** |
| Opening balance | **500,000** | **1,730,000** | **400,000** | **2,400,000** | **600,000** | **1,670,000** | **7,300,000** |
| Options issued | | - | - | - | - | - | - |
| Options cancelled | | - | - | - | - | - | - |
| Options exercised | | - | - | - | - | - | - |
| **Closing balance** | **500,000** | **1,730,000** | **400,000** | **2,400,000** | **600,000** | **1,670,000** | **7,300,000** |

Options issued to employees under the Western Areas Employee Share Option Scheme and Directors incentive options vest as detailed below:

i) The $7.50 employee options vest in line with the Employee Share Option Scheme. 1/3 of the options vest on the grant date itself, a further 1/3 12 months after the grant date and the final 1/3 24 months after the grant date.
ii) The $15.00 employee options vest in line with the Employee Share Option Scheme. 1/3 of the options vest on the grant date itself, a further 1/3 12 months after the grant date and the final 1/3 24 months after the grant date.
iii) The $17.00 employee options vest in line with the Employee Share Option Scheme. 1/3 of the options vest on the grant date itself, a further 1/3 12 months after the grant date and the final 1/3 24 months after the grant date.
iv) The $17.00 Directors' options vest immediately.
v) The $7.50 directors options issued in November 2009 vest as follows: half vest 12 months before the expiry date and half vest 24 months before expiry date.
vi) The $7.25 employee options issued in September 2009 vest as follows: half vest 12 months after the grant date and half vest 24 months after the grant date.

### d) Terms and Conditions of Contributed Equity

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

## AUDITORS INDEPENDENCE DECLARATION

Crowe Horwath

**AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Western Areas NL for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

CROWE HORWATH PERTH AUDIT PARTNERSHIP

CYRUS PATELL
Partner

Perth, WA

Dated this 14th day of February 2011

**INDEPENDENT AUDITOR'S REPORT**

Crowe Horwath.

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF WESTERN AREAS NL AND ITS CONTROLLED ENTITIES**

We have audited the accompanying financial report of Western Areas NL and its controlled entities (the consolidated entity), which comprises the consolidated balance sheet as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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 an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

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

**Auditor's Opinion**

In our opinion, the financial report of Western Areas NL and its controlled entities is 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 Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

CROWE HORWATH PERTH AUDIT PARTNERSHIP

CYRUS PATELL
Partner

Perth, WA
Dated this 14th day of February 2011

*Crowe Horwath Perth Audit Partnership is a member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath is a separate and independent legal entity.*

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1) The financial statements and notes, as set out on pages 7 to 18:

   (i) give a true and fair view of the economic entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and

   (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and Corporations Regulations 2001;

2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board

**Julian Hanna**
**Director**

Dated 14 February 2011