



ALLIANCE RESOURCES LIMITED

HALF YEAR FINANCIAL REPORT 31 DECEMBER 2010

DIRECTORS

John S F Dunlop
Chairman

Ian J Gandel
Director

Tony D Lethlean
Director

MANAGEMENT

Steve F Johnston
Chief Executive Officer (Interim)

Ian C Pamensky
Manager Finance & Company Secretary

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AUDITORS

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Chartered Accountants
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SHARE REGISTRY

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ASX CODE

AGS

INVESTOR INFORMATION

Alliance Resources Limited is a publicly listed Australian resource company focused on the development and, ultimately, production from its interest in the Four Mile Uranium Project in South Australia, and in realising value from its extensive exploration interests.

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2010 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the half-year are:

Name	Period of directorship
Non-executive John Stuart Ferguson Dunlop <i>Chairman</i>	Appointed 30 November 1994
Ian Jeffery Gandel <i>Non Executive Director</i>	Appointed 15 October 2003
Anthony Dean Lethlean <i>Non Executive Director</i>	Appointed 15 October 2003
Patrick Mutz Non Executive Director	Appointed 1 March 2010 ⁽¹⁾

Note:

(1) Mr Patrick Mutz resigned as a Non-executive director effective 31 August 2010

RESULTS

The loss for the half-year after income tax was \$4,477,351 (2010: Loss - \$2,807,763).

REVIEW OF OPERATIONS

During the period, Alliance Resources Limited released its Annual Report for the year to 30 June 2010, with a Review of Operations to 30 September 2010. It also released Quarterly Activities Reports to 30 September 2010 and 31 December 2010, with significant events as follows:

Corporate

- Mr Patrick Mutz resigned as non-executive Director, effective 31 August 2010;
- As at 31 January 2011 Alliance had made payments totaling \$12,525 towards the cost of development of uranium mining at Four Mile bringing total payments to that date to \$14,518,588¹;
- Alliance cancelled 2,000,000 unlisted Managing Director options on 30 September 2010 and a further 6,200,000 unlisted Director and Employee options expired on 31 October 2010. The Company now has 341,172,309 ordinary shares and no options on issue;
- On 21 December 2010, Alliance Resources Limited finalized the sale of Maldon Resources Pty Ltd to Octagonal Resources Limited ("Octagonal"). In consideration Alliance was paid \$5.5million in Octagonal Shares (22million shares at 25cents). Octagonal was listed on the ASX on 5 January 2011; and
- Cash reserves at 31 December 2010 were \$36.6 million

¹ Cash calls for the Four Mile Project are based on an updated programme and budget received from Quasar Resources Pty Ltd (Quasar) in May 2009 (which has never been presented to or approved by the joint venture management committee), as scaled back pending issue of a mining licence. Alliance disputes the validity of the programme and budget and the cash calls and, in making payments, has reserved all of its rights.

URANIUM (FOUR MILE, Alliance 25% and free carried during exploration)

The Four Mile Area is located 550 kilometres north of Adelaide in South Australia. Since 22 October 2008, Alliance has contributed 25% of the cost of development within the Mine Development Area (MDA) and is free carried for exploration outside the MDA.

Quasar Resources Pty Ltd (Quasar) holds a 75% interest in the tenement and is the manager of the project. Quasar is an affiliate of Heathgate Resources Pty Ltd, which owns and operates the Beverley Uranium Mine located 8 kilometres southeast of the Four Mile uranium deposits.

The total inferred + indicated mineral resource estimate for the Four Mile Uranium Project is 9.8 million tonnes @ 0.33% uranium oxide (U₃O₈) containing 71 million lb of U₃O₈, classified in accordance with the JORC Code. Refer Table 1.

Table 1 - Four Mile Uranium Project - Mineral Resource Estimate*

Deposit	GT Cut-off m%	Ore Mass tonnes	U₃O₈ %	U₃O₈ Tonnes	U₃O₈ Mlb	JORC Classification
Four Mile West	0.10	4,100,000	0.34	14,000	32	Indicated
Four Mile West	0.10	1,500,000	0.31	4,700	9	Inferred
Four Mile West	0.10	5,700,000	0.34	19,000	42	
Four Mile East	0.10	4,100,000	0.31	13,000	29	Inferred
TOTAL	0.10	9,800,000	0.33	32,000	71	

*These estimates are classified in accordance with the Joint Ore Reserves Committee Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition) (JORC Code). Minor apparent multiplication mismatches are due to post-computational rounding of all entries to 2 significant figures.

Resource estimates were made at a number of grade x thickness (GT) cut-offs, applied to drill intercepts of 0.5 m minimum thickness and 0.05% minimum U₃O₈ grade, with up to 1 m of internal dilution allowed. The intercept parameters are the same as those used for prior resource estimates at FMW/FME and similar to those used at Beverley, but varied slightly to match the individual geometry of these deposits.

All mineral resource estimates to-date at Four Mile have been addressed on the basis of In Situ Recovery (ISR) as the mining method. However, in the western area of Four Mile West, additional mineralization has been identified above or within about 20m of the water table, which has the potential to add to mineral resources, if proved recoverable by ISR or mineable by other means.

Competent Person's Statement

The information in this report that relates to Mineral Resources for the Four Mile Uranium project is based on information compiled by Mr Ken Bampton who is a Corporate member of both the Australian Institute of Geoscientists and The Australasian Institute of Mining & Metallurgy. Mr Bampton trades as Ore Reserve Evaluation Services. Mr Bampton has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Bampton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

During the period, Alliance announced the following significant matters:

- Summary of Legal Proceedings
 - Recording JV Meetings.

On 13 October 2009, Alliance Craton Explorer Pty Ltd (ACE), a subsidiary of Alliance Resources Limited (Alliance), issued proceedings in the Supreme Court of South Australia against Quasar Resources Pty Ltd (Quasar) in order to test its right to record proceedings of JV management committee meetings. Judgment was delivered on 27 August 2010. Sulan J found that the law did not prohibit ACE from taping joint venture meetings but that both the chairman's ruling and the resolution of the management committee that meetings not be recorded were valid. ACE has not appealed the decision and the matter is now completed.
 - Native Title Registration.
 - On 12 November 2009, ACE issued proceedings in the Supreme Court of South Australia against Quasar and Heathgate Resources Pty Ltd (Heathgate) seeking:
 - a declaration that Quasar exceeded and breached its authority, acted in breach of its fiduciary obligations and acted in breach of its contractual obligation of good faith in signing a native title mining agreement (NTMA) for the Four Mile Project in the form negotiated by Quasar;
 - a declaration that Heathgate knowingly participated in the breaches referred to above;
 - an order requiring Quasar and Heathgate to execute a deed, in a form previously submitted to Quasar, which places Alliance in substantially the position it would have been in had the NTMA related only to the Four Mile Project or, in the alternative a mandatory injunction requiring Quasar to commence negotiating a new native title agreement which relates only to Four Mile; and
 - damages and costs.

A directions hearing is scheduled for 18 March 2011 at which argument will be heard on an application by ACE for the production of further documents by Quasar and further directions will be given to the parties. ACE has applied to have this matter judge managed. No hearing date for that application has been set.

Background

Acting as manager of the joint venture, Quasar purported to sign an NTMA on behalf of ACE and submitted it to Primary Industries and Resources South Australia (PIRSA) for registration on 12 June 2009. As the NTMA purports to subsume the existing native title mining agreement for Heathgate's Beverley mine, it exposes Alliance to potential cross liabilities for matters relating to Beverley. Further, it gave Heathgate the right to make decisions for the Four Mile joint venturers without reference to them.

At the directions hearing on 23 December 2010, ACE foreshadowed an application to amend the proceedings to cover a native title agreement executed by Quasar and lodged with PIRSA on 12 May 2010 (being the agreement the subject of Quasar's application for an order against the Mining Registrar). ACE is also seeking to have the hearing of the substantive issues heard separately, and ahead of, any hearing as to the quantum of damages. Quasar has indicated that it will oppose both applications.

Neither ACE nor Alliance were consulted or involved in the negotiation of either native title agreement with the native title holders. Alliance contends that Quasar was not duly authorized to execute either NTMA on behalf of ACE and, in doing so, exceeded its authority.

Both native title mining agreements have been rejected by PIRSA. On 30 November 2010 Quasar issued proceedings in the Supreme Court of South Australia seeking an order that the Mining Registrar register the agreement lodged on 12 May 2010. A trial date for that matter has not yet been set. ACE has also applied to have this matter judge managed but no hearing date for the application has been set.

- Pre-action Discovery.
 - On 16 November 2009, ACE issued proceedings in the Federal Court of Australia against Quasar and Heathgate for an order, by way of pre-action discovery, giving ACE access to books, records and agreements pertaining to the Four Mile Joint Venture. The matter was heard on 22 and 23 February 2010. The Court has reserved its decision.
- Misleading and deceptive conduct
 - On 12 July 2010, ACE issued proceedings in the Federal Court of Australia against Quasar and Heathgate seeking:
 - damages from Heathgate and damages and restitution of the 75% interest in the exploration licence over the Four Mile from Quasar arising from Quasar's and Heathgate's failure to disclose to ACE information concerning the prospectivity of part of that tenement. ACE contends that Quasar engaged in misleading or deceptive conduct in contravention of section 52 of the Trade Practices Act 1974 (Cth) and section 9 of the Fair Trading Act 1999 (Vic) and that Heathgate assisted or participated in the contraventions committed by Quasar.
 - ACE also contends that Quasar, with the assistance or participation of Heathgate, breached its obligations under the joint venture agreement, its fiduciary obligations owed to ACE and misused confidential information when Quasar sought, and obtained, a one-year extension of the earn-in period and, subsequently, the transfer of a 75% interest in the exploration licence.

ACE has sought the leave of the Court to administer interrogatories and a decision on that application is pending. The next directions hearing is scheduled for 12 and 13 May 2011 (at which ACE's application for further discovery will be heard).

As the statement of claim contains confidential information which, under the joint venture agreement with Quasar, ACE is obliged not to disclose, by consent, the Court has ordered that the statement of claim, defences and replies be treated as confidential until further order.

- Exploration and Development
 - As a result of a native title mining agreement not having been registered, a mining lease has not been issued and work on the Project has been scaled down.
 - There were no well-field or engineering activities reported by Quasar in its Manager's monthly reports for July to December 2010.

- Independent Scoping Study

On 28 July 2010, Alliance announced details of the final Scoping Study report prepared by Como Engineers Pty Ltd and Adelaide Control Engineering Pty Ltd in relation to the capital cost estimate for the design, procurement and construction of an In-Situ Recovery (**ISR**) and uranium processing facility, at the Four Mile Uranium Project, as well as estimating the ongoing operating costs of the facility to an order of accuracy of $\pm 30\%$ using all new equipment for:

- a. 3 million pound per annum (**MIbpa**) stand alone ISR plant including all associated infrastructure
- b. 5MIbpa stand alone ISR plant including all associated infrastructure
- c. 7MIbpa stand alone ISR plant including all associated infrastructure
- d. 3MIbpa satellite ISR (satellite) plant utilizing existing infrastructure at nearby Beverley Site
- e. 3MIbpa stand alone Resin in Pulp plant.

The Scoping Study cost estimates indicate to Alliance that Four Mile offers a significantly greater return if developed as a stand alone project with a production rate of approximately 5 million pounds per annum.

Alliance also announced that it had commissioned an optimization study for the design, capital and operating cost estimates for a 5 million pound per annum standalone plant at Four Mile to an order of accuracy of $\pm 25\%$.

Alliance has received the draft optimization study and highlights of the results of the study will be announced when the Alliance has reviewed and commented on the draft study and the final report is received.

Maldon Gold Project, Victoria

On 21 December 2010 Alliance completed the sale of its subsidiary, Maldon Resources Pty Ltd (Maldon), which owns the Maldon Gold Project, to Octagonal Resources Limited (Octagonal). The sale of Maldon was conditional on Octagonal completing fundraising and obtaining conditional approval to list its shares on the official list of the ASX. Octagonal satisfied these conditions with a fully subscribed IPO raising \$12,000,000 and ASX granted conditional approval to the listing on 17 December 2010. As part of the sale, Alliance and other shareholders were granted priority in applying for shares under the Octagonal IPO. Alliance now holds 22,000,000 ordinary shares in Octagonal, which equates to approximately 22% of Octagonal's post-IPO share capital. Octagonal was listed on the ASX on 5 January 2011.

Warrina Copper-Gold Project, South Australia (Alliance 100%)

The Warrina Project is located 60 km north east of Coober Pedy in South Australia.

No fieldwork was undertaken during the half year.

East Frome Base Metal Project, New South Wales (Alliance 100%)

The East Frome Project is located approximately 30 km to the northwest of Broken Hill, New South Wales. The project is prospective for copper-gold mineralisation and Broken Hill style lead-zinc-silver mineralisation.

Gravity and MIMDAS (electrical geophysics) surveys were planned to commence in January 2011, however heavy rain through the Broken Hill region in December-January has resulted in this work being delayed until the ground conditions improve.

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 on page 8.

Signed in accordance with a resolution of Directors.



Tony Lethlean
Director

Dated at Melbourne, Victoria this 16th day of March 2011



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Alliance Resources Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Alliance Resources Limited and the entities it controlled during the half year ended 31 December 2010.

D J Garvey
Partner
PKF

16 March 2011
Melbourne

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Liability limited by a scheme approved under Professional Standards Legislation.

The Directors of Alliance Resources Limited declare that:

- 1 the financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations, changes in equity and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB134 Interim Financial Reporting and the Corporations Regulations 2001.
- 2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Tony Lethlean
Director

Dated at Melbourne, Victoria this 16th day of March 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF ALLIANCE RESOURCES LIMITED**



Chartered Accountants
& Business Advisers

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Alliance Resources Limited which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises Alliance Resources Limited (the company) and the entities it controlled at 31 December 2010 or from time to time during the half-year ended on that date.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PKF

PKF

16 March 2011
Melbourne

D J Garvey
Partner

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STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 December 2010

Alliance Resources Limited

	Note	CONSOLIDATED	
		31 December 2010 \$	31 December 2009 \$
Continuing Operations			
Revenue from continuing operations:			
Interest Income		980,914	881,481
Other Income		95,188	-
Expenses from continuing operations:			
Administrative expenses		(1,055,680)	(1,312,421)
Legal costs		(1,208,075)	(612,237)
Depreciation		(11,695)	(8,656)
Directors' fees		(176,888)	(104,730)
Occupancy expenses		(31,106)	(31,368)
Expense of share options granted		-	(39,692)
Share of net loss of joint venture accounted for using the equity method		(79,456)	(1,077,454)
Loss from continuing operations before income tax		(1,486,798)	(2,305,077)
Income tax (expense)/ benefit		-	-
Loss from continuing operations after tax		(1,486,798)	(2,305,077)
Discontinued Operations			
Loss from sale of subsidiary	6	(2,504,884)	-
Loss from discontinued operations after income tax	6	(485,669)	(502,686)
Net Loss for the period		(4,477,351)	(2,807,763)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(4,477,351)	(2,807,763)
Basic loss per share (cents)		(1.31)	(0.83)
Basic loss per share (cents) from continuing operations		(0.44)	(0.68)
Basic loss per share (cents) from discontinued operations		(0.88)	(0.15)
Diluted loss per share (cents)		(1.31)	(0.83)
Diluted loss per share (cents) from continuing operations		(0.44)	(0.68)
Diluted loss per share (cents) from discontinued operations		(0.88)	(0.15)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

Alliance Resources Limited

		CONSOLIDATED	
	Note	31 December 2010	30 June 2010
		\$	\$
Current Assets			
Cash and cash equivalents		36,601,121	38,429,066
Receivables		360,700	478,722
Other assets		99,424	46,233
Assets classified as held for sale		-	9,502,461
Total Current Assets		37,061,245	48,456,482
Non Current Assets			
Receivables		50,000	40,000
Other financial assets		38,171	38,171
Property, plant and equipment		43,994	51,636
Exploration and evaluation costs	3	2,059,608	2,008,560
Investment in Associate, accounted for using the equity method	6	5,500,000	-
Investment in Joint Venture, accounted for using the equity method		11,661,831	11,553,753
Total Non Current Assets		19,353,604	13,692,120
Total Assets		56,414,849	62,148,602
Current Liabilities			
Payables		275,827	673,060
Provisions		77,374	38,458
Liabilities classified as held for sale		-	898,085
Total Current Liabilities		353,201	1,609,603
Total Liabilities		353,201	1,609,603
Net Assets		56,061,648	60,538,999
Equity			
Contributed equity	4	98,918,022	98,918,022
Accumulated losses		(42,856,374)	(42,231,459)
Reserves		-	3,852,436
Total Equity		56,061,648	60,538,999

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2010

Alliance Resources Limited

CONSOLIDATED	Contributed Equity	Accumulated Losses	Share Option Reserve	TOTAL
	\$	\$	\$	\$
At 1 July 2009	90,665,388	(37,388,669)	3,812,744	57,089,463
Total comprehensive loss for the period, net of tax	-	(2,807,763)	-	(2,807,763)
Cost of share options issued	-	-	39,692	39,692
Share issue costs	(299,440)	-	-	(299,440)
Shares issued during the period	8,552,074	-	-	8,552,074
At 31 December 2009	98,918,022	(40,196,432)	3,852,436	62,574,026

CONSOLIDATED	Contributed Equity	Accumulated Losses	Share Option Reserve	TOTAL
	\$	\$	\$	\$
At 1 July 2010	98,918,022	(42,231,459)	3,852,436	60,538,999
Total comprehensive loss for the period, net of tax	-	(4,477,351)	-	(4,477,351)
Transfer to accumulated losses	-	3,852,436	(3,852,436)	-
At 31 December 2010	98,918,022	(42,856,374)	-	56,061,648

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the half year ended 31 December 2010

Alliance Resources Limited

	CONSOLIDATED	
	2010	2009
	\$	\$
Cash flows from operating activities		
Receipts from operations	-	1,662
Payments to suppliers and employees	(2,352,708)	(3,155,823)
Interest received	1,013,845	941,697
Net cash flows used in operating activities	<u>(1,338,863)</u>	<u>(2,212,464)</u>
Cash flows from investing activities		
Payments for exploration and JV costs	(700,370)	(6,894,392)
Proceeds from sale of shares	275,348	-
Transfer to term & rental deposits	(20,000)	1,603
Payments for property, plant and equipment	(44,060)	(47,047)
Net cash flows used in investing activities	<u>(489,082)</u>	<u>(6,939,836)</u>
Cash flows from financing activities		
Proceeds from issues of shares	-	8,552,074
Payments for share issue costs	-	(299,440)
Net cash flows from financing activities	<u>-</u>	<u>8,252,635</u>
Net decrease in cash held	(1,827,945)	(899,665)
Cash at beginning of the half year	<u>38,429,066</u>	<u>43,250,408</u>
Cash at end of the half year	<u><u>36,601,121</u></u>	<u><u>42,350,743</u></u>

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2010

Alliance Resources Limited

NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the Annual Financial Report of Alliance Resources Limited as at 30 June 2010.

It is also recommended that the half-year financial report be considered together with any public announcements made by Alliance Resources Limited and its controlled entities during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

(a) Basis of Accounting

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The same accounting policies have been followed as those applied in the financial report for the year ended 30 June 2010.

The half-year financial report has been prepared in accordance with the historical cost convention. For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The consolidated interim financial report was approved by the Board of Directors on the date of signing the directors' declaration.

(b) Significant accounting policies and Adoption of new standards

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the annual financial report for the financial year ended 30 June 2010 and the corresponding interim financial report for the half year ended 31 December 2009, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

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

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

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods. However, the only amendment that has had a material impact and resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements is the presentation of exploration & joint venture costs in the statements of cash flows. AASB 107 *Statement of Cash Flows* has been amended through AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statements of cash flows.

Consequently, cash flows in respect of exploration & joint venture costs have been reclassified from operating to investing activities in the statement of cash flows. Prior year amounts have been restated for consistent presentation.

The entity has not elected to adopt any new Accounting Standards or amendments that are issued but not yet effective.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2010

Alliance Resources Limited

NOTE 2. SEGMENT INFORMATION

Alliance Resources operates in the mineral exploration and mining industry in Australia.

The group has adopted AASB 8 Operating Segments whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the board of directors. At regular intervals the board is provided management information at a group level for the group's cash position, the carrying values of exploration permits and a group cash forecast for the next twelve months of operation. On this basis, no segment information is included in these financial statements.

NOTE 3. EXPLORATION AND EVALUATION COSTS

	31 December 2010 \$	30 June 2010 \$
Exploration and evaluation costs carried forward in respect of minerals exploration areas of interest:		
Exploration and evaluation phases	2,059,608	2,008,560
Opening balance	2,008,560	1,850,725
Expenditure incurred	51,048	157,835
Closing balance⁽¹⁾	2,059,608	2,008,560

Note:

(1) - Exploration costs can be broken down as follows:

Warrina, SA	1,229,969
Four Mile Project, SA	512,866
East Frome, NSW	316,773
	2,059,608

The recoverability of the carry forward amounts of exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

NOTE 4. EQUITY SECURITIES ISSUED

	31 December 2010 \$	30 June 2010 \$
(a) - Issued and paid up capital:		
Issued and fully paid ordinary shares	98,918,022	98,918,022
(b) - There were no movements in contributed equity during the six month period:		
Ordinary Shares	Number	\$
Opening balance at 1 July 2010	341,172,309	98,918,022
Total ordinary shares on issue at 31 December 2010	341,172,309	98,918,022

NOTE 5. COMMITMENTS

Exploration Tenements - Commitments for Expenditure

Aside from a reduction in exploration tenement commitments due to the sale of the Maldon gold project, there was no material change in the company's commitments since the end of the last reporting period.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the half year ended 31 December 2010

Alliance Resources Limited

NOTE 6. DISPOSAL OF SUBSIDIARY CLASSIFIED AS HELD FOR SALE

On 21 December 2010, the sale of Maldon Resources Pty Ltd to Octagonal Resources Limited ("Octagonal") was completed. Maldon Resources Pty Ltd owned the Maldon Gold Project.

Alliance received \$5,500,000 in Octagonal shares (22,000,000 shares at the IPO price of \$0.25 per share). Octagonal (ASX Code: ORS) was listed on the ASX on 5 January 2011. Alliance owns approximately 22% of the issued capital of Octagonal resulting it being an Investment in Associate, and to be accounted for using the Equity Method.

There has been no material movement in the results of Octagonal for the period 21 December 2010 to 31 December 2010 and as such no Equity accounting has occurred in this Half Year Financial Report.

Financial information relating to Maldon Resources Pty Ltd for the period to 21 December 2010 is set out below.

Net loss from discontinuing operations during the period:

	5 Months & 21 days ended 21 December 2010 \$	6 months ended 31 December 2009 \$
Revenue - Interest Income	20,602	11,021
Revenue - Other	-	1,371
Cost of Goods Sold	(5,111)	(10,435)
Minesite and rehabilitation	(501,160)	(504,643)
Loss from discontinuing operations	(485,669)	(502,686)

The carrying amounts of assets and liabilities as at 21 December 2010 were:

Receivables	26,660
Inventories	84,350
Property, plant and equipment	1,017,223
Exploration and evaluation costs	7,665,550
Other	153,623
Total assets	8,947,406
Payables	161,035
Provisions	781,487
Total Liabilities	942,522
Net Assets	8,004,884
Loss on disposal	(2,504,884)
Total consideration	5,500,000

The Consideration was satisfied by receipt of shares in Octagonal.

Cash and cash equivalent assets of \$847,663 held at 21 December 2010, did not form part of the disposal.

No tax charge or credit arose on the transaction.

NOTE 7. EVENTS AFTER BALANCE DATE

There are no events subsequent to balance date.