

CAPITAL MINING LIMITED

ABN 69 104 551 171

**Financial Report
2010**

Corporate Directory

Directors

Richard Hine	<i>Chairman</i>
Robert McCauley	<i>Non-executive Director</i>
Christopher Ablett	<i>Non-executive Director</i>
John Seeley	<i>Non-executive Director</i>

Company Secretary

John Keppo

Principal Office

Shop 4, Rivett Shopping Centre, 20 Rivett Place, Rivett, ACT 2611

PO Box 3770, Weston Creek ACT 2611

Telephone: 02 6288 2661

Facsimile: 02 6288 4878

Website: www.capitalmining.com.au

Registered Office

3/41-43 Colbee Court Phillip ACT 2606

Share Registry

Registries Limited

GPO Box 3993, Sydney, NSW 2001

Telephone: 02 9290 9600

Auditors

Barnes Dowell James

Chartered Accountants

Level 13, 122 Arthur Street

North Sydney NSW 2060

Stock Exchange Listing

Listed on the Australian Stock Exchange (ASX)

ASX code for fully paid shares: CMY

ASX code for options: CMYO

CMYOA

ABN: 69 104 551 171

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DIRECTORS' REPORT

Your Directors present the financial report of the Company for the period ended 30 June 2010.

The following persons hold office as Directors at the date of this report and throughout the period. Their qualifications and experience are:

Richard Hine BSc, PhD, MAusIMM, MGSA, MSEG,

Chairman of the Board

Dr Hine has had over 30 years of broad experience in the minerals industry as a project geologist, researcher, exploration manager and company director. He has a PhD in economic geology and is a graduate of the Australian National University and the James Cook University of North Queensland.

Dr Hine has specialist skills in exploration management, ore deposit and prospect evaluation, terrane analysis, regional target selection, exploration data synthesis, ore petrology, mineralogy and conceptual analysis. He has worked on a wide range of deposit types and mineral commodities that include: porphyry, epithermal and skarn style copper, molybdenum and gold deposits; volcanic-hosted massive sulphide copper, lead and zinc deposits; disseminated, vein and skarn style tin and tungsten deposits; alluvial gold and tin; and intrusion related rare metal and REE deposits.

Over the years, Dr Hine's training has come from the teaching and guidance of many high-profile academics and respected industry colleagues. Since graduation he has worked in Papua New Guinea, the Philippines, Indonesia, Malaysia, Western Europe, New Zealand, the Fiji Islands and Eastern and Central Australia. Most of his career has been spent in exploration of the Tasman Orogenic Zone as a company employee and lately as a consultant. He has specialist knowledge of the mineralisation of the Lachlan Fold Belt of New South Wales and Victoria and is well versed in the many aspects of mineral production through his participation in the development of the Junction Reefs group of gold mines in the nineties.

Dr Hine is a long standing Member of the Australasian Institute of Mining and Metallurgy, the Geological Society of Australia and the Society of Economic Geologists. He is the Managing Director of Heemskirk Resources Pty Limited, which he established in 1999 to pursue exploration opportunities in New South Wales and to provide a consulting and management service to the minerals industry. Dr Hine is a "Competent Person" as defined in the JORC Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves who has had more than five years experience which is relevant to all of the deposit types and styles of mineralisation referred to in this report.

Robert McCauley BSc, MRICS, MIS Aust, Cert. Prof.SSI, Chartered Surveyor, Licensed Surveyor

Non Executive Director

Mr McCauley was appointed Managing Director of Capital Mining Limited in May 2006 and moved to a Non Executive director in March 2010. He is also Managing Director of Chakola Gold Pty Ltd and Principal of Robert J McCauley & Associates Consulting Surveyors.

Over the past 27 years prior to his Executive appointment with Capital Mining Limited, Mr McCauley was engaged in a capacity as either Principal/consultant, senior staff or staff positions to numerous companies such as Worsley Alumina Pty Ltd, Sir Alexander Gibb & Partners, BHP Ltd, Layton Seismic Services and Boral Limited on major infrastructure, mining and seismic exploration projects and areas such as the Boddington Gold Mine (WA); Monasavu Hydro Electric Scheme, Fiji; the North West Shelf Liquified Natural Gas Plant (WA).

Mr McCauley has a broad range of experience and contacts in both the private and public sectors. He has been Manager of Robert J McCauley & Associates (land, mining & engineering surveyors) since 1991 and has held positions such as President of the Institution of Surveyors Australia, Canberra Division including nominee for the Canberra Business Council; Member (ministerial nominee) of the statutory Surveyors' Board of the Australian Capital Territory and Chairman of the Australian Council of Professions, ACT Branch. He is a graduate of W.A.I.T./ Curtin University; a Chartered and Licensed Surveyor; a Member of the Institution of Surveyors, Australia; a Certified Professional of the Spatial Sciences Institute, and a Member of the Royal Institution of Chartered Surveyors.

DIRECTORS' REPORT

Christopher Ablett, Registered Surveyor, Cert. Mining, MAusIMM, SSSI

Non Executive Director

Mr Ablett is a Registered Surveyor who has been associated with the mining and exploration industry since the late 1960's. He has considerable experience in mine site, open pit and underground mine survey and in quantity surveying. Mr Ablett has worked on mining projects in Western Australia, the Northern Territory, the eastern Australian states and Fiji. He has held a number of senior staff positions with several large gold and base metal mines including Emperor Gold Mines Ltd, Cleveland Tin Ltd and at other mines run by the former Peko-Wallsend Group.

Mr Ablett formed his own private company, Ablex Pty Ltd, in 1984 as a service provider for the mining and surveying industries and to look for exploration opportunities in eastern Australia. During this time Mr Ablett has participated at a grass roots level on several significant exploration projects most recently at the Cowal Gold Project and at the Adelong Gold Project in New South Wales. He has provided contract supervision for surface and underground mining and exploration operations.

Mr Ablett is committed to the Mining Industry and believes Australia provides an excellent environment for exploration and the development of mineral resources. Mr Ablett is a Member of the Australasian Institute of Mining and Metallurgy and the Surveying and Spatial Sciences Institute and is the Managing Director of Ablex Pty Ltd.

John B Seeley M.Sc(Hons), Grad.Dip.App.Econ, MAusIMM, MSEG, MAIME.

Non Executive Director

Mr Seeley was appointed to the Board on 1 February 2008 as an Independent Non Executive director. Mr Seeley has been a geologist in the minerals industry for over 40 years. He has an M.Sc(Hons) degree from Auckland University and a post graduate diploma in applied economics from the University of Canberra.

Mr Seeley has a broad commodity experience in over twenty five countries in a wide range of geological environments. He has explored for gold in epithermal, mesothermal, porphyry, polymetallic, Carlin type and alluvial environments and for copper in porphyry, volcanic hosted massive sulphide and stratiform environments. He carried out exploration for base metals in stratiform and volcanogenic environments and for nickel and platinum associated in ultramafic rocks as laterite and sulphides and greenstone belts. Exploration for tin, tungsten and potash has been undertaken for lengthy periods in SE Asia.

His experience includes mine and exploration geology and some sixteen years in exploration management for international mining companies and the United Nations. He has also taught geology at tertiary level. For the past eight years he has worked as an independent consulting geologist undertaking project assessment in a number of countries, writing independent expert reports and carrying out short term project management.

Company Secretary

John Keppo

Mr Keppo was appointed Company secretary on 6 July 2007 and has over 40 years experience in the banking and finance industry. Over the last ten years he has been mainly involved in the Mining and Mineral Exploration sector and has had a variety of roles with a number of ASX listed companies. His work experience covers areas in Australia, China and Papua New Guinea.

Directors' Interests in Shares and Options

Directors' interests in shares and options as at 30 June 2010 are set out in the table below. Between the end of the financial year and the date of this report, Richard Hine has subscribed for Nil shares and Nil Options, Robert McCauley for Nil shares and Nil Options, Christopher Ablett for Nil shares and Nil Options and John Seeley for Nil shares and Nil Options.

DIRECTORS' REPORT

30 June 2010

Director	Shares Directly and Indirectly Held	Options
Richard Hine	9,020,000	3,006,667
Robert McCauley	4,762,215	2,801,168
Christopher Ablett	6,050,000	2,025,000
John Seeley	-	-

Principal Activities

The continuing principal activity of the Company is the exploration for economic deposits of minerals. For the period of this report, the emphasis has been on gold and base metals, to a lesser extent, zirconium and Rare Earth Elements.

Results

The net result of operations after applicable income tax expense was a loss of \$397,861.

Dividends

No dividends were paid or proposed during the period

Review of Operations

Operations over the past twelve months have been focussed on advancing prospects within the Company's key gold, base metal, rare metal and uranium project areas in New South Wales and South Australia.

Conceptual mine plans were drawn up, environmental studies were completed and development applications were lodged in respect of the hard rock gold-base metals resource at Chakola and the alluvial gold resource at Craigie.

There are a number of issues to be resolved with respect to the application to develop an open pit gold and base metals mine at Chakola and the Company is working through these matters.

Drilling programmes were completed at the Cowarra gold-copper project near Bredbo, the Porters Mount gold-copper project near Grenfell and at Chakola during the year. Results were positive and further work is being planned.

The Company has now reached a 51% interest in the Mayfield gold-copper Joint Venture project near Braidwood NSW via an earn-in expenditure of \$100,000. JV partner, Forge Resources Ltd has indicated that it will contribute *pro rata* on further work to maintain its interest.

Exploration work continued on the Company's other projects and importantly a Heads of Agreement was put in place between Capital Mining Limited and Australian Mineral and Waterwell Drilling Pty Ltd (AMWD) that will allow first pass exploration drilling programmes to be completed at Milparinka (precious and base metals) and Mundearno South (uranium) projects in northwest NSW and South Australia respectively in the coming year. Under the agreement, AMWD can earn 49% equity interest in each project by completing and sole funding an agreed drilling programme.

Corporate Structure

Capital Mining Limited is a limited company that is incorporated and domiciled in Australia.

Employees

The Company had one employee as at 30 June 2010. The Company uses contract geologists and other consultants as required.

Significant Changes

The Company has continued with its business during the year as detailed above in the Review of Operations and other parts of this report.

Matters Subsequent to the End of the Financial Period

There were at the date of this report no matters or circumstances which have arisen since 30 June 2010 that have significantly affected or may significantly affect:

the operations of the Company,

DIRECTORS' REPORT

the results of those operations, or
the state of affairs of the Company,
except as set out below:

(a) On 6 September 2010 the Company announced a Subscription Agreement with China Metallurgical Investment Limited to provide funding of approx A\$3.2m over an estimated 18 month period.

Likely Developments and Expected Results

As the Company's areas of interest are still at the exploration stage, it is not possible to assess the likely developments and any expected results. The Company is looking to identify other precious and base metal exploration and evaluation targets.

Share Options

Unissued ordinary shares of Capital Mining Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
6 June 2007	22 March 2012	\$0.185	250,000
6 June 2007	22 March 2012	\$0.235	250,000
25 October 2007	18 October 2010	\$0.20	14,302,897
21 July 2009	1 July 2011	\$0.08	12,785,166
9 September 2010	1 September 2014	\$0.04	3,000,000
9 September 2010	1 September 2014	\$0.06	2,000,000
9 September 2010	1 September 2014	\$0.08	1,500,000
Total			<u>34,088,063</u>

The holders of these options do not have any rights under the options to participate in any share issue of the company or of any other entity.

Remuneration Report - Audited

The remuneration report is set out under the following main headings:

- (a) Policy used to determine the nature and amount of remuneration
- (b) Key management personnel
- (c) Details of remuneration
- (d) Cash bonuses
- (e) Share-based payment bonuses
- (f) Option and rights granted as remuneration
- (g) Equity instruments issued on exercise of remuneration options
- (h) Value of options to key management personnel and executives
- (i) Service contracts

(a) Policy used to determine the nature and amount of remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation

DIRECTORS' REPORT

- transparency
- capital management.

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long-term incentives in line with the Company's limited financial resources.

Key Management Personnel's remuneration is not linked to the Company's performance due to the nature of the Company's activities.

Fees and payments to the non-executive directors and key management personnel reflect the demands which are made on, and the responsibilities of, the directors and the key management personnel. Such fees and payments are reviewed annually by the Board. The executive and non-executive directors, key management personnel and officers are entitled to receive options under the Company's employee share option scheme.

(b) Key management personnel

The following persons were key management personnel of Capital Mining Limited during the financial year:

Name	Position held
Richard Hine	Executive Chairman
Robert McCauley	Non Executive Director
Christopher Ablett	Non Executive Director
John Seeley	Non Executive Director
Senior executives	
Nil	

Other than directors, there are no other officers or personnel who satisfy the definition of "Key Management Personnel" who are or were involved in, concerned with, or who take part in, the management of the affairs of Capital Mining Limited.

(c) Details of remuneration

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the Non-Executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the Non-Executive Directors has been fixed at a maximum of \$200,000 per annum to be apportioned among the non-executive directors in such a manner as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as directors.

The Directors have resolved that Non-Executive Directors fees be set at \$35,000 per annum.

Details of the nature and amount of each element of the remuneration of each of the directors of Capital Mining Limited and each of the five Key Management Personnel of the Company who received the highest emoluments during the year ended 30 June 2010 are set out in the following tables.

DIRECTORS' REPORT

2010	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share based payments			
	Salary, Directors and consulting fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Options \$	Total \$	Proportion of remuneration that is performance based %	% of Value of remuneration that consists of options %
R Hine	125,363	-	-	-	-	-	-	125,363	-	-
R McCauley	116,051	-	-	-	-	-	-	116,051	-	-
C Ablett	86,565	-	-	-	-	-	-	86,565	-	-
J Seeley	32,110	-	-	2,890	-	-	-	35,000	-	-
Other key management personnel										
Nil	-	-	-	-	-	-	-	-	-	-
Total key management personnel compensation	360,089	-	-	2,890	-	-	-	362,979	-	-

2009	Short-term employee benefits			Post-employment benefits	Long-term benefits		Share based payments			
	Salary, Directors and consulting fees \$	Cash bonus \$	Non monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Options \$	Total \$	Proportion of remuneration that is performance based %	% of Value of remuneration that consists of options %
R Hine	121,800	-	-	-	-	-	-	121,800	-	-
R McCauley	84,328	-	-	-	-	-	-	84,328	-	-
C Ablett	80,385	-	-	-	-	-	-	80,385	-	-
J Seeley	42,813	-	-	3,853	-	-	-	46,666	-	-
Other key management personnel										
Nil	-	-	-	-	-	-	-	-	-	-
Total key management personnel compensation	329,326	-	-	3,853	-	-	-	333,179	-	-

Options and shares do not represent cash payments to directors or key management personnel and share options granted may or may not be exercised by the directors or executives.

Any Options granted as a part of director or key management personnel remuneration have been valued using a Black and Scholes option-pricing model, which takes account of factors including the option exercise price, the share price at time of grant, volatility of the underlying share price, the risk-free interest rate and the expected life of the option.

DIRECTORS' REPORT

Fair value of options

The fair value of each option is estimated on the date of grant using a Black and Scholes option-pricing model with the relative weighted average assumptions used for each grant made.

(d) Cash bonuses

No cash bonuses were paid to directors or key management personnel during the 2009-2010 financial year.

(e) Share-based payment bonuses

No options were issued to directors or key management personnel during the 2009-2010 financial year.

(f) Options and rights granted as remuneration

No options or rights were granted to directors or key management personnel as remuneration during the 2009-2010 financial year.

(g) Equity Instruments issued on exercise of remuneration options

No equity instruments were issued to directors or key management personnel during the 2009-2010 financial year.

(h) Value of options to key management personnel and executives

There were no options granted, exercised or lapsed to key management personnel and executives as part of their remuneration during the 2009-2010 financial year.

(i) Service contracts

Remuneration and other terms of employment for the directors and key management personnel are formalised in Service/Appointment agreements.

All contracts with the key management personnel may be terminated early by either party with the stipulated number of months notice, subject to any termination payments as detailed below.

Dr Richard Hine

By Letter of Engagement dated 28 August 2006 Capital Mining Limited engaged Heemskirk Resources Pty Limited, a company associated with Richard Hine, to provide company management, exploration management and mining project management services at the rate of \$60 per hour (plus GST) during the reporting period. This rate is subject to amendment each year in line with a review of work carried out and movements in industry rates charged for services.

Heemskirk Resources Pty Limited received payments totalling \$125,363.

Robert McCauley

By Letter of Engagement dated 1 July 2008, Capital Mining engaged Robert J McCauley and Associates, an entity associated with Robert McCauley, to provide management services at the rate of \$60 per hour (plus GST) during the reporting period. This rate is subject to amendment each year in line with a review of work carried out and the movements in industry rates charged for these services. Capital Mining is reimbursing Mr McCauley for any reasonable costs incurred whilst undertaking Capital Mining's work, including accommodation and sustenance, courier and postage, telephone, internet and facsimile costs.

This agreement was terminated on 9 March 2010 and replaced by a non-executive director remuneration arrangement whereby Capital Mining will pay fees of \$35,000 per annum (inclusive of SGC Superannuation) to Robert McCauley (or his nominated entity) for his services as a non-executive director. Robert J McCauley and Associates received payments totalling \$116,051.

Christopher Ablett

By Letter of Engagement dated 31 August 2006, Capital Mining engaged Ablex Pty Limited, a company associated with Christopher Ablett, to provide project management, exploration, mining and surveying services at the rate of \$60 per hour (plus GST) during the reporting period. This rate is subject to amendment each year in line with a review of work carried out and movements in industry rates charged for services.

Capital Mining is reimbursing Ablex for any reasonable direct costs incurred by Ablex in undertaking Capital Mining's work, including travel, accommodation and sustenance, courier and postage costs, telephone and facsimile costs.

Ablex Pty Limited received payments totalling \$86,565.

DIRECTORS' REPORT

John B Seeley

By Letter of appointment dated 6 December 2007 Capital Mining is to pay a Non Executive Directors fee of \$35,000 per annum (inclusive of Superannuation) to John Seeley in his role as a Non Executive Director of the Company, from a commencement date 1 February 2008. Directors fees of \$35,000 were paid for the year ended 30 June 2010.

Share Options

At 30 June 2010 the company had granted options over 500,000 unissued shares to directors. These are:

Robert McCauley – 250,000 exercise price 18.5 cents* (granted as 25 cents)

Robert McCauley – 250,000 exercise price 23.5 cents* (granted as 30 cents)

These were granted on 6 June 2007 and expire 22 March 2012.

* The exercise price was adjusted following the non renounceable rights issues in October 2007 and July 2009.

Directors' Interests

The relevant interest of each Director (including their associates) in the share capital of the Company as at 30 June 2010 is set out in note 14 to the financial statements.

Options included in directors' and key management personnel remuneration are treated as follows:

Fair values have been assessed using the Black and Scholes option valuation methodology which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the options, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. No discount has been applied.

Share Capital and Options

A detailed breakdown of the company's capital, including options (unquoted options and employee options) and convertible instruments is contained in Note 11 to the Financial Statements.

Meetings of Directors

Director's attendance at Directors meetings are shown in the following table:

Director	Meetings Eligible to Attend	Meetings Attended
Richard Hine	5	5
Robert McCauley	5	5
Christopher Ablett	5	5
John Seeley	5	5

The Company established an Audit Committee in February 2009 which consists of two Non Executive Directors, Chris Ablett and John Seeley. The Audit Committee reviews the Company's financial systems, accounting policies, half-year and annual financial statements at appropriate times and then makes their recommendation to the Board. There has been two meetings of the Audit Committee during the financial year to 30 June 2010.

Directors, Officers, Employees and Consultants Share Option Plan

The Company has established the Capital Mining Limited Employee Share Options Plan ("Plan") to assist in the attraction, retention and motivation of employees of the Company. No options have been granted under the Plan as at the date of this report.

A summary of the rules of the Plan is as follows:

- All employees (full and part-time) will be eligible to participate in the Plan after a qualifying period of 12 months employment by the company, although the Board may waive this requirement.
- The allocation of options under the Plan is at the discretion of the Board.

DIRECTORS' REPORT

c) If permitted by the Board, options may be issued to an employee's nominee (for example, to a spouse or family company).

d) Each option is to subscribe for one fully paid ordinary share in the Company and will expire five years from its date of issue. An Option is exercisable at any time from its date of issue.

e) Options will be issued free. The exercise price of options will be determined by the Board subject to a minimum price equal to the market value of the Company's shares at the time the Board resolves to issue the options. The total number of shares the subject of options issued under the Plan, when aggregated with other options issued under the Plan during the previous five years must not exceed five percent of the Company's issued share capital.

f) If, prior to the expiry date of the options, a person ceases to be an employee of the company for any reason other than retirement at age 60 or more (or such earlier age as the Board permits), permanent disability, redundancy or death, the options held by that person (or the person's nominee) must be exercised within one month thereafter otherwise they will automatically lapse. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.

g) Options cannot be transferred other than to the legal personal representative of a deceased Option holder.

h) The Company will not apply for official quotation of any options.

The Board may amend the Plan rules at any time subject to the requirements of the ASX Listing Rules.

Indemnification and Insurance of Officers and Auditors

Indemnification

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Insurance Premiums

During the financial period the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

Audit and Non-Audit services

During the financial year, the following fees for non-audit services were paid or payable to the auditor, Barnes Dowell James:

	2010	2009
	\$	\$
Audit-related services		
Amounts paid or payable to Barnes Dowell James		
- Audit of regulatory returns	17,700	14,500
Other services		
Amounts paid to Barnes Dowell James		
- Other services	800	-
	18,500	14,500

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out above, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the directors to ensure that they do not impact the integrity and objectivity of the auditor; and

DIRECTORS' REPORT

- none of the non-audit services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Environmental Performance

Capital Mining Limited holds exploration licences issued by the Mines Departments of two state governments (NSW and SA) which specify guidelines for minimising and mitigating environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the various Mines Departments' guidelines and standards. There have been no significant known breaches of the licence conditions.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out and located after the Directors' Declaration and forms part of this report.

Signed at Sydney this 28th day of September 2010 in accordance with a resolution of the Directors.



RICHARD HINE

Chairman

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2010

	Note	2010 \$	2009 \$
REVENUE	2	39,815	60,106
Administration expenses		(107,048)	(41,654)
Consultant expenses		(89,843)	(110,104)
Depreciation	8	(12,350)	(14,874)
Exploration expenses		(138,680)	(152,935)
Salaries and employee benefits expense		(57,049)	(5,417)
Share-based compensation		-	-
Travel and accommodation		(32,706)	(2,806)
(LOSS) BEFORE INCOME TAX EXPENSE		(397,861)	(267,684)
INCOME TAX EXPENSE	3	-	-
(LOSS) AFTER INCOME TAX EXPENSE	13	(397,861)	(267,684)
NET (LOSS) ATTRIBUTABLE TO MEMBERS OF CAPITAL MINING LIMITED		(397,861)	(267,684)
Basic loss per share (cents per share)	13	(0.0060)	(0.0067)
Diluted loss per share (cents per share)	13	(0.0060)	(0.0067)

STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	Note	2010 \$	2009 \$
CURRENT ASSETS			
Cash assets	5	533,386	725,013
Receivables	6	54,916	16,023
Prepayments		4,732	4,607
TOTAL CURRENT ASSETS		593,034	745,643
NON-CURRENT ASSETS			
Tenement security deposits	7	95,000	105,000
Other security deposits		-	1,380
Plant and equipment	8	64,767	77,117
Deferred exploration and evaluation expenditure	9	3,092,138	2,372,922
TOTAL NON-CURRENT ASSETS		3,251,905	2,556,419
TOTAL ASSETS		3,844,939	3,302,062
CURRENT LIABILITIES			
Payables	10	55,768	100,831
TOTAL CURRENT LIABILITIES		55,768	100,831
TOTAL LIABILITIES		55,768	100,831
NET ASSETS		3,789,171	3,201,231
EQUITY			
Issued capital	11	4,960,394	3,974,593
Accumulated losses	12	(1,400,569)	(1,002,708)
Reserves	12	229,346	229,346
TOTAL EQUITY		3,789,171	3,201,231

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2010

Note	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payment to suppliers and employees	(501,358)	(479,326)
Interest received	33,040	58,310
Other income	106	1,796
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	23 <u>(468,212)</u>	<u>(419,220)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	-	-
Expenditure on mining interests (exploration)	(719,216)	(621,740)
Other security deposits	-	-
Tenement security deposits	10,000	-
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	<u>(709,216)</u>	<u>(621,740)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	1,022,813	667
Equity raising expenses	(37,012)	(7,544)
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>985,801</u>	<u>(6,877)</u>
Net increase in cash held	(191,627)	(1,047,837)
Add opening cash brought forward	<u>725,013</u>	<u>1,772,850</u>
CLOSING CASH CARRIED FORWARD	23 <u>533,386</u>	725,013

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2010

	Issued Capital	Accumulated Losses	Reserves	Total Equity
	\$	\$	\$	\$
AT 1 JULY 2007	3,740,804	(426,308)	86,250	3,400,746
Loss for the period	-	(308,716)	-	(308,716)
Issue of share capital	666	-	-	666
Issue of Options	-	-	143,096	143,096
AT 30 JUNE 2008	3,741,470	(735,024)	229,346	3,235,792
AT 1 JULY 2008	3,741,470	(735,024)	229,346	3,235,792
Loss for the period	-	(267,684)	-	(267,684)
Issue of share capital	233,123	-	-	233,123
AT 30 JUNE 2009	3,974,593	(1,002,708)	229,346	3,201,231
AT 1 JULY 2009	3,974,593	(1,002,708)	229,346	3,201,231
Loss for the period	-	(397,861)	-	(397,861)
Issue of share capital	985,801	-	-	985,801
AT 30 JUNE 2010	4,960,394	(1,400,569)	229,346	3,789,171

NOTES TO AND FORMING PART OF THE ACCOUNTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

The financial report has been prepared on a historical cost basis except for land and buildings, which have been measured at fair value.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

This financial report has been prepared based on AIFRS.

(c) Basis of consolidation

The financial statements comprise the financial statements of Capital Mining Limited as at 30 June each year. There were no subsidiaries held as at 30 June 2010.

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- plant and equipment – 15 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(f) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "administrative expenses" line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(g) Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

(h) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, being the date that the Company commits to purchase the asset.

(i) Exploration, evaluation, development and restoration costs

Exploration and evaluation

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

- such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale; or
- exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

Exploration and evaluation – impairment

The Directors assess at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation cost whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in the Income Statement when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis, provisions would be reviewed and if appropriate, written back.

Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

Restoration

Provisions for restoration costs are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Remaining mine life

In estimating the remaining life of the mine at each mine property for the purpose of amortisation and depreciation calculations, due regard is given not only to the volume of remaining economically recoverable reserves but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues that are inherently difficult to estimate over a lengthy time frame.

(j) Mine property held for sale

Where the carrying amount of mine property and related assets will be recovered principally through a sale transaction rather than through continuing use, the assets are reclassified as Mine Property Held for Sale and carried at the lower of the assets' carrying amount and fair value less costs to sell – where such fair value can be reasonably determined, and otherwise at its carrying amount. Liabilities and provisions related to mine property held for sale are similarly reclassified as Liabilities – Mine Property Held for Sale and, Provisions – Mine Property Held for sale, as applicable, and carried at the value at which the liability or provisions is expected to be settled.

(k) Trade and Other Receivables

Trade receivables, which generally have 5-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts, if any.

(m) Other provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

(n) Employee Entitlements

Liabilities for wages and salaries are recognised and are measured as an amount unpaid at the reporting date at current pay rates in respect of employee's services up to that date. Current employee contracts do entitle them to annual leave and long service leave. A liability in respect of superannuation at the current superannuation guarantee rate has been accrued at the reporting date.

(o) Share-based payments

An employee share option scheme has been established where selected employees, consultants, contractors and Directors of the Company are issued with options over ordinary shares in Capital Mining Limited. The options, issued for nil consideration, are issued in accordance with a performance review by the Directors. The options cannot be transferred and will not be quoted on the ASX. Options expire if not exercised 1 month after a participant resigns from the Company. The cost of these equity-settled transactions is determined by reference to the fair value at the date at which they are granted. The fair value of the options is determined by using the Black and Scholes option pricing model.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (a) the extent to which the vesting period has expired and (b) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

(p) Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(q) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest

Revenue is recognised as the interest accrues (using the effective interest method), which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(r) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(t) Currency

Both the functional and presentation currency is Australian dollars (A\$).

(u) Comparatives

Where applicable, comparative figures have been adjusted to conform with any changes in presentation for the current financial year.

(v) Investment in Controlled Entities

There were no investments in controlled entities as at 30 June 2010.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

	2010	2009
	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES		
Interest received – other persons/corporation	39,709	58,310
Other income	106	1,796
	39,815	60,106
3. INCOME TAX		
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
(Over) under provision in prior years	-	-
	-	-
Income tax expense is attributable to:		
Profit from continuing operations	-	-
Aggregate income tax expense	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Losses from continuing operations before income tax expense	(397,861)	(267,684)
Tax at the Australian tax rate of 30%	(119,358)	(80,305)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Additional deductions	-	-
(Over) under provision prior year	-	-
Non-allowable deductions	-	-
Other	-	-
Income taxes not brought to account	(119,358)	(80,305)
(c) Current tax liabilities		
Balance at beginning of year	-	-
Income tax paid	-	-
	2010	2009
	\$	\$
Current year's income tax on profit	-	-
Under (over) provided in prior year	-	-
Balance at end of year	-	-

No provision for income tax is considered necessary in respect of the Company for the period ended 30 June 2010.

No recognition has been given to any future income tax benefit which may arise from operating losses not claimed for tax purposes. The Company has estimated its losses not claimed of \$3,674,257. These amounts have not been brought to account in calculating any future tax benefit.

A benefit of 30% of approximately \$1,102,277 will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,
- the Company continues to comply with the conditions for deductibility imposed by the law, and

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses, i.e. current tax legislation permits carried forward tax losses to be carried forward indefinitely.

No franking credits are available for subsequent years.

Tax consolidation

The Tax Consolidation scheme is not applicable to the Company.

	2010	2009
	\$	\$
4. AUDITORS' REMUNERATION		
Total amounts receivable by the current auditors of the Company for:		
Audit of the Company's accounts	17,700	14,500
Other services	800	-
	<u>18,500</u>	<u>14,500</u>
5. CASH AND CASH EQUIVALENTS		
Cash at Bank	229,778	475,013
Cash on Deposit	303,608	250,000
	<u>533,386</u>	<u>725,013</u>
6. RECEIVABLES – CURRENT		
Interest	8,073	1,403
Refund for GST paid	46,843	14,620
	<u>54,916</u>	<u>16,023</u>
7. TENEMENT SECURITY DEPOSITS		
Cash with government mines department. These deposits are restricted and available for any rehabilitation that may be required on exploration tenements (refer to Note 19)	<u>95,000</u>	<u>105,000</u>
8. PLANT, MOTOR VEHICLE AND EQUIPMENT		
Plant, motor vehicle and equipment – at cost	106,415	106,415
Accumulated depreciation	(41,648)	(29,298)
	<u>64,767</u>	<u>77,117</u>
Reconciliation of the carrying amount of plant, motor vehicle and equipment at the beginning and end of the current and previous financial year		
Carrying amount at beginning	77,117	91,990
Additions	-	-
Disposals	-	-
Depreciation expense	(12,350)	(14,873)
	<u>64,767</u>	<u>77,117</u>

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

9. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2010	2009
	\$	\$
Costs brought forward	2,372,922	1,511,182
Costs incurred during the period	857,896	1,014,675
Costs written off during period	<u>(138,680)</u>	<u>(152,935)</u>
Costs carried forward	3,092,138	2,372,922
Exploration expenditure costs carried forward are made up of:		
Expenditure on joint venture areas	85,454	-
Expenditure on non joint venture areas	<u>3,006,684</u>	<u>2,372,922</u>
Costs carried forward	3,092,138	2,372,922

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 1. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

	2010	2009
	\$	\$
10. CURRENT LIABILITIES – PAYABLES		
Trade creditors	19,172	24,144
Accrued expenses	32,224	72,278
Payroll liabilities	4,370	4,274
Other	<u>2</u>	<u>135</u>
	55,768	100,831

11. CONTRIBUTED EQUITY

Share capital

68,187,489 ordinary shares fully paid	4,960,394	3,974,593
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(a) Movements in ordinary share capital	Date	Number of shares	Issue price	\$
1 July 2007 to 30 June 2008				
Balance b/fwd	01-07-07	39,610,500		3,740,804
Shares issued from conversion of Options	10-12-07	<u>3,334</u>	\$0.20	<u>666</u>
Balance as at 30 June 2008	30-06-08	<u>39,613,834</u>	\$0.20	<u>3,741,470</u>
1 July 2008 to 30 June 2009				
Balance b/fwd	01-07-08	39,613,834	-	3,741,470
Shares issued	12-06-09	3,000,000	\$0.08	240,000
Shares issued from conversion of Options	29-06-09	3,334	\$0.20	667
Share issue costs (rights Issue – completed July 2009)	30-06-09	<u>-</u>	-	<u>(7,544)</u>
Balance as at 30 June 2009		<u>42,617,168</u>		<u>3,974,593</u>
1 July 2009 to 30 June 2010				
Balance b/fwd	01-07-09	42,617,168	-	3,974,593
Shares issued from Non Renounceable Rights Issue	21-07-09	25,570,321	\$0.04	1,022,813
Share issue costs		<u>-</u>		<u>(37,012)</u>
Balance as at 30 June 2010		68,187,489		4,960,394

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

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. Option holders have no voting rights until the options are exercised.

Options

The following options are outstanding at balance date.

(b) Movements in Options	Date	Number of Options	Exercise price	Maturity	\$
(i) ASX Listed Options (CMYO)					
1 July 2007 to 30 June 2008					
Options issued from Bonus Options Prospectus	25-10-07	14,309,565	\$0.20	18-10-2010	143,096
Options converted to shares	10-12-07	<u>(3,334)</u>	-	-	<u>-</u>
Balance 30 June 2008		<u>14,306,231</u>			<u>143,096</u>
1 July 2008 to 30 June 2009					
Brought forward	01-07-08	14,306,231			143,096
Options converted to shares	29-06-09	<u>(3,334)</u>	\$0.20	-	<u>-</u>
Balance 30 June 2009		<u>14,302,897</u>			<u>143,096</u>
1 July 2009 to 30 June 2010					
Brought forward	01-07-09	<u>14,302,897</u>			<u>143,096</u>
Balance 30 June 2010		<u>14,302,897</u>			<u>143,096</u>
(ii) ASX Listed Options (CMYOA)					
1 July 2009 to 30 June 2010					
Brought forward	01-07-09	-			
Options issued from Non-renounceable Rights issue	21-07-09	<u>12,785,166</u>	\$0.08	01-07-2011	
Balance as at 30 June 2010		<u>12,785,166</u>			
(iii) Unlisted Options					
Options issued to Robert McCauley	06-06-07	250,000	\$0.185	22-03-2012	
Options issued to Robert McCauley	06-06-07	<u>250,000</u>	\$0.235	22-03-2012	
Balance as at 30 June 2010		<u>500,000</u>			

2010	2009
\$	\$

12. RESERVES

(a) Options expense reserve

Balance at 1 July 2009	229,346	229,346
Options transferred to reserve	-	-
Balance as at 30 June 2010	<u>229,346</u>	<u>229,346</u>

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

	2010	2009
	\$	\$
(b) Accumulated losses		
Balance at the beginning of period	(1,002,708)	(735,024)
Operating profit (loss) after income tax expense	(397,861)	(267,684)
Balance as at 30 June 2010	(1,400,569)	(1,002,708)

13. LOSS PER SHARE

Basic loss per share (cents per share)	(0.0060)	(0.0067)
Diluted loss per share (cents per share)	(0.0060)	(0.0067)
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	66,786,375	39,761,638
Loss used in calculating basic and diluted loss per share	397,861	267,684

Conversion, call, subscription or issue after 30 June 2010:

Since the end of the financial period, and before the reporting date of these financial statements, there has been no conversions to, call of, or subscriptions for ordinary shares or issues of potential ordinary shares has taken place:

14. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2010	2009
	\$	\$
Short-term employee benefits	360,089	329,326
Post-employment benefits	2,890	3,853
Other long-term benefits	-	-
Termination benefits	-	-
Share based payments	-	-
Balance at the end of period	362,979	333,179

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report (contained in the directors' report) located earlier in this annual report.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

(b) Equity instruments

Options and Rights Holdings

Details of options and rights held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

30 June 2010 Name	Balance at 1 July 2009	Granted as compensation	Options Exercised	Other changes	Balance at 30 June 2010	Total vested at 30 June 2010	Total vested and exercisable at 30 June 2010	Total vested and unexercisable at 30 June 2010
R Hine	3,006,667	-	-	-	3,006,667	3,006,667	3,006,667	-
R McCauley	1,961,168	-	-	840,000	2,801,168	2,801,168	2,801,168	-
C Ablett	2,000,000	-	-	25,000	2,025,000	2,025,000	2,025,000	-
J Seeley	-	-	-	-	-	-	-	-
	6,967,835	-	-	865,000	7,832,835	7,832,835	7,832,835	-

30 June 2009 Name	Balance at 1 July 2008	Granted as compensation	Options Exercised	Other changes	Balance at 30 June 2009	Total vested at 30 June 2009	Total vested and exercisable at 30 June 2009	Total vested and unexercisable at 30 June 2009
R Hine	3,006,667	-	-	-	3,006,667	3,006,667	3,006,667	-
R McCauley	1,883,334	-	-	77,834	1,961,168	1,961,168	1,961,168	-
C Ablett	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
J Seeley	-	-	-	-	-	-	-	-
	6,890,001	-	-	77,834	6,967,835	6,967,835	6,967,835	-

(c) Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

30 June 2010 Name	Balance at 1 July 2009	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 30 June 2010	Balance held nominally
R Hine	9,020,000	-	-	-	9,020,000	20,000
R McCauley	3,320,000	-	-	1,442,215	4,762,215	4,762,215
C Ablett	6,000,000	-	-	50,000	6,050,000	-
J Seeley	-	-	-	-	-	-
	18,340,000	-	-	1,492,215	19,832,215	4,782,215

30 June 2009 Name	Balance at 1 July 2008	Granted as compensation	Received on exercise of options or rights	Other changes	Balance at 30 June 2009	Balance held nominally
R Hine	9,020,000	-	-	-	9,020,000	20,000
R McCauley	4,150,000	-	-	(830,000)	3,320,000	3,320,000
C Ablett	6,000,000	-	-	-	6,000,000	-
	19,170,000	-	-	(830,000)	18,340,000	3,340,000

(d) Loans to key management personnel

There are no loans made by the company to key management personnel or their related parties.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

(e) Other transactions and balances

Consulting services

A director, Richard Hine, is a director and shareholder of Heemskirk Resources Pty Limited, a director, Robert McCauley is a principal of Robert McCauley and Associates and a director, Christopher Ablett is a director and shareholder of Ablex Pty Ltd, each of these entities provided specialist consulting services to the company during the financial year. These services were based upon normal commercial terms and conditions.

	2010	2009
	\$	\$
Consulting services provided by director associated entities recognised as an expense during the year		
R Hine (Heemskirk Resources Pty Ltd)	125,363	121,800
R McCauley (Robert J McCauley and Associates)	116,051	84,328
C Ablett (Ablex Pty Ltd)	86,565	80,385
	327,979	286,513

Aggregate amounts of liabilities at balance date relating to consulting services with directors of the group are as follows:

	2010	2009
	\$	\$
Current liabilities	20,908	43,772

15. RELATED PARTY DISCLOSURES

The Directors in office during the period were Christopher Ablett, Richard Hine, Robert McCauley and John Seeley.

Interests and movements in the shares and options of the Company held by Directors and their Director-related entities as at 30 June 2010:

Fully Paid Ordinary Shares – at 30 June 2010

Key management personnel	Balance 1.7.09	Net changes Number	Balance 30.6.10	Balance held Nominally Number
Richard Hine	9,020,000	-	9,020,000	20,000
Robert McCauley	3,320,000	1,442,215	4,762,215	4,762,215
Christopher Ablett	6,000,000	50,000	6,050,000	-
John Seeley	-	-	-	-
	18,340,000	1,492,215	19,832,215	4,782,215

Options – at 30 June 2010

Key management personnel	Balance 1.7.09	Net changes Number	Balance 30.6.10	Balance held Nominally Number
Richard Hine	3,006,667	-	3,006,667	6,667
Robert McCauley	1,961,168	840,000	2,801,168	2,551,168
Christopher Ablett	2,000,000	25,000	2,025,000	-
John Seeley	-	-	-	-
	6,967,835	865,000	7,832,835	2,557,835

Key management personnel interests in shares and Options includes holdings in their names and in the names of director related entities.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

Remuneration options: Granted and vested during the year

Key management personnel interests in shares and Options includes holdings in their names and in the names of director related entities.

During the financial year no options were granted as equity compensation benefits to key management personnel and directors.

Richard Hine is a Director of and has a significant financial interest in Heemskirk Resources Pty Limited, a company that provided technical services to the Company during the period. Services provided during the period ended 30 June 2010 amounted to \$125,363. This amount is included in the key management personnel compensation in Note 14 (a) and in the remuneration report included in the Director's Report.

Robert McCauley is the principal of Robert McCauley and Associates, an entity through which he provided management services to the Company during the period. Services provided during the year ended 30 June 2010 amounted to \$116,051. This amount is included in the key management personnel compensation in Note 14 (a) and in the remuneration report included in the Director's Report. The amount of \$116,051 also includes non-executive directors fees paid for the period 10 March 2010 to 30 June 2010.

Christopher Ablett is a Director of and has significant financial interest in Ablex Pty Ltd, a company that provided exploration and surveying services to the Company during the period. Services provided during the period ended 30 June 2010 amounted to \$86,565. This amount is included in the key management personnel compensation in Note 14 (a) and in the remuneration report included in the Director's Report.

Services provided by Director-related entities were under normal commercial terms and conditions. No other benefits have been received or are receivable by Directors, other than those already disclosed in the notes to the accounts.

16. JOINT VENTURES

The Company has a joint venture agreement dated 28 April 2009 with Monaro Minerals NL (now Australian American Mining Corporation) to earn 51% equity in the Mayfield project (EL 6358) by spending \$100,000 by 23 December 2010 and a possible increase up to 75% by spending a further \$100,000 should Monaro Mining elect not to contribute and thus dilute its interest. The Company announced on 12 July 2010 that it had reached the 51% controlling interest in the project. The Company has also consented to Monaro assigning its interest in this project to Forge Resources Ltd.

17. FINANCIAL REPORT BY SEGMENT

The Company operates predominantly in the one business and in one geographical area, namely Australian mineral exploration and evaluation.

18. CONTINGENT LIABILITIES

The Company has provided guarantees totalling \$105,000 in respect of mining tenements. These guarantees in respect of mining tenements are secured against deposits with the relative State Department of Mines. The Company does not expect to incur any material liability in respect of the guarantees.

19. EMPLOYEE ENTITLEMENTS

An employee share option plan has been established where selected officers and employees of the Company can be issued with options over ordinary shares in Capital Mining Limited. The options, issued for nil consideration, will be issued in accordance with a performance review by the Directors. The options cannot be transferred and will not be quoted on the ASX. The Company has not yet made an issue under the Plan.

20. FINANCIAL INSTRUMENTS

Interest rate risk exposure

At balance date, the Company was exposed to a floating weighted average interest rate as follows:

	2010	2009
Weighted average rate of cash balances	3.70%	2.3%
Cash balances	\$533,386	\$725,013

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

Bank negotiable certificates of deposit are normally invested for 30-90 days and other cash at bank balances are at call. All other financial assets and liabilities are non-interest bearing.

Net fair value of financial assets and liabilities, on balance sheet and credit risk

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Company approximates their carrying value. Credit risk is minimal at balance date.

21. COMMITMENTS

Exploration licence expenditure requirements

In order to maintain the Company's tenements in good standing with the various mines departments, the Company will be required to incur exploration expenditure under the terms of each licence. These expenditure requirements will diminish as the Company joint ventures projects to third parties. It is the Company's exploration strategy to farm-out where appropriate to larger companies to fund drilling programmes. In addition, the Company has commitments to expend funds towards earning or retaining an interest under joint venture agreements.

	2010 \$	2009 \$
Payable not later than one year	400,000	674,000
Payable later than one year but not later than two years	400,000	674,000
	800,000	1,348,000

It is likely that the granting of new licences and changes in licence areas at renewal or expiry, will change the expenditure commitment to the Company from time to time.

22. SUBSEQUENT EVENTS

There have been no material events subsequent to 30 June 2010 apart from:

- (a) On 6 September 2010 the Company announced a Subscription Agreement with China Metallurgical Investment Limited to provide funding of approx A\$3.2m over an estimated 18 month period.

2010 \$	2009 \$
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23. STATEMENT OF CASH FLOWS

Reconciliation of net cash outflow from operating activities to operating loss after income tax

(a) Operating (loss) after income tax	(397,861)	(267,685)
Depreciation	12,350	14,874
Formation expenses	-	-
Share/Option based payments for services	-	-
Change in assets and liabilities:		
Loan account	1,380	-
(Increase)/decrease in receivables	(39,017)	80,049
(Decrease)/increase in trade and other creditors	(45,064)	(246,458)
Net cash outflow from operating activities	(468,212)	(419,220)

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

- (b) For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Company does not have any unused credit facilities.

	2010	2009
	\$	\$
The balance at 30 June 2010 comprised:		
Cash assets	229,778	475,013
Bank deposits	303,608	250,000
Cash on hand	533,386	725,013

24. CORPORATE INFORMATION

The financial report of the Company for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 28 September 2010.

Capital Mining Limited is a company limited by shares and incorporated in Australia. Its shares are publicly traded on the Australian Stock Exchange under the ticker code "CMY".

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instruments comprise cash and short term deposits.

The main purpose of these financial instruments is to finance the company's operations. The company has various other financial assets and liabilities such as trade receivable and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are cash flow interest rate risk and equity price risk. Other minor risks are either summarised below. The Board reviews and agrees policies for managing each of these risks.

(a) Cash flow interest rate risk

The company's exposure to the risks of changes in market interest rates relates primarily to the company's short-term deposits with a floating interest rate. These financial assets with variable rates expose the company to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The company does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the company's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant as a sensitivity analysis.

The company has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

	Notes	Floating Interest Rate		Non-Interest Bearing		Total Carrying Amount		Interest Rate Risk Sensitivity 2010			
								-10%		+10%	
		2010	2009	2010	2009	2010	2009	Profit	Equity	Profit	Equity
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets:											
Cash at bank	5	229,778	475,013	-	-	229,778	475,013	(1,035)	(1,035)	1,035	1,035
Short-term deposits	5	303,608	250,000	-	-	303,608	250,000	(1,366)	(1,366)	1,366	1,366
Trade and other receivables	6	-	-	54,916	16,023	54,916	16,023	-	-	-	-
Total		533,386	725,013	54,916	16,023	588,302	741,036				
Weighted average Interest rate		3.70%	2.30%								
Financial Liabilities											
Trade and other Payables	10	-	-	55,768	100,831	55,768	100,831	-	-	-	-
Total		-	-	55,768	100,831	55,768	100,831				
Weighted average Interest rate		0.00%	0.00%	-	-	-	-				
Net financial assets (liabilities)		533,386	725,013	(852)	(84,808)	532,534	640,205	-	-	-	-

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short-term and long-term Australian dollar interest rates. A 10% sensitivity would move short-term interest rates at 30 June 2010 from around 4.50% to 4.95% representing a 45 basis points shift. With the still uncertain financial markets, the current low interest rates are expected to continue, any change would likely to be only a small increase, and this level of sensitivity would seem reasonable.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances is impacted resulting in a decrease or increase in overall income.

(b) Price Risk

The company is not exposed to equity securities price risk. The company has no investments held and classified on the balance sheet as available-for-sale.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

(c) Liquidity Risk

The company manages liquidity risk by maintaining sufficient cash reserves and marketable securities, and through the continuous monitoring of budgeted and actual cash flows.

	2010	2009
	\$	\$
Contracted maturities of payables year ended 30 June 2010		
Payable:		
- less than 6 months	55,768	100,831
- 6 to 12 months	-	-
- 1 to 5 year	-	-
- later than 5 year	-	-
Total	55,768	100,831

(d) Commodity Price Risk

The company is exposed to commodity price risk. This risk arises from its activities directed at exploration and development mineral commodities. If commodity prices fall, the market for companies exploring for these commodities is affected. The company does not hedge its exposures.

(e) Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The company's foreign transactions are immaterial and it is not exposed to foreign currency risk.

(f) Net Fair Values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form, other than listed investments. The company has no financial assets where carrying amount exceeds net fair values at balance date.

The company's receivables at balance date are detailed in Note 5 and comprise primarily GST input tax credits refundable by the ATO. The balance (if any) of receivables comprises prepayments (if any).

The credit risk on financial assets of the company which have been recognised on the Balance Sheet is generally the carrying amount.

26. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

During the current year the Company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Capital Mining Limited.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

NOTES TO AND FORMING PART OF THE ACCOUNTS *(continued)*

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of Comprehensive income – The revised AASB 101 introduces the concept of ‘other comprehensive income’ which comprises income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations to have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards.

- AASB 2009-4: Amendments to Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB interpretations 9 & 16](applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,107,117,118,136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB’s annual improvements project. No changes are expected to materially affect the Company.

- AASB 2009-8 Amendments to Australian Accounting Standards – Company Cash-settled Share based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for company cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 6 and Interpretation 11 and as a consequence, these two interpretations are superseded by the amendments. These amendments are not expected to impact the Company.

- AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity’s own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Company.

- AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. This interpretation deals with situations where either partial or full settlement of the liability has occurred. This interpretation is not expected to impact the Company.

The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Capital Mining Limited, I state that:

- (1) In the opinion of the Directors:
 - (a) financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; 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.
- (2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board



Richard Hine

Chairman

Sydney, 28 September 2010

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Partners

C H Barnes FCA
A J Dowell CA
B Kolevski (Affiliate ICAA)
M Galouzis CA

Associate

M A Nakkan CA

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AJD:RC

27 August, 2010

The Directors
Capital Mining Limited
PO Box 3770
WESTERN CREEK ACT 2611

Dear Board of Directors,

CAPITAL MINING LIMITED

We declare that to the best of our knowledge and belief, during the year ended 30 June, 2010 there have been:

- i. No contraventions of auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.

Yours Faithfully
BARNES DOWELL JAMES
Chartered Accountants



.....
Anthony Dowell
Partner



Liability limited by a scheme approved under Professional Standards Legislation

Website: www.bdj.com.au

BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

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Independent Auditor's Report to the Members

Scope

We have audited the accompanying Financial Report of Capital Mining Limited ("the Company"), including the Financial Statements of the Company, comprising the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, a Summary of Significant Accounting Policies, other explanatory Notes and the Directors' Declaration.

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 (including the Australian Accounting Interpretations), International Financial Reporting Standards, and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the Financial Report that is free of 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 to the Members of the Company 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 judgement, 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



BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

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. We confirm the independence declaration required by the Corporations Act 2001 previously provided to the Directors of the Company would be in the same terms if provided as at the date of this Auditor's report.

Auditor's Opinion

In our opinion, the Financial Report of the Company is in accordance with the Corporations Act 2001, including;

- a. 1. Giving a true and fair view of the Company's financial position as at 30 June 2010 and of their financial performance for the year then ended; and
2. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b. The Financial Report complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors Report for the year. The Directors are responsible for the preparation and presentation of the Remuneration Report in accordance with the Australian Auditing Standards. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards as described above.



BARNES DOWELL JAMES

CHARTERED ACCOUNTANTS

Auditor's Opinion

In our opinion the Remuneration Report of Capital Mining Limited for the year ended 30 June 2010, complies with S300 A of the Corporations Act 2001.

BARNES DOWELL JAMES
Chartered Accountants



.....
Anthony J Dowell
Partner
29 September 2010



CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Capital Mining Limited (CMY) is responsible for corporate governance and strives for high standards in this regard. The Board monitors the business and affairs of CMY on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board draws on relevant best practice principles particularly those issued by the ASX Corporate Governance Council in August 2007. At a number of its meetings the Board examined the CMY corporate governance practices and the progress towards a review of its practice compared to the best practice principles proposed by the ASX Corporate Governance Council. While CMY is attempting to adhere to the principles proposed by ASX, it is mindful that there may be some instances where compliance is not practicable for a company of CMY's size.

The August 2007 Australian Stock Exchange Corporate Governance Council publication "Corporate Governance Principles and Recommendations" second edition, is referred to for guidance purposes, however all listed companies are required to disclose the extent to which they have followed the recommendations; to identify any recommendations that have not been followed; and reasons for not doing so. The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In other cases the Company will have to consider new arrangements to enable compliance. In a limited number of instances, the Company may determine not to meet the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a company of this size.

The following paragraphs set out the Company's position relative to each of the eight principles contained in the ASX Corporate Governance Council's report.

Principle 1: Lay solid foundations for management and oversight

The Company has not yet formalised and disclosed the functions reserved to the Board and those delegated to management or formal written processes for evaluating the performance of senior executives. However, the Company has a small Board of four Directors (three Non-Executive Directors and Executive Chairman) and a small team of people, so roles and functions have to be flexible to meet specific requirements.

Principle 2: Structure the Board to add value

The Company does not currently comply with the recommendations within this area as it has an Executive Chairman and three Non-executive Directors. The Company does not comply with the recommendation that a majority of Directors are independent, because the Chairman is a substantial shareholder and two of the Non-executive Directors represent associated companies and are substantial shareholders. The Company does however have a fourth independent Non Executive Director. The Company has a Board nomination committee.

Three of the Company's four Directors are non-executives, and the employer of two of the non-executives has undertaken "material" consultancy work for the Company within the past three years. Each Director of the Company has the right to seek independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld. The company has an audit committee comprising the two non executive directors.

Principle 3: Promote ethical and responsible decision-making

The Company has a policy concerning trading in its securities by Directors, management, staff and significant consultants which is set out below. The Company does not have a formal code of conduct, again reflecting the Company's small size and the close interaction of individuals throughout the organisation.

Due to the Company's size and relative level of operational activity, which makes legal compliance a less onerous task than with larger companies, the Company does not have a formal code of conduct to guide compliance with legal and other obligations. The Board of Directors continues to review the situation to determine the most appropriate and effective operational procedures.

Principle 4: Safeguard integrity in financial reporting

At this stage the Company's financial statements are prepared by an external accountant who confirms to the Audit Committee in writing that the Company's financial reports represent a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The Executive Chairman reviews and approves the financial statements before they are submitted to the Audit Committee and also meets with and confirms this in writing to the Board. They also comment on whether the financial reports are based on a sound system of risk management and internal control, and whether the system is operating efficiently and effectively.

CORPORATE GOVERNANCE STATEMENT (continued)

The Company has an Audit Committee which consists of two Non-Executive Directors, Christopher Ablett and John Seeley. These Directors have applicable expertise and skills, and are suitably qualified for this Committee. This structure does not meet the ASX's guidance regarding independence, in that it should have a majority of independent directors. The Audit Committee reports to the Board after each committee meeting. In conjunction with the full Board, the committee meets with and reviews the performance of the external auditors (including scope and quality of the audit).

Principle 5: Make timely and balanced disclosure

The Company, its Directors and consultants are very aware of the ASX's continuous disclosure requirements and operate in an environment where strong emphasis is placed on full and appropriate disclosure to the market. Whilst the Company does not have formal written policies regarding disclosure in place at the time of this report, it uses strong informal systems underpinned by experienced individuals. The Company maintains a register of matters considered for possible market disclosure.

Principle 6: Respect the rights of shareholders

All significant information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Company's operations, the material used in the presentation is released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Whilst the Company does not have a communications strategy to promote effective communication with shareholders, as it believes this is excessive for small companies, the Company does communicate regularly with shareholders. The Company has requested the external auditor to attend general meetings and this has been supported by the Company's audit partner at Barnes Dowell James.

Principle 7: Recognise and manage risk

The Company is a small, exploration company and does not believe that at this stage there is significant need for formal policies on risk oversight and management of material business risks, although these issues are actively considered at all times in the Company's activities. Risk management arrangements are the responsibility of the Board of Directors and senior management collectively. Risk Factors are an agenda item for each Board meeting. The Company has an Occupational Health and Safety policy with which all the Company's staff, contractors and consultants must comply.

Principle 8: Remunerate fairly and responsibly

The Company has a Remuneration Committee of Richard Hine and Christopher Ablett which meets as and when required, to review performance matters and remuneration. There has been no formal performance evaluation of the Board during the past financial period, although its composition will be reviewed at a Board meeting at least annually by the Remuneration and Nomination Committee. The Directors work closely with management and have full access to all the Company's files and records.

Directors believe that the size of the Company makes individual salary and consultant negotiations more appropriate than formal remuneration policies. The Remuneration Committee will seek independent external advice and market comparisons as necessary. In accordance with Corporations Act requirements, the Company discloses the fees or salaries paid to all Directors, plus the five highest paid officers. The Company has an Employee Share Option Plan that was introduced in 2006 but has not made an issue under the Plan at this time.

Ethical Standards

The Board's policy is for the Directors and management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Securities Trading and Trading Windows

Directors, employees and key consultants must consult with the Chairman of the Board or the Executive Director before dealing in shares of the Company. Purchases or sales in the Company's shares by Directors, employees and key consultants may not be carried out at any time whilst in possession of price sensitive information and for 24 hours after any major announcements, the release of the Company's annual financial results to the ASX and the annual general meeting.

SHAREHOLDER INFORMATION

Information relating to shareholders at 23 September 2010 (per ASX Listing Rule 4.10)

Substantial Shareholders		Shareholding
Mr Richard Hine		9,000,000
Mr Chris Ablett		6,050,000
Chakola Gold Pty Ltd		4,320,000
Distribution of Shareholders		
Number of ordinary shares held	Number of Holders	Ordinary Shares
1 – 1,000	20	6,894
1,001 – 5,000	46	140,190
5,001 – 10,000	111	1,035,236
10,001 – 100,000	410	15,183,571
100,001 – and over	115	51,821,598
	702	68,187,489

At the closing price of \$0.067 per share on 23 September 2010 there were 79 shareholders with less than a marketable parcel of 7,462 shares.

Top 20 Shareholders of Ordinary Shares as at 23 September 2010	Shares	% Shares issued
Mr Richard Hine	9,000,000	13.199
Mr Chris Ablett	6,050,000	8.873
Chakola Gold Pty Ltd	4,320,000	6.335
Mr Ravi Bhat	1,370,001	2.009
Kimbriki Nominees Pty Ltd <Kimbriki Hamilton S/F A/C>	1,000,000	1.467
Walpett Engineering Pty Ltd <Super Fund A/c>	984,000	1.443
Mr Michael Joseph McCauley & Mrs Barbara Suk Kuen McCauley	976,320	1.432
Capital Ideas Pty Ltd <Moon Super Fund A/C>	910,200	1.335
Mr Michael Joseph McCauley	897,875	1.173
Peter Crisp Pty Ltd <Crisp Super Fund A/C>	800,000	1.320
Netshare Nominees Pty Ltd	745,875	1.094
Mr Raul Used <The Raul Used Family A/C>	740,000	1.085
Mr Adrian Van Der Spuy	672,954	0.987
Comsec Nominees Pty Limited	660,845	0.969
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	570,012	0.836
Mr Ashwin Srinivasan	569,600	0.835
Mrs Annette Mizon <The Bobbin Super Fund A/c>	552,000	0.810
Mr Robert MacFadyen Pty Ltd <MacFadyen S/F A/C>	550,000	0.807
Mr Patrick Martin Taylor	546,900	0.802
Mr Zhaofeng Li	528,600	0.775
Total of top 20 holdings	32,445,182	47.582
Other holdings	35,742,307	52.418
Total fully paid shares issued	68,187,489	100.00

SHAREHOLDER INFORMATION

Top 20 Option holders of listed Options "CMYO" as at 23 September 2010	Options	% Options issued
Mr Richard Hine	3,000,000	20.975
Mr Chris Ablett	2,000,000	13.983
Chakola Gold Pty Ltd	1,350,000	9.439
Paticoa Nominees Pty Ltd <Settlement A/C>	598,669	4.186
Mr John Robyn Adamson & Mrs Fay Jynette Ngataua <Adamson Ngataua S/F A/C>	500,000	3.496
Mr Peter John Douglas <Neehar S/F A/c>	458,334	3.204
Jacobs Corporation Pty Ltd	441,056	3.084
Mr Peter John Douglass <Neehar Super Fund A/c>	391,668	2.738
Walpett Engineering Pty Ltd <Super Fund A/c>	200,000	1.398
Wiseman Corporation Pty Ltd <R P Wiseman Family A/C>	200,000	1.398
Mr Ramamoorthy Srinivasan & Mrs Bhanumathi Srinivasan	188,700	1.319
Mr Patrick Martin Taylor	150,000	1.049
Warinco Services Pty Limited <Waring Super Fund A/c>	150,000	1.049
Mr Heath Roberts	150,000	1.049
Mr Oliver Buecher & Mrs Georgina Buecher	135,226	0.945
Mr Joel Blicharz & J M B Enterprises Pty Ltd	100,000	0.699
Mr Kelvin John Cooper	100,000	0.699
Jade Glen Pty Ltd <Dutco Superfund A/c>	100,000	0.699
Mr Paul Anthony Litjens	100,000	0.699
666 Pty Ltd <The 666 Investment A/C>	100,000	0.699
Mr Brian John Williams & Mrs Heather Williams	100,000	0.699
Total of top 20 holdings	10,513,653	73.507
Other holdings	3,789,244	26.493
Total Options	14,302,897	100.00

Top 20 Option holders of listed Options "CMYOA" as at 23 September 2010	Options	% Options issued
Mr Terry Ronald Sharp & Mrs Lynette Catherine Sharp <Super Sharp S/F NO2 A/C>	1,070,000	8.369
Chakola Gold Pty Ltd	810,000	6.335
Mr John Robyn Adamson & Mrs Fay Jynette Ngataua <Adamson Ngataua S/F A/C>	565,000	4.419
Mr Michael Joseph McCauley	562,470	4.399
Mr Edward Walter Gibson & Mrs Myrtle Gibson <E W Gibson Super Fund A/C>	500,090	3.911
Mr Kevin Arthur Thomas & Mrs Barbara Thomas <The KBT Super Fund A/C>	500,000	3.911
Mr Roy Peter Wiseman & Mr Benjamin Adam Wiseman <The Wiseman Super Fund A/C>	400,000	3.129
Togolash Pty Ltd	350,000	2.738
Mr Colin John Hough	300,000	2.346
Peter Crisp Pty Ltd <Crisp Super Fund A/C>	300,000	2.346
Capital Ideas Pty Ltd <Moon Trading A/C>	276,600	2.163
Mr Raul Used <The Raul Used Family A/C>	270,000	2.112
Mr Mario Ierardi & Mrs Poppy Ierardi	269,000	2.104
Dr Paul Mark Halley	227,900	1.783
Walpett Engineering Pty Ltd <Super Fund A/c>	192,000	1.502
Mr Michael Joseph McCauley & Mrs Barbara Suk Kuen McCauley	183,060	1.432
Mr Bin Liu	180,000	1.408
Mr Matthew David Burford	150,642	1.178
Canerise Pty Ltd <Canerise Super Fund A/C>	150,600	1.178
Mr Robert George Lovett <EST Lynne Lovett A/C>	150,000	1.173
Mr Paul Desmond Bruhn	150,000	1.173
Mr Francis Rupert Benson & Mr Scott Donald Oldfield <FRB Superfund A/C>	150,000	1.173
Total of top 20 holdings	7,707,362	60.284
Other holdings	5,077,804	39.716
Total Options issued	12,785,166	100.00

Employee Share Option Plan

At a Directors Meeting held on 12 May 2006, the Board approved the adoption of the Company's Employee Share Option Plan. No options have been issued under the plan.

Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Audit Committee

At the date of the Report of the Directors, the Company has a committee of two Non-Executive Directors which meets with the Company's external auditors at least once during each half-year. These meetings will take place prior to the finalisation of the half-year financial statements and Annual Report and prior to the signing of the Audit Report.

Statement under ASX Listing Rule 4.10.19

From the date of admission of the Company's shares on ASX (22 March 2007) to the date of this Annual Report, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Expenditures have been in line with Prospectus estimates.