



China Yunnan Copper Australia Limited

ABN 29 070 859 522

FINANCIAL REPORT

**FOR THE HALF-YEAR ENDED
31 DECEMBER 2010**

CORPORATE DIRECTORY

Board of Directors

Norm Zillman (Co Chairman)
Zihua Yao (Co Chairman)
Jason Beckton (Managing Director)
Zewen (Robert) Yang (Executive Director)

Company Secretary

Paul Marshall

Registered Office Level 5 10 Market Street, Brisbane QLD 4000 Telephone: 07 3212 6204 Facsimile: 07 3212 6250 Email: admin@cycal.com.au Website: www.cycal.com.au	Solicitors Hopgood Ganim Lawyers Level 8 Waterfront Place 1 Eagle Street Brisbane QLD 4000 Brisbane QLD 4000 Telephone: (07) 3024 0000 Facsimile: (07) 3024 0300 Website: www.hopgoodganim.com.au
Auditors KPMG 10 Shelley Street Sydney NSW 2000 Telephone: 02 9335 7000 Fax: 02 9335 7001 Website: www.kpmg.com.au	Share Registry Link Market Services Limited Level 19 324 Queen Street Brisbane QLD 4000 Telephone: 1300 554 474 Facsimile: 02 9287 0303 Website: www.linkmarketservices.com.au

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DIRECTORS' REPORT

Your directors present their report on China Yunnan Copper Australia Limited for the half-year ended 31 December 2010.

Directors

The names of persons who were directors of China Yunnan Copper Australia Limited, during the whole of the half-year and up to the date of this report, unless otherwise stated, are:

Norman Zillman (Co Chairman)
Zhihua Yao (Co Chairman, appointed 23 December 2010)
Jason Beckton (Managing Director)
Zewen (Robert) Yang (Executive Director)
Liang Zhong (former Co Chairman, retired 23 December 2010)

Review of Operations

China Yunnan Copper Australia Limited ('CYU' or 'the Company') is an Australian company formed to explore for and develop minerals in Australia and overseas. Cornerstone investor China Yunnan Copper (Australia) Investment & Development Co. Ltd, who holds a 21.25% interest, is a subsidiary of Yunnan Copper Industry (Group) Co Ltd which is China's third largest copper producer and their largest silver and bismuth producer.

For the half-year ended 31 December 2010 the Company and its Controlled Entities ('Consolidated Entity') made a loss of \$1,008,868 (2009: \$1,302,313).

Current ongoing activities include;

- Exploring the Mount Isa district for Copper Gold Rare Earth Elements (REE) and Uranium. This is on both CYU 100% tenure and as part of a Joint Venture with GoldSearch Limited on which the recent Mt Dorothy discovery is located. A new zone of copper cobalt and REE elements is being defined and will be subject to further drilling in the second half of the financial year.
- An exploration program is underway at report date on the Humitos Copper Porphyry project in Copiapo district, Chile. A series of shallow covered magnetic targets are being tested with a 2000 metre RC program. Further project generation is being targeted in Chile, a premier, low political risk exploration location. Globally it is the number one copper producer with all major explorers maintaining a presence.
- Review continues of projects under Memorandum of Understanding with CYU's cornerstone investor, Yunnan Copper Industries (YCI), to undertake regional exploration and project generation work in Yunnan Province, China and Laos.

In February CYU signed an agreement to purchase a 51% interest in a Chinese registered Resource Company to explore for and develop existing mineral deposits in Laos and Asia. CYU is to invest AUD\$2.8 million (in 3 equal stages over the 12 months following final approvals for the transaction) to acquire a 51% percent interest in Sanmu Mining Limited, a Chinese registered company holding near development copper silver projects in Northern Laos within transport distance of existing processing centres in Southern Yunnan Province, Peoples Republic of China.

An existing resource suite, based on trenching and underground adits will be grown through immediate drilling operated by the experienced YCI team under supervision of the CYU controlled JV committee. Geological mapping, geophysics and geochemical sampling has rendered project areas ready for expansionary drilling campaigns during 2011.

- A Letter of Intent ("LOI"), between China Yunnan Copper Australia Ltd (**CYU**) and Yunnan Copper Mineral Resources Exploration and Development Co. Ltd. (**YEX**) was signed in February. The LOI proposes that subject to the related government and shareholder approvals, YEX will execute the Cloncurry North Projects Joint Venture Agreement ("Agreement") to farm in to obtain the opportunity of earning up to a 55% and potentially higher interest under standard dilution formulas for CYU's Cloncurry North projects, Queensland (epm12205, epm15084, epm15095 and epm 16393).

Tenements that were considered to have limited or no prospectivity have been relinquished. Approximately 80% of original tenure since listing has been relinquished.

Capital Raising

The Company completed a fully underwritten rights share purchase plan in December 2010. The share purchase plan raised a total of \$1.5 million (excluding issue costs).

Funding Arrangements

The Company is reliant on future successful capital raisings to realise the benefits of the capitalised exploration costs and fund the acquisition of the Chinese copper silver resources company (refer to Note 5). Based on the success of prior capital raisings and recent prospectus updates, the Directors are confident of securing funds if and when necessary to meet the Company's obligations as and when they fall due.

Auditors Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 6 and forms part of the Director's report for the half-year ended 31 December 2010.

Signed in accordance with a resolution of the directors.



Jason Beckton
Director
Brisbane 1 March 2011



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

To: the directors of China Yunnan Copper Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Mark Epper
Partner

Sydney
1 March 2011

Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2010

	Half-Year Ended December	
	2010	2009
	\$	\$
Revenue	139,089	44,293
Employment and consultancy expenses	(302,826)	(358,051)
Depreciation expense	(34,624)	(25,851)
Finance costs	(1,303)	-
Impairment of exploration expenditure	(544,220)	(688,670)
Project generation expenditure	(34,277)	-
Other expenses	(230,707)	(274,034)
Loss before income tax	(1,008,868)	(1,302,313)
Income tax expense	-	-
Loss after income tax	(1,008,868)	(1,302,313)
Other comprehensive income		
Foreign currency translation differences for foreign operations	(36,014)	-
	(36,014)	-
Total comprehensive income for the period	(1,044,882)	(1,302,313)
Earnings per share	Cents	Cents
Basic loss per share	(0.92)	(1.47)
Diluted loss per share	(0.92)	(1.47)

The Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

China Yunnan Copper Australia Limited
Consolidated Financial Report for the Half-Year Ended 31 December 2010

Consolidated Balance Sheet
As at 31 December 2010

	Note	December 2010 \$	June 2010 \$
CURRENT ASSETS			
Cash and cash equivalents		1,613,101	1,585,996
Other receivables		64,985	313,970
Financial assets		1,091	1,091
Other current assets		38,738	11,154
TOTAL CURRENT ASSETS		1,717,915	1,912,211
NON-CURRENT ASSETS			
Other receivables		36,695	44,195
Plant and equipment		240,487	221,051
Exploration expenditure		5,899,598	5,183,362
TOTAL NON-CURRENT ASSETS		6,176,780	5,448,608
TOTAL ASSETS		7,894,695	7,360,819
CURRENT LIABILITIES			
Trade and other payables		455,252	400,445
Interest bearing liabilities		26,390	-
Short-term provisions		32,778	33,047
TOTAL CURRENT LIABILITIES		514,420	433,492
NON-CURRENT LIABILITIES			
Interest bearing liabilities		21,590	-
		21,590	-
TOTAL LIABILITIES		536,010	433,492
NET ASSETS		7,358,685	6,927,327
EQUITY			
Share capital	2	12,610,434	11,212,656
Reserves		284,934	242,486
Accumulated losses		(5,536,683)	(4,527,815)
TOTAL EQUITY		7,358,685	6,927,327

The Consolidated Balance Sheet should be read in conjunction with the Notes to the Consolidated Financial Statements.

Consolidated Statements of Changes in Equity
For the half-year ended 31 December 2010

Consolidated Entity	Share Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2009	6,934,322	27,187	(1,268,231)	5,693,278
Transactions with owners in their capacity as owners				
Issue of share capital	4,656,969	-	-	4,656,969
Share issue costs	(383,465)	-	-	(383,465)
Share-based payment expense	-	134,813	-	134,813
Comprehensive income				
Loss after income tax	-	-	(1,302,313)	(1,302,313)
Other comprehensive income	-	-	-	-
Balance at 31 December 2009	11,207,826	162,000	(2,570,544)	8,799,282
Balance at 1 July 2010	11,212,656	242,486	(4,527,815)	6,927,327
Transactions with owners in their capacity as owners				
Issue of share capital	1,500,000	-	-	1,500,000
Share issue costs	(102,222)	-	-	(102,222)
Share-based payment expense	-	78,462	-	78,462
Comprehensive income				
Loss after income tax	-	-	(1,008,868)	(1,008,868)
Other comprehensive income	-	(36,014)	-	(36,014)
Balance at 30 December 2010	12,610,434	284,934	(5,536,683)	7,358,685

The Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

**Consolidated Cash Flow Statement
 For the half-year ended 30 June 2010**

	Half-Year Ended December 2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from government grants	117,956	-
Payments to suppliers and employees	(326,655)	(378,334)
Interest received	21,133	42,543
Interest paid	(1,303)	-
Net cash used in operating activities	(188,869)	(335,791)
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposit refunds/(payments)	7,500	(9,274)
Payments for property, plant & equipment	(1,292)	(81,892)
Payments for exploration and evaluation	(1,167,711)	(1,391,725)
Net cash used in investing activities	(1,161,503)	(1,482,891)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,500,000	4,656,969
Capital raising expenses	(81,722)	(383,465)
Payment of finance leases	(4,787)	-
Net cash from financing activities	1,413,491	4,273,504
Net increase/(decrease) in cash and cash equivalents	63,119	2,454,822
Net foreign exchange differences	(36,014)	-
Cash and cash equivalents at the beginning of the period	1,585,996	1,617,277
Cash and cash equivalents at the end of the period	1,613,101	4,072,099

The Consolidated Cash Flow Statement should be read in conjunction with the Notes to the Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

China Yunnan Copper Australia Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its controlled entities (together referred to as the "Consolidated Entity").

Statement of Compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2010.

This consolidated interim financial report was approved by the Board of Directors on 1 March 2011.

Accounting Policies

The accounting policies applied by the Consolidated Entity in the consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2010.

Estimates

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

In preparing this consolidated interim financial report, the significant judgments made by management in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2010.

	December 2010 \$	June 2010 \$
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NOTE 2 SHARE CAPITAL

Fully paid ordinary shares	12,627,180	11,212,656
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Ordinary Shares

	December 2010 \$	June 2010 \$	December 2010 Number	June 2010 Number
At the beginning of the period	11,212,656	6,934,322	108,662,533	77,616,073
Share purchase plan ⁽¹⁾	1,500,000	4,656,969	10,000,000	31,046,460
Share issue expenses	(102,222)	(378,635)	-	-
At reporting date	12,610,434	11,212,656	118,662,533	108,662,533

⁽¹⁾ A total of 10,000,000 shares were issued during the year through a share purchase plan at 15 cents per share.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 3 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets at 31 December 2010 that require disclosure in the financial report.

NOTE 4 SEGMENT REPORTING

Reportable Segments

The principal geographical areas of operation of the Consolidated Entity are as follows:

- Chile
- Australia

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief decision maker in order to allocate resources to the segment and assess its performance.

Segment Revenues and Results

The following is an analysis of the Consolidated Entity's revenue and results by reportable operating segment for the periods under review. In the prior half-year, the Consolidated Entity only had one reportable segment - 'Australia'.

Half-Year Ended 31 December 2010	Chile	Australia	Consolidated
	\$	\$	\$
Revenue:			
Revenue from outside the Consolidated Entity	-	139,089	139,089
Other unallocated revenue			-
Total Revenue			139,089
Segment result	(47,576)	(961,292)	(1,008,868)
Income tax			-
Net Loss			(1,008,868)
<u>Non-cash items included in loss above:</u>			
Depreciation and amortisation	-	(34,624)	(34,624)
Share based payments	-	(78,462)	(78,462)
Impairment of exploration expenditure	-	(544,220)	(544,220)
Assets:			
Segment assets	263,491	7,631,204	7,894,695
Unallocated corporate assets			-
Consolidated Total Assets			7,894,695
Liabilities:			
Segment liabilities	5,364	530,646	536,010
Unallocated corporate liabilities			-
Consolidated Total Liabilities			536,010
<u>Segment acquisitions:</u>			
Acquisition of property, plant and equipment	-	54,059	54,059
Capitalised exploration expenditure	162,724	1,097,733	1,260,456

NOTE 5 EVENTS AFTER BALANCE SHEET DATE

Farmout of Cloncurry North and Waterford Projects

Subsequent to 31 December 2010, a Letter of Intent ("LOI"), between China Yunnan Copper Australia Ltd (CYU) and Yunnan Copper Mineral Resources Exploration and Development Co. Ltd. (YEX) has been signed in Kunming, China.

The LOI proposes that subject to the related government and shareholder approvals, YEX will execute the Cloncurry North Projects Joint Venture Agreement ("Agreement") in order to farm in and subsequently obtain the opportunity of earning up to a 55% and potentially higher interest under standard dilution formulas. Subject to the Agreement being executed by the Parties, the Agreement is intended to create binding and enforceable obligations on CYU and YEX.

YEX personnel will participate in field operations in the Cloncurry district to test a series of targets including the previously announced Gem deposit which remains open to the south.

CYU will grant YEX the exclusive right to earn at least 55% participating interest in the Tenements, free of all encumbrances (Farm-in Interest), by incurring expenditure of A\$5,000,000 (AUD) on the tenements, which is approved and confirmed by a management committee.

For YEX to be granted the Farm-in Interest, YEX must make a minimum expenditure of:

- (a) Not less than A\$1,200,000.00 of expenditure before the first anniversary of the agreement date earning 10% participating interest in the properties;
- (b) Additional A\$1,800,000.00 of expenditure before the second anniversary of the agreement date earning extra 20% participating interest in the properties;
- (c) Additional A\$2,000,000.00 of expenditure before the third anniversary of the agreement date earning extra 25% participating interest in the properties;

The execution of the CYU Cloncurry North Projects Joint Venture Agreement is subject to the related regulatory approvals and any shareholder approvals required.

Acquisition of Chinese Copper Silver Resources Company

Subsequent to 31 December 2010, CYU signed an agreement to purchase 51% interest in a Chinese registered Resource Company, Sanmu Mining Limited, to explore for and develop existing mineral deposits in Laos and Asia.

Key components of the Joint Venture are:

- CYU to invest AUD\$2.8 million (in 3 equal stages over the 12 months following final approvals for the transaction) to acquire a 51% percent interest in Sanmu Mining Limited, a Chinese registered company holding near development copper silver projects in northern Laos within transport distance of existing processing centres in southern Yunnan Province, the Peoples' Republic of China, subject to regulatory and shareholder approvals.
- An existing resource suite, based on trenching and underground adits will be grown through immediate drilling operated by the experienced YCI team under supervision of the CYU controlled JV committee. Geological mapping, geophysics and geochemical sampling has rendered project areas ready for expansionary drilling campaigns during 2011.
- One of the projects, Xinzhai, has had preliminary economic studies (to Official Chinese Standards but not JORC standard) completed suggesting an SXEW (Solvent eXtraction Electro Winning) operation can be constructed for revenues in the near term. Confirmatory drilling to allow full reporting to JORC standards will be undertaken. This study will be enhanced by growing the existing Chinese certified reserve with planned drilling at depth beyond current underground workings used to control the base of the reserves.

Sanmu Mining Limited holds 100% of four properties in northern Laos. The deposit has preliminary economic studies (not to JORC standard) which are Chinese certified. They are similar in style to sediment hosted Zambian Copper Silver deposits.

The Joint Venture is targeting a deposit with a grade of 1% copper and 150 g/t silver. These grades are indicated from trench and underground sampling with drilling to be completed with invested funds during 2011. A feasibility study to Chinese government standards will then be completed to allow possible mining operations to commence within the next two years.

This agreement is subject to obtaining government approvals in China and Australia and also CYU shareholder approval.

Other than the above, there have been no events since 31 December 2010 that impact upon the financial report as at 31 December 2010.

NOTE 6 FUNDING ARRANGEMENTS

The Company is reliant on future successful capital raisings to realise the benefits of the capitalised exploration costs and fund the acquisition of the Chinese copper silver resources company (refer to Note 5). Based on the success of prior capital raisings and recent prospectus updates, the Directors are confident of securing funds if and when necessary to meet the Company's obligations as and when they fall due.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the attached financial statements and notes as set out on pages 7 to 14 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Equivalents to International Reporting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (ii) 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) 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 directors.



Jason Beckton
Director

Brisbane 1 March 2011



Independent auditor's review report to the members of China Yunnan Copper Australia Limited

We have reviewed the accompanying half-year financial report of China Yunnan Copper Australia Limited ("the Company") and its controlled entities ("the Consolidated Entity"), which comprises the consolidated balance sheet as at 31 December 2010, 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 information and the directors' declaration of the Consolidated Entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of China Yunnan Copper Australia Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Controlled Entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Mark Epper
Partner

Sydney

1 March 2011