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Griffin Mining Limited is a mining and investment company whose principal asset is the Caijiaying zinc-gold mine. Further information on the Company is available on the Company's web site: www.griffinmining.com.

Griffin Mining Limited's shares are quoted on the Alternative Investment Market (AIM) of the London Stock Exchange (symbol GFM).

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Zinc Concentrate Stockpiles

Chairman's Statement

I present to you, the shareholders and owners of Griffin Mining Limited ("Griffin" or the "Company"), the Annual Report and Accounts of the Company for the 2010 financial and calendar year.

In spite of the year not progressing as originally envisaged due to factors outside the control of the Company, the Company and its subsidiaries still managed to record a profit before tax for the year of $11.24 million compared to $7.25 million in 2009. This included a 40.6% increase in ore processed, a 28% increase in zinc concentrate produced, a 77% increase in silver produced in concentrate and a 90% increase in gold produced in concentrate, a record for gold production at Caijiaying.

The increase in profit and production was particularly noteworthy as it was achieved despite the suspension of all activities at Caijiaying for 4 months following the death of two men employed by the mining contractor at Caijiaying. Although the Company's subsidiary, Hebei Hua Ao Mining Industry Company Limited ("Hebei Hua Ao"), was exonerated from primary fault, I would like to express my deep sorrow that such an event could occur at Caijiaying and send my condolences to the deceased miners' families. Griffin has, and continues to provide, its full co-operation and support to the Chinese individuals and government departments touched by this unfortunate occurrence and continues to seek to improve safety at Caijiaying above and beyond that recommended by the Chinese authorities.

Although construction of the upgraded processing facilities at Caijiaying was completed in August 2010, the unfortunate deaths of the 8th August 2010 delayed commissioning of the new ball mill and crushing circuit until the first quarter of 2011. As with the previous construction of processing facilities at Caijiaying, it is expected that the upgrade of the processing facilities should enable significantly more throughput to be processed than the designated 750,000 tonnes of ore per annum.

It is expected that part of that substantially increased throughput, over and above 750,000 tonnes of ore per annum, will be provided from the new resource at Zone II. In January 2011, a new JORC reported Mineral Resource Estimate for Caijiaying was produced which showed an 18% increase in the mineral resource at Zones II & III representing a 30 plus year mine life at the increased throughput rate. This gave Hebei Hua Ao sufficient confidence to commence the necessary extra infill drilling, reports and work to support an application for a mining licence at Zone II with a view to extracting a further 500,000 tonnes of ore per annum from that area.

In this modern age, it is vital for a mining company to be a good citizen of the community and country in which it operates. To that end, Hebei Hua Ao has provided direct water supplies to the local villagers, constructed sealed roads to the Caijiaying mine and nearby villages, financed the construction of a local kindergarten and old people's rest home and assisted with other infrastructure projects. Hebei Hua Ao has also assisted in the upgrade of facilities at the local township school and set up "Project Hope" to provide scholarships to local students. Griffin estimates that the Caijiaying mine has provided employment directly and indirectly to over 1,000 Chinese nationals whilst minimizing the employment of foreign personnel. Griffin has striven to protect the local environment and in that regard Hebei Hua Ao's activities in China were formally recognized when it was presented with the environmental award at the 2010 China Mining conference. Griffin, through Hebei Hua Ao, has shown itself to be a responsible partner and operator in China.

Unfortunately, the Company does not operate in an economic vacuum. As has been mentioned numerous times in past missives, mining is generally a fixed cost business whose profitability is largely dependent on a predetermined commodity price. With China now acquiring 60% of the world's iron ore and 40% of its base metals production, neither China nor the world's economy can be ignored, even at the microeconomic level at which Griffin operates.

Unfortunately the world's economy has been shown to be, at best, brittle and, at worst, structurally unsound. The global financial crisis of 2008 has demonstrated that the USA and Europe are on the downward slope of their economic power without the political or economic bipartisanship will to undertake the reforms critical to stave off economic decline. The huge transference of private to public debt in the USA reaching a staggering $14.3 trillion, unfunded Medicare and pension liabilities and the need to raise the national debt ceiling merely to pay recurring expenditure and interest obligations on US government debt, does not bode well for the world's largest economy. Europe continues to try to live with the unliveable with a European Central Bank setting monetary policy over wayward individual country members setting their own fiscal policies. The inevitable consequences have become apparent with Ireland, Portugal and Greece with more surely to follow. China remains the world's economic powerhouse although with the advent of rapid inflation coupled with a fixed exchange rate, its export driven economy will inevitably suffer. It is also worthy to note the questionable status of the Chinese banking system and the level of non-performing loans in that country.

What this means for Griffin is the need for patience. Although the Company has significant financial resources, including some $65 million in cash, real value is created by purchasing assets below their true intrinsic value at the low end of an economic cycle or in a severe financial downturn. It is the view of the Company that mineable resources are scarce and becoming ever harder to find. It is also true that China and India are in the midst of a large urbanization process which will cause commodity prices to remain buoyant in the long term. When commodity prices are high, mining asset values are even higher. No economic growth process in history has been linear and the Company expects a significant correction in this

progression in the near future. It is therefore the Company's task to assemble the right acquisition targets, human capital and capital markets support to make these acquisitions when the inevitable correction occurs. The Company remains dedicated to only acquiring further assets where they provide real value over a long period of time with substantial added value to shareholders.

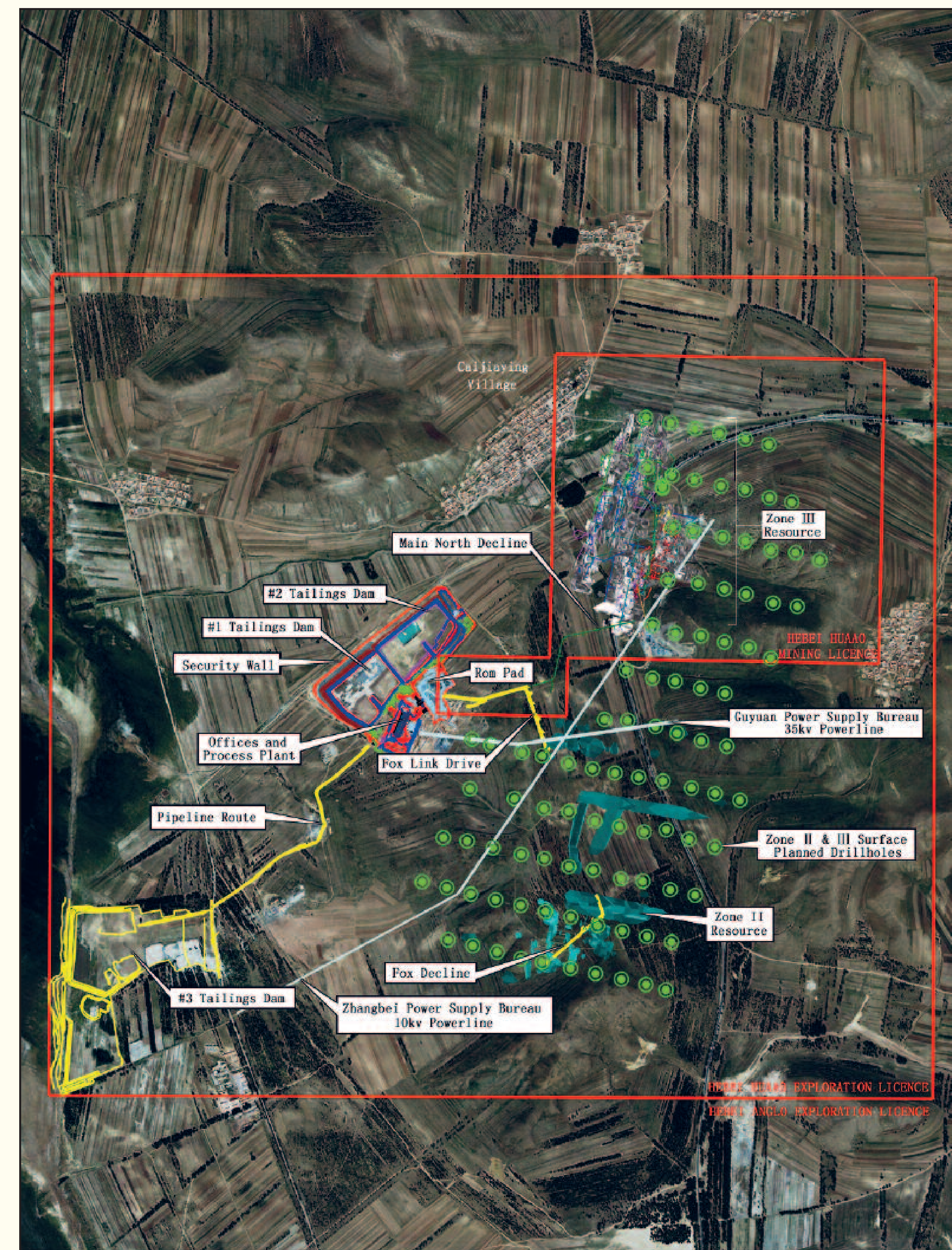
It is also likely that the Company will list its shares on the Hong Kong Stock Exchange at some point in the future. That date will be driven by the Company's need for capital should the next acquisition require additional funds. History has shown that unless liquidity is provided in a new listing through a new issue of shares, that company's stock will trade thinly and without any real interest by Hong Kong institutions and retail investors. Needless to say, an acquisition would never be made, a capital raising completed or a listing sought unless it was genuinely in the best long-term interest of shareholders.

In that same vein, the directors have agonized, after extensive consultation with shareholders, over the reinstatement of a dividend to shareholders. Whilst understanding and agreeing with the discipline and financial need of many shareholders for a dividend, the Company still believes that the better use of internal funds can be made on the acquisition of assets that may become available in the near future. In the interim, to alleviate some shareholders need for capital and to allow each individual shareholder to deal with his or her tax position, the Company has continued its share buy-back programme.

In such a year as 2010, tribute must be paid to the efforts of all site staff, head office personnel and the directors who worked so tirelessly to lift the operating suspension at Caijiaying, commission the plant upgrade, increase throughput, evaluate acquisitions and set the Company on the path to renewed financial strength in 2011. My sincere thanks to every one of them.

Lastly, and most importantly, the support and loyalty of you, the shareholders of the Company, is never taken for granted. The Company strives on a daily basis to meet your expectations and fulfill the true potential of the Company. The Company will work strenuously towards that target.

Mladen Ninkov
Chairman
3 May 2011



Caijiaying site

Operational Review 2010

OVERVIEW

Griffin Mining Limited (the "Company") and its subsidiaries (together the "Group") recorded a profit before tax for the year of $11,236,000 (2009: $7,246,000). The increase in profit arises despite the suspension of site activities from the 9th August 2010 to the 9th December 2010 following the death of two men employed by the mining contractor at Caijiaying. This result is a tribute to the efforts of all site and administrative personnel who worked so tirelessly to lift the operating suspension at Caijiaying.

Profits from operations increased to $13,143,000 in 2010 from $5,519,000 in 2009 with increased metal-in-concentrate ("Concentrate") production and higher metal prices. In summary:

- 389,496 tonnes of ore were processed, compared to 276,880 tonnes in 2009, a 40.6% increase;
- 22,044 tonnes of zinc in Concentrate were produced, compared to 17,167 tonnes in 2009, a 28% increase;
- 7,067 ounces of gold in Concentrate were produced, compared to 3,726 ounces in 2009, a 90% increase;
- 157,679 ounces of silver in Concentrate were produced, compared to 89,222 ounces in 2009, a 77% increase; and
- 690 tonnes of lead Concentrate were produced, compared to 500 tonnes in 2009, a 38% increase.

Despite the suspension in activities during 2010, production in 2010 represents a significant increase in performance from the interrupted 2009 year with zinc Concentrate production falling just short of the maximum achieved in 2008 of 22,922 tonnes. Outstandingly, 2010 was a record for gold production at Caijiaying.

In August 2010, construction of the upgraded processing facilities at Caijiaying was completed creating the operating capability to process 750,000 tonnes of ore per annum. The unfortunate events of the 8th August 2010 delayed commissioning of the new ball mill and crushing circuit until recommencement of operations on the 9th December 2010. Commissioning of the upgraded processing facilities has now been completed and mining and haulage of ore has been increased to meet the expanded processing capacity of the mill. As with the previous construction of processing facilities at Caijiaying, it is expected that the engineering work recently completed on the upgrade to the processing facilities, in addition to the expertise of the staff on site, should enable significantly more throughput to be processed than the designated 750,000 tonnes of ore per annum.

SUSPENSION OF ACTIVITIES

The two on-site fatalities on the 8th of August 2010 led to the immediate suspension of all operations at Caijiaying and the immediate investigation into the cause or causes of the fatalities by the Company and the Chinese authorities. Whilst primary blame for the fatalities was placed clearly on the deceased miners, the Chinese authorities held the mining contractor, Hebei Hua Ao and certain individuals partly responsible. Hebei Hua Ao was fined $142,000. In addition, a number of recommendations for perceived improvements in safety standards were suggested by the Chinese authorities and these have been implemented at Caijiaying. In addition to the above, site was further impacted during the suspension period by the unprecedented curtailment of electricity supplies to Caijiaying and surrounding areas by the State owned electricity suppliers seeking to meet government designated carbon dioxide emission standards.

Whilst every effort was made to minimise costs during the suspension of operations, key personnel were retained and continued to be paid on a partial salary basis. This was done to ensure that operations could be re-started as soon as practicable once permission was granted, that certain expertise was not lost to competitors and to ensure that the recommendations of the Chinese authorities arising from their investigations into the causes of the fatalities could be implemented immediately.

FINANCE

In order to protect the Group's revenue stream should the price of zinc fall significantly, the Company purchased put options with a strike price of $1,700 per tonne over 24,000 tonnes of zinc metal at a cost of $2,238,000. The zinc price remained relatively strong in 2010 with the LME zinc price averaging approximately $2,160 per tonne. As a result, the put options were marked to market at 31 December 2010 with a charge to profit of $2,224,000.

With cash balances averaging some $67 million in 2010, Griffin benefited from interest receipts of $350,000 in 2010 (2009: $253,000).

Foreign exchange gains of $38,000 were recorded in 2010 (2009: gains of $1,956,000) with a weakened sterling creating losses on sterling deposits offset by the strengthening Australian Dollar and Chinese Renminbi which created profits on both Dollar and Renminbi accounts.

Griffin's 39.2% share of the losses of Spitfire Oil Limited ("Spitfire") of $109,000 has been recognised in 2010 (2009 $517,000).

MINE OPERATIONS

With the grant of a new mining licence on the 15th January 2010, work commenced below the 1300 level (approximately 120 metres below surface), opening up more stopes and thereby enabling mine production to be increased. With more stopes opened and more consistent ore bodies at the lower levels, mine production increased to over 56,000 tonnes in May (the equivalent of 672,000 tonnes per annum). Gold grades have also improved as the lower levels have been accessed.

In the 6 months to the 30th June 2010, a record 278,044 tonnes of ore were mined. Processing rates had been increased with over 51,000 tonnes processed in July 2010 (the equivalent of 612,000 tonnes of ore per annum) without the benefit of the new ball mill and crushing circuit. In the six months to 30th June 2010 a record 260,316 tonnes of ore were processed with a record 15,101 tonnes of zinc metal in Concentrate, 4,570 ounces of gold and 105,475 ounces of silver produced. In addition, 441 tonnes of lead in Concentrate was also produced.

Good progress was being made to reach a target mine production of 750,000 tonnes of ore per annum by the Autumn of 2010 in anticipation of the completion of the processing facilities upgrade. This progress was interrupted when mining operations were suspended following the fatalities on site. The Chinese authorities launched an immediate investigation into the causes of the fatalities with the full co-operation of Hebei Hua Ao and the local personnel. The Chinese government authorities did not conclude their investigation and report until early December 2010 and did not allow operations to recommence until all the safety recommendations had been implemented, including greater supervision of sub-contracted underground workers by site management.

Underground maintenance work was further restricted in late September 2010 when electrical power to Caijiaying and surrounding areas was curtailed to meet Chinese carbon emission targets. Hebei Hua Ao was able to secure sufficient power from its own diesel generators to avoid any significant flooding of the Caijiaying mine. This allowed mine operations and production to restart promptly on the lifting of the suspension.

Since the re-commencement of operations, mine production has been steadily increasing to meet the increased processing capacity provided by the recently completed throughput upgrade.

During 2010 6,038 metres of development work was completed including further development of the north and south declines to access the lower levels of the Zone III mine and also the development of the drive proposed to link Zone III to Zone II. Approximately 24,425 metres of extensional and grade control drilling was completed underground in 2010.

With the hydraulic backfill plant commissioned in late 2009, backfill operations have continued in 2010 minimising the amount of waste material going to the tailings dams and allowing less mineralised ore to be left underground to the detriment of profitability. During 2010, the first two tailings dams were lifted to increase their capacity and a third tailings dam was constructed with the first cell commissioned on recommencement of operations in December 2010. These facilities provide Caijiaying sufficient capacity to deal with all waste from operations for the foreseeable future.

Work on the upgrade of the processing plant continued apace in the first 7 months of 2010 with the installation of a second primary ball mill, construction of new crushing circuit and integration of all new equipment including new floatation cells. Construction and installation was completed by the end of July 2010 with commissioning underway by the time of the mine fatalities. Whilst processing continued until 20th September 2010 when all remaining surface stockpiles were exhausted, this did not allow for proper commissioning of the new processing facilities. Commissioning of the new ball mill and new crushing circuit recommenced in December and is now complete. Initial test runs have provided some indication that the upgraded processing facilities may be capable of processing as much as one million tonnes of ore per annum and possibly more. This would allow ore from the Zone II area, which has yet to be developed, to be processed.

RESOURCE ESTIMATES

In January 2011 the latest JORC reported Mineral Resource Estimate for Caijiaying was produced. The results not only significantly increase the contained tonnes and metal within the Zone III mineral resource after mining depletion, but also almost doubles the contained tonnes and metal within the Zone II mineral resource. In summary:

1. An 18% increase in the mineral resource at Zones II & III rising from 32.8 million tonnes to 38.6 million tonnes, representing a 30 plus year mine life at the increased throughput rate.
2. The following increases:
   12.1% increase in contained Zinc;
   28.4% increase in contained Lead;
   15.2% increase in contained Silver; and
   12.8% increase in contained Gold.
3. A 12% increase in the zinc grade and a 72% increase in the tonnage of the mineral resource at Zone II.

Drilling has continued to provide success along strike and south of Zone III to Zone II, allowing the reinterpretation and upgrade of the Zone II Mineral Resource Estimate. The 25,000 metre surface and underground drilling program is approximately 60% complete and is due to recommence shortly. More underground drilling was undertaken in the mine corridor between Zone II and Zone III during 2010. Drilling continued to intersect significant mineralisation which added to

the Zone II Mineral Resource Estimate. This work will continue in 2011.

With the Mineral Resource Estimate at Zone II approaching 10 million tonnes and the drilling density approaching the required level, it is envisaged that an application for a mining licence over Zone II will be made in the near future. The mining licence application will ensure that all the known mineralization covering Zones II and III and the contiguous area between them will be covered. This should allow a second ore source to be mined at Caijiaying and significantly extend the life of the mining operations.

The 2011 Mineral Resource estimate is reported at a zinc cut-off of 1%. Tabled below is the summary of the recently up-dated 2011 Mineral Resource.

2011 Mineral Resource Estimates

Category	Cut -off	Tonnes	Metal Grade				Contained Metal			
			Zinc	Lead	Silver	Gold	Zinc	Lead	Silver	Gold
		000	%	%	Grammes per tonne	Grammes per tonne	Tonnes	Tonnes	Ounces	Ounces
Zone III										
Measured	1%	4,793	6.57	0.40	33.34	0.86	314,842	19,329	5,137,406	131,829
Indicated	1%	7,352	5.47	0.31	30.15	0.89	402,501	22,639	7,126,105	209,726
Inferred	1%	17,020	4.15	0.26	26.53	0.95	706,501	43,737	14,519,565	521,491
Total	**1%**	**29,164**	**4.88**	**0.29**	**28.56**	**0.92**	**1,423,843**	**85,769**	**26,783,076**	**863,049**
Zone II										
Measured	1%	-	-	-	-	-	-	-	-	-
Indicated	1%	4,061	3.44	0.70	26.03	0.34	139,655	28,509	3,398,903	43,871
Inferred	1%	5,386	3.71	0.56	23.90	0.29	199,706	30,087	4,138,064	50,617
Total	**1%**	**9,447**	**3.59**	**0.62**	**24.81**	**0.31**	**339,362**	**58,596**	**7,536,968**	**94,488**

The information in this report that relates to the January 2011 Mineral Resource estimates is based on information compiled by Mr Luke Marshall , BSc Geology , Member AIG. Mr. Marshall was a full time employee of Hebei Hua Ao Mining Industry Company Limited, a subsidiary of Griffin Mining Limited. Mr. Marshall has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has 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' (the JORC Code). Mr Marshall consents to the inclusion in the report of the matters based on his information in the form and context in which they appear.

Note: Zone II Resource includes 1.49 million tonnes at 3.09% Zinc oxide material.

EXPLORATION

Caijiaying Area

Mineralisation at Caijiaying is believed to be related to a Jurassic igneous event that affected the 2.3 billion year old metamorphic basement rocks. Base metal and gold mineralisation associated with Jurassic intrusives have replaced favourable horizons in the metamorphic rocks, most notably calcsilicates and marble. Porphyry sills and dykes intruding along faults have then cut across the sequence.

On-going exploration in the area surrounding the mine at Caijiaying and within Hebei Hua Ao's and Hebei Anglo's tenement boundary continues to confirm the area to be highly prospective, indicating significant potential for further base metal and gold deposits.

Hebei Hua Ao Licence Area

Drilling activity was increased in 2010 with up to six rigs operating underground at Zone III and three rigs operating on the surface between Zone II and Zone III. Many positive results were returned, which resulted in a significant increase in the mineral resource inventory at Caijiaying. Approximately 12,885 metres of surface drilling and 38,000 metres of underground diamond drilling were completed for the year. Drilling targeted Zone II, Fu Long South, Qing Long Deeps, Qing Long South, Jin Long South and Xiao Long East lodes.

A combination of step-out and infill underground drilling continued to extend the Zone III mineralisation in all directions and improve confidence levels within the Mineral Resource Estimate. Mineralisation remains open to the north, south and at depth. Importantly some of the thickest and highest grade intercepts to date have been returned from the deepest drilling which indicates that Zone III at least maintains continuity with depth, perhaps strengthening in areas such as Qing Long.

Surface drilling intersected a number of new zones of mineralisation between Zone II and Zone III and extended other previously identified zones. All of the surface drilling data between Zone II and Zone III has been incorporated into a new Zone II mineral resource estimate. The result is an increase of almost 100% in the tonnage of the Mineral Resource Estimate for Zone II. Zone II mineralisation remains open to the north and at depth.

The focus for 2010 was to drill the Zone II Zone III corridor and Zone III deeps with four main objectives in mind:

1. Increase the tonnage and grade of the Mineral Resource Estimate for Caijiaying, targeting a 50% increase in overall tonnage and a 100%

increase in measure and indicated tonnage within three years.

2. Provide the drill coverage and resource inventory required to be able to apply for a mining licence over Zone II.
3. Drill some deep holes underneath Zone III to confirm the new geological interpretation and extend the Mineral Resource.
4. Effectively test existing Induced Polarisation ("IP") anomalies.

A combination of surface and underground drilling was undertaken with success in all four of the objectives.

The other activity undertaken during 2010 was a soil sampling orientation survey. The aim was to find a geochemical technique that would be effective in areas of deep sandy cover.

Surface drilling was conducted on 200 metre sections with hole spacings along section of 100 metres. These drill sections essentially straddled the already drilled sections. The result was a drill density between Zone II and Zone III of better than 100 metre by 100 metre, and generally closer than 100 metre by 50 metre. With the underground drilling from the Fox Incline, at Zone II, and linking decline providing closer than 50 metre by 50 metre spacing, Hebei Hua Ao will be able to start the application process for a new mining licence over the Zone II area.

Underground drilling was completed from the linking decline and from the bottom of the mine at the 1260 level. Underground drilling was very successful with broad high grade intercepts being returned, confirming and extending the geological interpretation and Mineral Resource Estimates for Zone II and Zone III.

Zone II was re-modelled based on the new drill hole data resulting in significant increases in estimated grade and tonnage.

Hebei Anglo Licence Area

Work during 2010 was limited to an orientation soil sampling survey, field mapping and rock chip surveying. The results indicated that no geochemical technique would be effective in areas of “Mongolian Sand” cover, so a larger routine soil sampling survey did not proceed. Field mapping is ongoing and is due to recommence in the summer 2011.

A large IP survey was planned assuming positive results from drilling of the existing IP anomalies between Zone II and Zone III. Even though drilling intersected many zones of zinc mineralisation, there did not appear to be a strong relationship between mineralisation and the IP anomalies. Therefore no further IP surveying is planned at this stage.

Spitfire Oil Limited

Griffin currently holds 16,666,667 ordinary shares in Spitfire Oil Limited (“Spitfire”) representing a 39.2% interest in the issued share capital of Spitfire, and with Mladen Ninkov and Roger Goodwin being directors of both Griffin and Spitfire, this requires Spitfire to be treated as an associated company of Griffin. As a result US$109,000 (2009 - US$517,000) has been charged to Griffin's income statement for its share of Spitfire's losses in the period.

Following the decision in the autumn of 2009 to suspend further development of Spitfire’s proprietary ***L2V***™ process to extract oil and other products from the lignite at Salmon Gums, because of the expanding complexity and need for additional research in refining and finalising the process for commercial production, operating costs have been reduced and employment contracts with all staff terminated. Spitfire continues to consider other competing coal to liquid and coal to gas to liquid technologies, but to date none have proved suitable or are too capital intensive to apply to the Salmon Gums lignite. Potential partners for the further development of the ***L2V***™ process are also being pursued.

As the exploration licences comprising the Salmon Gums project were due to expire, application was made to extend their term. The Department of Mines and Petroleum has granted a two year “Extension of Term” for the four exploration licences in the main tenement block (E63/934, 035,947 & 961) to 6/7/2012. Since the applications were approved, and as the exploration licences continue to provide secure title over the lignite resources previously reported, the six mining lease applications were withdrawn to reduce holding costs.

The non-contiguous exploration licence to the east of the main tenement area (E63/960) was relinquished on 7 July 2010 as it was considered to have no further mineralisation potential.

Following the reconnaissance gold exploration programme undertaken by Spitfire in 2009 / 2010, several companies evaluated the licence areas with a view to undertaking a joint venture with Spitfire but to date none has pursued such an option.

Although Spitfire’s primary objective remains the commercialisation of its L2V lignite-to-liquids technology over the large resource at Salmon Gums, its management continues to evaluate other energy related opportunities and other possible synergistic business opportunities.

CORPORATE DEVELOPMENTS

Acquisitions

Griffin's management team, consisting of finance, mining, metallurgy, geological and health and safety professionals, has to date reviewed over 1,100 mining companies and their key projects, many of which have been selected for semi detailed evaluation and over 50 for further intensive analysis. This analysis included a number of site visits to potential target projects and companies. The companies selected held predominantly advanced projects in a range of commodities and locations. In addition, Griffin has been approached by a number of companies with a view to jointly developing other mineral projects. This process remains ongoing.

The Future

Having significant financial resources at hand and substantial mineral resources, Griffin is well placed for future development both at its existing Caijiaying venture and through potential acquisitions. The latest JORC resource confirms the availability of ore for increased future production at Caijiaying. Recent test work has indicated that the upgraded plant is capable of processing considerably more than that specified and plans are now being made to further increase the amount of ore extracted to 1,000,000 tonnes of ore per annum from Zone III. Work has also commenced on all necessary reports and work to support an application for a mining licence at Zone II with a view to extracting a further 500,000 tonnes of ore per annum from that area.

Having achieved notable success with Caijiaying, the challenge remains to acquire, develop or discover a new mining project to build on the efficient in-house skills that have been developed within the Company. Griffin remains one of the few mining success stories in China. Having maintained a presence in China for over 13 years and having invested in not just the Caijiaying mine but in the local community, Griffin has gained an excellent reputation in China. This reputation was further enhanced and made more visible by the environmental award presented to Hebei Hua Ao at the 2010 China Mining conference. Griffin has shown itself to be a responsible partner and investor in China. This provides Griffin with a unique entry into China, its culture and power structures. Nevertheless, to date it has proved difficult to find a venture of the quality of Caijiaying in China. This has forced the Company to widen its geographic and commodity focus. Regardless, the Company remains dedicated to only acquiring further assets where they provide real value over a long period of time with substantial added value to shareholders.

CAIJIAYING BACKGROUND

The mine and processing facilities (the "Mine"), together with the staff accommodation, recreational and mess facilities, are located at Caijiaying, approximately 300 kilometres by road, north-west of Beijing in the Hebei Province. The site is easily accessible by two alternative freeway systems from Beijing and a number of secondary sealed roads. The site has significant water supplies, two independent connections to the electricity grid, full connectivity to fixed and mobile telecommunications and broadband access for internet services. Climatic conditions are not severe with warm summers and cold, dry winters, enabling operations at Caijiaying to continue for 365 days a year.

The assets of the Mine are held by Hebei Hua Ao Mining Industry Company Limited ("Hebei Hua Ao"), a contractual co-operative joint venture company entity established in 1994 in which Griffin, through its wholly owned Hong Kong subsidiary China Zinc Limited ("China Zinc"), holds a 60% equity interest and the Zhangjiakou Caijiaying Lead Zinc Mining Company (the shareholders of which are the Zhangjiakou City People's Government and the Third Geological Brigade of Hebei Province) a 40% interest.

In January 2004, a second contractual joint venture company, Hebei Sino Anglo Mining Development Company Limited ("Hebei Anglo"), was formed to hold the mineral rights to the area surrounding the original Hebei Hua Ao licence area and any other areas of interest in the Hebei Province. Griffin, through its wholly owned UK subsidiary Panda Resources Limited, has a 90% interest in Hebei Anglo whilst the Zhangjiakou Caijiaying Lead Zinc Mining Company holds 10%. Griffin, through Hebei Hua' Ao and Hebei Anglo, has a controlling interest in mining and exploration licences over 67 square kilometres at Caijiaying.

In 2005, Griffin successfully commissioned the Mine at Caijiaying, on time and within budget, with an initial design throughput rate of 200,000 tonnes of ore per annum. Production rates have been steadily increased since commissioning with processing rates equivalent to in excess of 500,000 tonnes of ore per annum achieved prior to the recent upgrade of the processing facilities. With the processing facilities upgraded to include a third tailings storage facility, new crushing circuit and second primary ball mill processing capacity has been increased to in excess of 750,000 tonnes of ore per annum.

In December 2007, production of a separate precious metals concentrate containing gold, silver and lead commenced from an integrated circuit forming part of the main processing facilities at Caijiaying. This allowed the full economic benefit of these metals to be obtained by the Group. Previously gold, silver and lead were "lost" and unaccounted for by the smelters in the zinc concentrate.

Griffin has invested heavily in the local community and instigated best practice regarding the protection of the environment. In this regard:

- Solid and liquid wastes are not disposed into the environment;
- All production water is recycled;
- Gas emissions from boilers are treated to remove pollutants;
- Mined out areas underground are back filled;
- Noise and dust from operations at Caijiaying are strictly controlled; and
- All non-recyclable wastes from supporting facilities are treated in an incinerator

Griffin's efforts in this regard were rewarded by Hebei Hua Ao being presented with the environmental award at the 2010 China Mining Conference.

Roger Goodwin, Griffin Finance Director, receiving environmental ward at 2010 China Mining Conference

Hebei Hua Ao has provided direct water supplies to the local villagers, constructed sealed roads to the Caijiaying mine and nearby villages, financed the construction of a local kindergarten, old peoples rest home, and assisted with other infrastructure projects. Hebei Hua Ao has also assisted in the upgrade of facilities at the local township school and set up "Project Hope" to provide scholarships to local students. Griffin estimates that the Caijiaying mine has provided employment directly and indirectly to over 1,000 Chinese minimising the employment of foreign personnel.

Local students at San Hao township school receiving Project Hope scholarships

Mill at Caijiaying

Directors

Mladen Ninkov, Chairman, Australian, aged 49, holds a Master of Law Degree from Trinity Hall, Cambridge and Bachelor of Laws (with Honours) and Bachelor of Jurisprudence Degree from the University of Western Australia. He is the principal of Keynes Capital. He has a mining, legal, fund management and investment banking background and is admitted as a barrister and solicitor of the Supreme Court of Western Australia. He was the Chairman and Managing Director of the Dragon Capital Funds management group, a director and Head of International Corporate Finance at ANZ Grindlays Bank Plc in London, and a Vice President of Prudential-Bache Securities Inc. in New York. He also worked at Skadden Arps Slate Meagher & Flom in New York and Freehill Hollingdale & Page in Australia. He has been chairman and director of a number of both public and private mining companies.

Roger Goodwin, Finance Director, British, aged 56, is a Chartered Accountant. He has been with the Company since 1996 having previously held senior positions in a number of public and private companies within the natural resources sector. He has a strong professional background, including that as a manager with KPMG, with considerable public company and corporate finance experience, and experience of emerging markets particularly in Africa, the CIS and Eastern Europe.

Dal Brynelsen, Director, Canadian, aged 64, is a graduate of the University of British Columbia in Urban Land Economics. Mr. Brynelsen has been involved in the resource industry for over 30 years. He has been responsible for the discovery, development and operation of several underground gold mines during his career. Mr. Brynelsen is the President and a director of Vangold Resources Limited.

William Mulligan, Director, USA, aged 67, has a BSc from Thomas Clarkson University, an MS in Geological Engineering from the University of Connecticut and an MBA from NYU Bernard Baruch School of Business Administration. He is currently the Managing Director for Global Projects and Political Risk at AIG Global Trade and Political Risk Insurance Company, a wholly owned subsidiary of American International Group Inc., and a director of AIG Investment Bank (ZAO) Ltd based in Moscow. From 1994 to 1996 he was Executive Vice President for Corporate Development at Latin American Gold Limited.

Senior Executives

William Darcey, Operations Manager Caijiaying, Australian, aged 59, holds degrees from Curtin University in mining, metallurgy, mineral economics and a MEngSc (mining planning and design). He has over 30 years experience in the mining and mineral processing industry working in both technical and operational roles. He has worked on mining project in Australia and overseas. More recently he worked in the Philippines as Operations Director for a gold mining company.

Wendy Zhang, Finance Manager China, aged 37, holds a Master of Accounting degree from Macquarie University, a member of the Certified Practising Accountant of Australia and a qualified member of the Chinese Institute of Certified Public Accountant for 11 years. Prior to joining Griffin she spent the previous 4 years as Financial Controller for Golden Tiger Mining's joint venture operations in China (a gold exploration and mining company listed in Australian Stock Exchange). Previously she was a Chief Accountant for Shanghai Silk Group and subsequently Ann Taylor Shanghai.

Dr Bo Zhou, General Manager China, Australian, aged 48, holds a Ph.D in exploration geology from Sydney University and a BSc in economic geology from Peking University. He was Managing Director of Sinovus Mining Ltd, an ASX listed company with mineral interests in China. Before that he was the General Manager for Guangxi Golden Tiger Mining JV, a Sino-Australian JV gold company focussed in Guangxi, China, which is controlled by Golden Tiger Mining NL, an ASX listed company. He has also worked as the Senior Geologist for Silk Road Resources (A Toronto listed company), responsible for evaluating various gold properties in Gansu Province in central western China. Dr Zhou has considerable experience of and has established extensive contacts in the Chinese resources sector.

New Crusher

Directors' Report

The Directors submit their report together with the audited consolidated financial statements of Griffin Mining Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 December 2010.

Financial results

The Group profit before taxation amounted to US$11,236,000 (2009 US$7,246,000). Taxation of US$2,376,000 (2009 US$1,013,000) and non-controlling interests of $6,116,000 (2009 $2,621,000) have been provided. No dividend was paid in 2010 (2009 nil). US$2,744,000 has been credited to reserves (2009 US$3,612,000).

The earnings per share amounted to 1.51 cents (2009 1.99 cents). The attributable net asset value per share at 31 December 2010 amounted to 78 cents (2009 74 cents).

The directors do not recommend payment of a dividend at this time in the Company's development but have instigated a share buy back programme which provides an effective and tax efficient method of providing returns to shareholders.

Principal activities

The principal activity of the Group is that of mining and exploration. A review of the Group's operations for the year ended 31 December 2010 and the indication of likely future developments are set out on pages 8 to 19.

Directors

The Directors of the Company during the year were:

Mladen Ninkov – *Australian – Chairman*
Roger Goodwin – *British – Finance Director*
Dal Brynelsen – *Canadian*
William Mulligan – *American (US)*

Under the bye laws of the Company, the Directors serve until re-elected at the next Annual General Meeting of the Company. Being eligible all the Directors currently in office offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

The beneficial interests of the Directors holding office at 31 December 2010 and their immediate families in the share capital of the Company were as follows:

Name	At 31 December 2010			At 1 January 2010		
	Ordinary shares number	Options over ordinary shares, number exercisable at		Ordinary shares number	Options over ordinary shares, number exercisable at	
		45 pence	20 pence		20 pence	110 pence
Mladen Ninkov	33,001	6,000,000	3,000,000	33,001	3,000,000	6,000,000
Dal Brynelsen	1	400,000	200,000	1	200,000	400,000
Roger Goodwin	577,830	1,200,000	600,000	577,830	600,000	1,200,000
William Mulligan	300,001	400,000	200,000	300,001	200,000	400,000

The options exercisable at 110 pence per share lapsed on 28 February 2010.

The options exercisable at 20 pence per share entitle the holder to subscribe for new ordinary shares in the Company on or before 31 October 2013. The options vest with each option holder in 3 separate and equal instalments as follows:

a. The first third of each holder's options vested on 28 October 2008;

b. The second third of each holder's options vested on 31 December 2009; and

c. The last third of each holder's options vested on 31 December 2010

Directors' Report

The options will not vest if an employee or a director resigns or leaves the Company for cause prior to the vesting event taking place. All the Options will vest immediately upon a takeover offer being made or a change in substantial control of the Company taking place prior to the Options expiring.

All of the Directors' interests detailed are beneficial.

On 4 March 2010 a new set of options (the "new options") over 10,000,000 new ordinary shares were granted to directors and key employees of the Company in order to retain and incentivize key personnel with managerial and operating experience in non-standard jurisdictions in a tight mining employment market.

Each new option will entitle the holder to subscribe for new ordinary shares in the Company at an exercise price of 45 pence per new ordinary share on or before 28 February 2015. The new options will vest with each option holder in 3 separate and equal instalments as follows:

a. The first third of each holder's options vested on 4 March 2010;

b. The second third of each holder's options vested on 31 December 2010; and

c. The last third of each holder's options will vest on 31 December 2011.

The Options will not vest if an employee or a director resigns or leaves the Company for cause prior to the vesting event taking place. All the Options will vest immediately upon a takeover offer being made or a change in control of the Company taking place prior to the Options expiring.

Corporate Governance

Although incorporated in Bermuda and therefore not obliged to comply with the code of best practice established by the Combined Code issued by the Committee on Corporate Governance, the Company has reviewed and broadly supports this code. The Company does not comply where compliance would not be commercially justified allowing for the practical limitations relating to the Company's size.

The Board of directors includes a number of non executive directors who, other than their shareholding, are independent and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Board meets regularly and is responsible for the overall strategy of the Group, its performance, management and major financial matters. All directors are subject to re-appointment annually at each annual general meeting of the Company's shareholders.

Various safeguards and checks have been instigated as part of the Company's system of financial control. These include:

- preparation of regular financial reports and management accounts
- preparation and review of capital and operational budgets
- preparation of regular operational reports
- prior approval of capital and other significant expenditure
- regular review and assessment of foreign exchange risk and requirements
- regular review of commodity prices and assessment of hedging requirements

Auditor

Grant Thornton UK LLP have indicated their willingness to continue in office as auditor to the Company and a resolution proposing their appointment will be put to the forthcoming Annual General Meeting.

Directors' Report

Statement of directors' responsibilities in respect of the accounts

Bermudan company law and generally accepted best practice requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these accounts, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Company will continue in business.

In so far as the directors are aware:

- there is no relevant information of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Bermuda Companies Act 1981 as amended. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions.

This report was approved by the Board and signed on its behalf by:

Roger Goodwin
Finance Director and Company Secretary
3 May 2011

Report of the Independent Auditor

Report of the Independent Auditor's Report to the Members of Griffin Mining Limited

We have audited the Group financial statements of Griffin Mining Limited for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement, the accounting policies and the notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 90 of the Bermuda Companies Amendment Act 1981 as amended. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with International Financial Reporting Standards. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Review of Operations and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB website at www.frc.org.uk/apb/scope/UKP.cfm

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Grant Thornton UK LLP
Registered Auditors, Chartered Accountants
London

3 May 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(expressed in thousands US dollars)

	Notes	2010 $000	2009 $000
Revenue	1	**41,050**	25,368
Cost of sales	1	**(16,780)**	(11,909)
Gross profit		**24,270**	13,459
Net operating expenses	1	**(11,127)**	(7,940)
Profit from operations		**13,143**	5,519
Share of losses of associated company	4	**(109)**	(517)
Foreign exchange gains		**38**	1,956
Finance income	5	**350**	253
Finance losses	6	**(2,224)**	-
Other income	7	**38**	35
Profit before tax		**11,236**	7,246
Income tax expense	8	**(2,376)**	(1,013)
Profit after tax		**8,860**	6,233
Attributable to non-controlling interests		**6,116**	2,621
Attributable to equity share owners of the parent		**2,744**	3,612
		8,860	6,233
Basic earnings per share (cents)	9	**1.51**	1.99
Diluted earnings per share (cents)	9	**1.49**	1.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010
(expressed in thousands US dollars)

	2010 $000	2009 $000
Profit for the year	**8,860**	6,233
Other comprehensive income		
Exchange differences on translating foreign operations	**1,374**	87
Other comprehensive income for the period, net of tax	**1,374**	87
Total comprehensive income for the period	**10,234**	6,320
Attributable to non-controlling interests	**6,218**	2,616
Attributable to equity owners of the parent	**4,016**	3,704
	10,234	6,320

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010
(expressed in thousands US dollars)

	Notes	2010 $000	2009 $000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**77,745**	63,214
Intangible assets – Exploration interests	11	**1,481**	1,422
Investment in associated company	12	**3,877**	3,986
		83,103	68,622
Current assets			
Inventories	13	**3,136**	2,780
Other current assets	14	**3,423**	5,279
Cash and cash equivalents		**66,450**	67,630
		73,009	75,689
Total assets		**156,112**	144,311
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	15	**1,804**	1,817
Share premium		**74,948**	75,984
Contributing surplus		**3,690**	3,690
Share based payments		**2,513**	4,790
Other reserves		**938**	759
Foreign exchange reserve		**8,480**	7,234
Profit and loss reserve		**47,631**	40,440
Total equity attributable to equity holders of the parent		**140,004**	134,714
Non-controlling interests		**6,218**	2,616
Non-current liabilities			
Long-term provisions	18	**768**	743
Current liabilities			
Taxation payable		**1,011**	1,572
Trade and other payables	19	**8,111**	4,666
Total liabilities		**9,122**	6,238
Total equities and liabilities		**156,112**	144,311
Number of shares in issue		**180,408,496**	181,688,497
Attributable net asset value / total equity per share	20	**$0.78**	$0.74

The accounts on pages 30 to 53 were approved by the Board of Directors and signed on its behalf by:

Mladen Ninkov
Chairman

Roger Goodwin
Finance Director

3 May 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010
(expressed in thousands US dollars)

	Share Capital $000	Share Premium $000	Contributing Surplus $000	Share Based Payments $000	Other Reserves $000	Foreign Exchange Reserve $000	Profit and Loss Reserve $000	Total attributable to equity holders of parent $000	Non-controlling Interests $000	Total Equity $000
At 31 December 2008	1,816	75,950	3,690	5,826	711	7,142	35,345	130,480	-	130,480
Regulatory transfer for future investment	-	-	-	-	48	-	(48)	-	-	-
Issue of share capital	1	41	-	-	-	-	-	42	-	42
Purchase of shares for cancellation	-	(7)	-	-	-	-	-	(7)	-	(7)
Cost of share based payments	-	-	-	495	-	-	-	495	-	495
Transfer in respect of share based payments	-	-	-	(1,531)	-	-	1,531	-	-	-
Transaction with owners	1	34	-	(1,036)	48	-	1,483	530	-	530
Retained profit for the year	-	-	-	-	-	-	3,612	3,612	2,621	6,233
Other comprehensive income: Exchange differences on translating foreign operations	-	-	-	-	-	92	-	92	(5)	87
Total comprehensive income for the year	-	-	-	-	-	92	3,612	3,704	2,616	6,320
At 31 December 2009	1,817	75,984	3,690	4,790	759	7,234	40,440	134,714	2,616	137,330
Regulatory transfer for future investment	-	-	-	-	153	-	(153)	-	-	-
Issue of share capital	3	94	-	-	-	-	-	97	-	97
Purchase of shares for cancellation	(16)	(1,130)	-	-	-	-	-	(1,146)	-	(1,146)
Cost of share based payments	-	-	-	2,323	-	-	-	2,323	-	2,323
Transfers in respect of share based payments	-	-	-	(4,600)	-	-	4,600	-	-	-
Transfers in respect of distributions	-	-	-	-	-	-	-	-	(2,616)	(2,616)
Transaction with owners	(13)	(1,036)	-	(2,277)	153	-	4,447	1,274	(2,616)	(1,342)
Retained profit for the year	-	-	-	-	-	-	2,744	2,744	6,116	8,860
Other comprehensive income: Exchange differences on translating foreign operations	-	-	-	-	26	1,246	-	1,272	102	1,374
Total comprehensive income for the year	-	-	-	-	26	1,246	2,744	4,016	6,218	10,234
At 31 December 2009	**1,804**	**74,948**	**3,690**	**2,513**	**938**	**8,480**	**47,631**	**140,004**	**6,218**	**146,222**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010
(expressed in thousands US dollars)

	Notes	2010	2009
		$000	$000
Net cash flows from operating activities			
Profit before taxation		**11,236**	7,246
Share of associated company losses	**4**	**109**	517
Foreign exchange (gains)		**(38)**	(1,956)
Finance (income)	**5**	**(350)**	(253)
Finance losses	**6**	**2,224**	-
Adjustment in respect of share based payments	**16**	**2,323**	495
Depreciation, depletion and amortisation	**10**	**2,151**	1,533
(Increase) / decrease in inventories		**(356)**	446
(Increase) / decrease in other current assets		**(747)**	285
Increase / (decrease) in trade and other payables		**3,445**	(2,882)
Net cash inflow from operating activities		**19,997**	5,431
Taxation paid		**(2,936)**	-
Cash flows from investing activities			
Interest received	**5**	**350**	253
Payments to acquire intangible assets – exploration interests	**11**	**(10)**	(105)
Payments to acquire tangible assets – mineral interests	**10**	**(10,162)**	(5,944)
Payments to acquire tangible assets – plant and equipment	**10**	**(4,285)**	(1,298)
Payments to acquire tangible assets – office equipment	**10**	**(36)**	-
Payments to acquire put options		**(2,239)**	-
Net cash (outflow) from investing activities		**(16,382)**	(7,094)
Cash flows from financing activities			
Issue of ordinary share capital		**97**	42
Purchase of shares for cancellation		**(1,146)**	(7)
		(1,049)	35
Decrease in cash and cash equivalents		**(370)**	(1,628)
Cash and cash equivalents at the beginning of the year		**67,630**	67,193
Effects of exchange rates		**(810)**	2,065
Cash and cash equivalents at the end of the year		**66,450**	67,630
Cash and cash equivalents comprise bank deposits			
Bank deposits		**66,450**	67,630

Included within net cash flows of $370,000 (2009 $1,628,000) are foreign exchange gains of $38,000 (2009 $1,956,000) which have been treated as realised.

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Reporting Standards Board and as adopted by the European Union. The significant accounting policies adopted are detailed below:

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention, except for financial assets which are measured at fair value.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs as of 1 January 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27 (revised), 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The Group has not made any acquisitions during the year requiring the application of the revised standard.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2011 or later periods, but the Group has not early adopted them:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IAS 24 (Revised 2009) Related Party Disclosures (effective 1 January 2011)
- Amendment to IAS 32 Classification of Rights Issues (effective 1 February 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)
- Prepayments of a Minimum Funding Requirement - Amendments to IFRIC 14 (effective 1 January 2011)
- Improvements to IFRS issued May 2010 (some changes effective 1 July 2010, others effective 1 January 2011)
- Disclosures - Transfers of Financial Assets - Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets - Amendments to IAS 12 Income Taxes (effective 1 January 2012)

As far as can be determined the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

CONSOLIDATION BASIS

The Group accounts consolidate the accounts of the Company and all its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Accounting Policies

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Under the terms of the joint venture contract establishing the Hebei Hua' Ao Mining Industry Company Limited, the Company provided all the funds required to develop the Caijiaying mine and was entitled to 100% of the net cash flows of the subsidiary for the first three years after commencement of commercial production. With effect from 24 July 2008 the Company's share of the cash flows and profits reverted to the underlying equity interest of 60%.

Associates

Associates are those entities over which the Group has significant influence but which are neither subsidiaries nor interests in joint ventures. Investments in associates are recognised initially at cost and subsequently accounted for using the equity method. Acquired investments in associates are also subject to purchase method accounting. However, any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognised as investment in associates.

All subsequent changes to the Group's share of interest in the equity of the associate are recognised in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are reported in "share of profits of associates" in profit or loss and therefore affect net results of the Group. These changes include subsequent depreciation, amortisation or impairment of the fair value adjustments of assets and liabilities.

Items that have been recognised directly in other comprehensive income of the associate are recognised in other comprehensive income of the Group. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group and comprises amounts received, net of VAT and production royalties, from sales of metal concentrates to third party customers. Sales are made on a cash on delivery / collection basis and are recognised on collection or delivery of the concentrate from the Group's processing facilities.

Non current assets

Intangible assets – exploration cost

Expenditure on licences, concessions and exploration incurred on areas of interest by subsidiary undertakings are carried as intangible assets until such time as it is determined that there are commercially exploitable reserves within each area of interest and the necessary finance in place, at which time such costs are transferred to property, plant and equipment to be depreciated over the expected productive life of the asset. The Group's intangible assets are subject to periodic review at least annually by the Directors for impairment. Exploration, appraisal and development costs incurred in respect of each area of interest determined as unsuccessful are written off to profit or loss.

Accounting Policies

Property, plant and equipment

Mine development expenditure for the initial establishment of access to mineral reserves, together with capitalised exploration, evaluation and commissioning expenditure, and direct overhead expenses prior to commencement of commercial production are capitalised to the extent that the expenditure results in significant future benefits.

Property, plant and equipment are shown at cost less depreciation and provisions for the impairment of value (see note 10).

Residual values

Material residual value estimates are updated as required, but at least annually whether or not the asset is re-valued.

Depreciation

All costs capitalised (mineral interest, mill and mine equipment) within an area of interest, are amortised over the current estimated economic reserve of the area of interest on a unit of production basis.

Office equipment is depreciated over four years on a straight line basis.

Impairment

A review for impairment indicators at each balance sheet date is undertaken. In the event of impairment indicators being identified, an impairment test is carried out to assess whether the net book value of the capitalised costs in each area of interest is covered by the discounted future net revenues from reserves within that area of interest. Any deficiency arising is provided for to the extent that, in the opinion of the Directors, it is considered to represent a permanent diminution in value of the related asset, and where arising, is dealt with in the income statement as additional depreciation.

Impairment assessments are based upon a range of estimates and assumptions:

ESTIMATE / ASSUMPTION	BASIS
Future production	Proven and probable reserves and resource estimates together with processing capacity
Commodity prices	Forward market and longer term price estimates
Exchange rates	Current market exchange rates
Discount rates	Cost of capital risk

Mine closure costs

Mining operations are generally required to restore mine and processing sites at the end of their lives to a condition acceptable to the relevant authorities and consistent with the Group's environmental policies. Whilst the Group strives to maintain and where possible enhance the environment of the Group's processing sites, provision is made for site restoration costs in the accounts in accordance with local requirements.

Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Consumable stores and spares, at purchase costs on a first in first out basis
- Concentrate stockpiles at cost of direct materials, power, labour, and a proportion of site overhead
- Ore stockpiles at cost of direct material, power, labour contractor charges and a proportion of site overhead

Accounting Policies

Financial assets

Financial assets, other than hedging instruments, can be divided into the following categories:

- loans and receivables
- financial assets at fair value through profit or loss
- available-for-sale financial assets

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether resulting income and expenses are recognised in profit or loss or in other comprehensive income.

An assessment of whether a financial asset is impaired is made at least at each reporting date. Financial assets that are substantially past due or when objective evidence is received that a specific counterparty will default, are also considered for impairment. All income and expense relating to financial assets are recognised in the income statement line item "finance costs" or "finance income", respectively.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non current assets based on their maturity date. Loans and receivables are classified as either 'trade and other receivables' or 'other financial assets' in the balance sheet. On initial recognition loans and receivables are recognised at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. The Group's other receivables fall into this category of financial instruments.

Financial liabilities

The Group's financial liabilities include trade and other payables, which are measured at amortised cost using the effective interest rate method. On initial recognition financial liabilities at amortised cost are recognised at fair value net of transaction costs.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items "finance costs" or "finance income".

Foreign currency transactions

The accounts have been prepared in United States dollars being the local currency of Bermuda. Whilst registered in Bermuda the Company, together with its subsidiaries and associates, operate in China, the United Kingdom, and Australia. The functional and presentation currency of the parent is US dollars.

Foreign currency transactions by Group companies are recorded in their functional currencies at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities have been translated at rates in effect at the balance sheet date. Any realised or unrealised exchange adjustments have been charged or credited to profit or loss. Non monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Non monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

On consolidation the accounts of overseas subsidiary undertakings are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and profit and loss account items are translated at the average rate for the year. The exchange difference arising on the retranslation of opening net assets is recognised in other comprehensive income and accumulated in the foreign exchange reserve. All other translation differences are taken to profit and loss.

The balance of the foreign currency translation reserve relating to an operation that is disposed of is reclassified from equity to profit or loss at the time of the disposal.

Accounting Policies

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Contributing surplus" is a statutory reserve for the maintenance of capital under Bermuda company law and was created on a reduction in the par value of the Company's ordinary shares on 15 March 2001.
- "Share based payments" represents equity-settled share-based remuneration until such share options are exercised.
- "Foreign exchange reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Other reserve" represents a statutory retained earnings reserve under PRC law for future investment by Hebei Hua-Ao.
- "Profit and loss reserve" represents retained profits and losses.

Equity settled share based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2005 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, production upgrades).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to "Share based payments" in the balance sheet.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital.

For the financial year ended 31 December 2010 the total expense recognised in profit or loss arising from share based transactions was $2,323,000 (2009: $495,000).

Significant judgements and estimates

In formulating accounting policies the directors are required to apply their judgement, and where necessary engage professional advisors, with regard to the following significant areas:

- Impairment review assumptions (note 10, 11 and 12)
- Provisions for mine closure costs (note 18)
- Depreciation (note 10)
- Share based payments (note 16)
- Determination that investments in associates are not subsidiaries (note 12)
- Treatment of non-controlling interests (notes 14, 24 and 25)

Accounting Policies

The directors continually monitor the basis on which their judgements are formulated. Where required they will make amendments to these judgements. Where judgements and estimates are amended between accounting periods, full disclosure of the financial implications are given within the relevant notes to the Group accounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Dividends

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in a directors meeting prior to the balance sheet date.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries, associates and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are recognised in other comprehensive income (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Segmental reporting

In identifying its operating segments, management generally follows the Group's service lines, which represent the main products produced by the Group. Management consider there to be only one operating segment being the operations at the Caijiaying Mine based in China. All activities of the Group are reported through management and the executive directors to the Board of directors of the Company. The measurement policies the Group uses for Segment reporting under IFRS 8 are the same as those used in its financial statements.

Corporate assets which are not directly attributable to the business activities of Caijiaying Mine are not allocated to the Chinese segment but are reviewed in light of operating expenses by the region in which they occur. In the financial periods under review, this primarily applies to the Group's head office and intermediary holding companies within the Group.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

Notes to the Financial Statements

1. Segmental Reporting

The Group has one business segment, the Caijiaying zinc gold project in the Peoples Republic of China. All sales and costs of sales in 2010 and 2009 were derived from the Caijiaying zinc gold project.

	2010	2009
	$000	$000
REVENUES		
China	**41,050**	25,368
COST OF SALES		
China	**(16,780)**	(11,909)
NET OPERATING EXPENSES		
China	**(6,813)**	(5,382)
Australia	**(14)**	(50)
European Union	**(4,300)**	(2,508)
	(11,127)	(7,940)

All revenues, cost of sales and operating expenses charged to profit relate to continuing operations.

	2010	2009
	$000	$000
TOTAL ASSETS		
China	**92,979**	81,695
Australia	**6,380**	4,007
European Union	**56,753**	58,609
	156,112	144,311
CAPITAL EXPENDITURE		
China	**14,459**	7,345
Australia	**25**	-
European Union	**10**	2
	14,494	7,347

2. Profit From Operations

Profit from operations is stated after charging

	2010	2009
	$000	$000
Staff costs	**(4,328)**	(3,772)
Fair values of options granted to directors and management	**(2,323)**	(495)

	No.	No.
Average number of persons employed by the Group in the year	**312**	245

Notes to the Financial Statements

3. Directors' and key personnel remuneration

The following fees and remuneration were receivable by the Directors holding office and key personnel engaged during the year:

	Fees	Salary	Share based payments	Social Security Costs	**Total 2010**	Fees	Salary	Share based payments	Social Security Costs	Total 2009
	$000	$000	$000	$000	**$000**	$000	$000	$000	$000	$000
Mladen Ninkov	95	-	1,394	-	**1,489**	94	-	297	-	391
Dal Brynelsen	62	-	93	-	**155**	65	-	20	-	85
Roger Goodwin	95	409	278	51	**833**	94	343	59	43	539
William Mulligan	62	-	93	-	**155**	65	-	20	-	85
	314	409	1,858	51	**2,632**	318	343	396	43	1,100
Key personnel	-	789	465	19	**1,273**	-	1,033	99	20	1,152
	314	1,198	2,323	70	**3,905**	318	1,376	495	63	2,252

No share options were exercised by the directors in the year (2009 none).

Keynes Capital, the registered business name of Keynes Investments Pty Limited as trustee for the Keynes Trust, received fees under a consultancy agreement of $1,227,000 (2009 $982,000), for the provision of advisory and support services to Griffin Mining Limited and its subsidiaries during the year, 60% of which fees are charged to Hebei Hua Ao. Mladen Ninkov is a director and employee of Keynes Investments Pty Limited.

4. Share of Losses of Associated Company

	2010	2009
	$000	$000
Share of losses of Spitfire Oil Ltd	**109**	517

Griffin acquired 16,666,667 ordinary shares in Spitfire Oil Ltd ("Spitfire"), representing a 39.2% interest in the issued share capital of Spitfire, at 15p per share for a total cash consideration of £2,500,000 on 27 November 2008.

5. Finance Income

	2010	2009
	$000	$000
Interest on bank deposits	**350**	253

6. Finance Losses

	2010	2009
	$000	$000
Losses on revaluation of zinc put options	**(2,224)**	-

7. Other income

	2010	2009
	$000	$000
Scrap and other sundry sales	**38**	35

Notes to the Financial Statements

8. Income tax expense

	2010	2009
	$000	$000
Profit for the year before tax	**11,236**	7,246
Tax rate	**12.5%**	12.5%
Expected tax expense:	**1,405**	906
Adjustment for tax exempt items:		
- Income and expenses outside the PRC not subject to tax	**722**	(2)
- Share of associated company losses	**14**	65
Adjustments for permanent timing differences:		
- Other	**61**	67
Adjustments for short term timing differences:		
- In respect of accounting differences	**(22)**	(37)
- Other	**(2)**	14
Withholding tax on intercompany charges	**198**	-
Taxation charge	**2,376**	1,013

The Company is not resident in the United Kingdom for taxation purposes.

Hebei Hua' Ao paid income tax in the PRC at a rate of 12.5% in 2010 (12.5% in 2009) based upon the profits calculated under Chinese generally accepted accounting principals (Chinese "GAAP"). Hebei Hua' Ao has benefited from a reduced tax rate for past investment with the applicable PRC tax rate rising in 2011 to 25%.

9. Earnings per share

The calculation of the basic earnings per share is based upon the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. The calculation of diluted earnings per share is based on the basic earnings per share on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below:

	2010			2009		
	Earnings $000	**Weighted average number of shares**	**Per share amount (cents)**	Earnings $000	Weighted average number of shares	Per share amount (cents)
Basic earnings per share						
Earnings attributable to ordinary shareholders	**2,744**	**181,579,409**	**1.51**	3,612	181,560,512	1.99
Dilutive effect of securities						
Options	**-**	**2,648,124**	**-**	-	1,906,603	-
Diluted earnings per share	**2,744**	**184,227,533**	**1.49**	3,612	183,467,115	1.97

Notes to the Financial Statements

10. Property, plant and equipment

	Mineral interests	Mill and mobile mine equipment	Office furniture and equipment	Total
	$000	**$000**	**$000**	**$000**
At 1 January 2009 net of accumulated depreciation	42,182	14,699	4	56,885
Foreign exchange adjustments	(18)	(7)	-	(25)
Additions during the year	5,944	1,296	2	7,242
Rehabilitation provision	-	645	-	645
Depreciation charge for the year	(870)	(659)	(4)	(1,533)
At 31 December 2009	47,238	15,974	2	63,214
Foreign exchange adjustments	1,639	589	-	2,228
Additions during the year	10,162	4,285	36	14,483
Rehabilitation provision	(29)	-	-	(29)
Depreciation charge for the year	(1,251)	(885)	(15)	(2,151)
At 31 December 2010	57,759	19,963	23	77,745

	$000	$000	$000	$000
At 31 December 2008				
Cost	45,521	17,517	46	63,084
Accumulated depreciation	(3,339)	(2,818)	(42)	(6,199)
Net carrying amount	42,182	14,699	4	56,885
At 31 December 2009				
Cost	51,445	19,547	48	71,040
Accumulated depreciation	(4,207)	(3,573)	(46)	(7,826)
Net carrying amount	47,238	15,974	2	63,214
At 31 December 2010				
Cost	63,408	24,554	84	88,046
Accumulated depreciation	(5,649)	(4,591)	(61)	(10,301)
Net carrying amount	57,759	19,963	23	77,745

Mineral interests comprise the Group's interest in the Caijiaying ore bodies including cost on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and construction of the Caijiaying mine including expenditure for the initial establishment of access to mineral reserves, commissioning expenditure, and direct overhead expenses prior to commencement of commercial production and together with the end of life restoration costs.

At 31 December 2010 and 2009 there were no indications of impairment in the net book values of the capitalised cost.

The office furniture and equipment disclosed above relates solely to the fixed assets of the Company and China Zinc Pty Ltd.

11. Intangible assets

China – Zinc / gold exploration interests	**$000**
At 1 January 2009	1,313
Foreign exchange adjustments	4
Additions during the year	105
At 31 December 2009	1,422
Foreign exchange adjustments	49
Additions during the year	10
At 31 December 2010	1,481

Notes to the Financial Statements

Intangible assets represent cost on acquisition, plus subsequent expenditure on licences, concessions, exploration, appraisal and development work. Where expenditure on an area of interest is determined as unsuccessful such expenditure is written off to profit or loss. The recoverability of these assets depends, initially, on successful appraisal activities, details of which are given in the report on operations. The outcome of such appraisal activity is uncertain. Upon economically exploitable mineral deposits being established, sufficient finance will be required to bring such discoveries into production. At 31 December 2010 no amounts had been provided or charged to the income statement in respect of the above exploration costs.

12. Investment in associated company

	2010 $000	2009 $000
At 1 January	**3,986**	4,503
Share of losses of Spitfire Oil Limited	**(109)**	(517)
At 31 December	**3,877**	3,986

Griffin acquired 16,666,667 ordinary shares in Spitfire Oil Ltd ("Spitfire"), representing a 39.2% interest in the issued share capital of Spitfire, at 15p per share for a total cash consideration of £2,500,000 ($4,542,000) on 27 November 2008.

Mladen Ninkov and Roger Goodwin are directors of Spitfire Oil Ltd giving Griffin significant influence over the financial and operating policy decisions of Spitfire.

Spitfire's principal activity is the pursuance of the production of fuel oil and distillate from the Salmon Gums Lignite deposits in Western Australia.

Summarised financial information on Spitfire Oil Limited
(expressed in thousands Australian dollars)

	Six months to 31 December 2010 Unaudited Aus$000	Year to 30 June 2010 Audited Aus$000
Loss before income tax	**(190)**	(1,202)

	31 December 2010 Unaudited Aus$000	30 June 2010 Audited Aus$000
ASSETS		
Current assets	**8,077**	7,992
Non-current assets	**7,948**	8,257
Total assets	**16,025**	16,249
LIABILITIES		
Current and total liabilities	**(39)**	(74)
NET ASSETS	**15,986**	16,175
EQUITY		
Issued capital	**20,854**	20,854
Reserves	**790**	790
Accumulated losses	**(5,658)**	(5,469)
	15,986	16,175

Spitfire Oil Ltd reported no contingent liabilities at 31 December 2010 (30 June 2010 nil)

The directors have considered the carrying value of the Company's investment in Spitfire Oil Limited by reference to current market conditions, underlying assets and to projected discounted cash flow projections of Spitfire Oil Limited's principal venture.

NOTES TO THE FINANCIAL STATEMENTS

13. INVENTORIES

	2010 $000	2009 $000
Underground ore stocks	**850**	471
Surface ore stocks	**890**	1,412
Concentrate ore stocks	**-**	33
Spare parts and consumables	**1,396**	864
	3,136	2,780

All inventories are expected to be sold, used or consumed within one year of the balance sheet date. Inventories costing $312,000 (2009: $1,283,000) were recognised as an expense in the year.

14. OTHER CURRENT ASSETS

	2010 $000	2009 $000
Zinc put options	**14**	-
Other receivables	**2,792**	3,567
Prepayments	**617**	1,712
	3,423	5,279

Other receivables include advances of $2,029,000 (2009: $3,078,000) to related parties, recoverable from future share of profits (note 25). The non-controlling share of the profits of Hebei Hua' Ao Mining Industry for 2010 amounting to $6,218,000 are offsetable against this.

15. SHARE CAPITAL

	2010		2009	
	Number	$000	Number	$000
AUTHORISED:				
Ordinary shares of US$0.01 each	**1,000,000,000**	**10,000**	1,000,000,000	10,000
CALLED UP ALLOTTED AND FULLY PAID:				
Ordinary shares of US$0.01 each				
At 1 January	**181,688,497**	**1,817**	181,589,731	1,816
Issued during the year	**299,999**	**3**	133,333	1
Bought back in for cancellation	**(1,580,000)**	**(16)**	(34,567)	-
At 31 December	**180,408,496**	**1,804**	181,688,497	1,817

During 2010 1,580,000 ordinary shares were bought in for cancellation from the market under a buy back programme at an average price of 46.6 UK pence ($0.72) per share.

On 28 January 2010 133,333 new ordinary shares and on 29 April 2010 166,666 new ordinary shares were issued on the exercise of options at 20 pence ($0.32) per share.

NOTES TO THE FINANCIAL STATEMENTS

16. SHARE OPTIONS AND WARRANTS

	At 1 January 2010 Number	Granted (Exercised) (lapsed) Number	At 31 December 2010 Number
Options exercisable at 110 pence per share to 28 February 2010 (lapsed)	**10,000,000**	(10,000,000)	**-**
Options exercisable at 20 pence per share to 31 October 2013 (exercised)	**5,000,000**	(299,999)	4,700,001
Options exercisable at 45 pence per share to 28 February 2015 granted	**-**	10,000,000	10,000,000
	15,000,000	(299,999)	**14,700,001**

The following table shows the number and weighted average exercise price of all the unexercised share options and warrants at the year end:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	**15,000,000**	**80.0**	20,475,000	76.0
Granted during the year	**10,000,000**	**45.0**	-	-
Lapsed during the year	**(10,000,000)**	**(110.0)**	(5,475,000)	(65.0)
Exercised in year	**(299,999)**	**(20.0)**	-	-
Outstanding at 31 December	**14,700,001**	**37.00**	15,000,000	80.00

The estimated value of the options exercisable at 110p up to 28 February 2010, which vested in 3 tranches of 3,333,333 each, were 25.19p, 25.87p and 26.52p.

The estimated value of the options exercisable at 20p up to 31 October 2013, which vest in 3 tranches of 1,666,666 each, were 4.0p, 4.2p and 4.42p.

The estimated value of the options exercisable at 45p up to 28 February 2010, which vest in 3 tranches of 3,333,333 each, were 18.68p, 19.45p and 21.12p

Inputs into the Binomial valuation model were as follows:

	Options expiring 28 February 2015	Options expiring 31 October 2013	Options expired 28 February 2010
Share price	43.25p	14.0p	105.8p
Exercise price	45.0p	20.0p	110p
Expected volatility	65%	60%	33%
Risk free yield	2.84%	3.97%	5.1%
Dividend yield	0%	4%	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price with reference to the correlation with the zinc price and zinc price volatility over the same period. The Binomial model used assumes that the options will be exercised early when the share price exceeds the exercise price by a multiple of two.

The Group recognised a total expense of $2,323,000 (2009: $495,000) during the year ended 31 December 2010 relating to equity settled share option scheme transactions.

17. DIVIDENDS

No dividends were paid in 2010 (2009 nil)

Notes to the Financial Statements

18. Long-term provisions

PROVISIONS FOR MINE CLOSURE COSTS	2010	2009
	$000	$000
At 1 January	743	98
Transfer property plant and equipment (note 10)	(29)	645
Foreign exchange adjustments	54	-
At 31 December	768	743

During 2007 the Group paid a bond under PRC regulations to be used to cover end of mine life restoration costs. Provision for mine closure and rehabilitation costs have been made in accordance with the laws and regulations of China at a rate of Rmb 0.5 per tonne of estimated resources.

19. Trade and Other Payables

	2010	2009
	$000	$000
Trade creditors	6,137	2,638
Other creditors	313	654
Accruals	1,661	1,374
	8,111	4,666

All amounts are short term. The carrying values of all trade and other payables are considered to be a reasonable approximation of fair value.

20. Attributable net asset value / total equity per share

The attributable net asset value / total equity per share has been calculated from the consolidated net assets / total equity of the Group at 31 December 2010 of $140,004,000 ($134,714,000 at 31 December 2009) divided by the number of ordinary shares in issue at 31 December 2010 of 180,408,496 (181,688,497 at 31 December 2009).

21. Risk management

The Group is exposed to a variety of financial risks which result from its operating and investing activities. The Group's risk management is coordinated by its senior management and executive directors and focuses on actively securing the Group's short to medium term cash flows.

Foreign Currency Risk

The majority of the Group's operational and financial cash flows are denominated in Renminbi and United States Dollars with sterling bank deposits held to cover future sterling expenditure estimates. Associates operational and financial cash flows are denominated in Australian dollars.

Currently the Group does not carry out any significant operations in currencies outside the above.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. In addition, the conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

Sterling bank deposits translated into United States Dollars at the closing rate are as follows:

	2010	2009
	$000	$000
Short term bank deposits	43,038	47,562

Notes to the Financial Statements

21. Risk management (continued)

The following table illustrates the sensitivity of the net results for the year and equity in regards to the Group's sterling deposits and the sterling US Dollar exchange rate. It assumes a + / - 10% change in the sterling exchange rate for the year ended 31 December 2010. These changes are considered to be reasonable based on observation of current market conditions for the year ended 31 December 2010. The sensitivity analysis is based upon the Group's sterling deposits at each balance sheet date.

If sterling had strengthened against the US Dollar by 10% (2009: 10%) this would have had the following impact:

	2010	2009
	$000	$000
Net result for the year and on equity	4,782	5,285

If sterling had weakened against the US Dollar by 10% (2009 10%) this would have the following impact:

	2010	2009
	$000	$000
Net result for the year and on equity	(3,912)	(4,324)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be indicative of the Group's exposure to currency risk.

With the Renminbi exchange rate linked to the value of the US dollar and with minimal amounts held in Australian dollars, the effect on the net results and equity of changes in Renminbi and Australian dollar exchange rates are not expected to be significant.

Foreign currency denominated financial assets and liabilities, translated into US Dollars at the closing rate, are as follows:

	2010			2009		
	GBP	Rmb	AusD	GBP	Rmb	AusD
	$000	$000	$000	$000	$000	$000
Financial assets	43,163	10,620	2,503	47,583	13,890	21
Financial liabilities	(368)	(8,712)	(38)	(147)	(4,501)	(18)
Short term exposure	42,795	1,908	2,465	47,436	(9,389)	3

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits with floating interest rates. The Group currently does not have an interest rate hedging policy.

The following table illustrates the sensitivity of the net results for the year and equity to a reasonably possible change in interest rates of + 300% and - 100% (2009 + 300% - 100%), with effect from the beginning of the year. These changes are considered to be reasonable based on observation of current market conditions within which the Group operates. The sensitivity analysis is based upon the Group's deposits at each balance sheet date.

	2010		2009	
	Plus 300%	Minus 100%	Plus 300%	Minus 100%
	$000	$000	$000	$000
Net result for the year	272	(90)	292	(97)

Notes to the Financial Statements

21. Risk management (continued)

Fixed and non interest bearing financial assets and liabilities are as follows:

	2010			2009		
	Floating interest rate	**Non interest bearing**	**Total**	Floating interest rate	Non interest bearing	Total
	$000	**$000**	**$000**	$000	$000	$000
Financial Assets						
Cash at bank	**66,450**	**-**	**66,450**	67,630	-	67,630
Other receivables	**-**	**2,792**	**2,792**	-	3,567	3,567
Total Financial Assets	**66,450**	**2,792**	**69,242**	67,630	3,567	71,197
Trade and other payables	**-**	**(8,111)**	**(8,111)**	-	(4,666)	(4,666)
Total Financial Liabilities	**-**	**(8,111)**	**(8,111)**	-	(4,666)	(4,666)
Net Financial Assets / (Liabilities)	**66,450**	**(5,319)**	**61,131**	67,630	(1,099)	66,531

Commodity risk

The Group is exposed to the risk of changes in commodity prices and in particular that for zinc, gold and to a lesser extent silver and lead. The Group currently sells its metal concentrate production by way of open auctions in China. In 2010 the Company purchased put options at a strike price of $1,700 over 24,000 tonnes of zinc metal in concentrate. The Group has not hedged its metal production in 2009.

The following table illustrates the sensitivity of the net results for the year and equity to a reasonably possible change in the market price of zinc and gold of plus 20% and minus 20% (2009 plus 20% and minus 20%), with effect from the beginning of the year. These changes are considered reasonable based upon observation of current market conditions within which the Group operates. This sensitivity analysis is based upon the Group's sales in each year.

	2010		2009	
	Plus 20%	**Minus 20%**	Plus 20%	Minus 20%
	$000	**$000**	$000	$000
Net results for the year - zinc	**5,327**	**(5,327)**	3,553	(3,553)
Net results for the year - gold	**1,312**	**(1,312)**	687	(687)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group does not have trade receivables and does not hold collateral as security.

Credit risk from balances with banks and financial institutions is managed by the Board. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Griffin Board on a regular basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments

Fair value hierarchy

The Group adopted the amendments for IFRS 7 'Improving Disclosures about Financial Instruments' effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. On review of the financial instruments held by the Group management do not consider this relevant to the Group.

22. Capital Management and Procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern;
- To increase the value of the assets of the Group: and
- To enhance shareholder value in the Company and returns to shareholders.

The achievement of these objectives is undertaken by developing existing ventures and identifying new ventures for future development. The Company will also undertake other transactions where these are deemed financially beneficial to the Company.

The directors continue to monitor the capital requirements of the Group by reference to expected future cash flows. Capital for the reporting periods under review is summarised in the consolidated statement of changes in equity.

23. Financial instruments

Other than put options purchased during the year (note 21), the Group does not enter into derivative transactions such as interest rate swaps, forward rate agreements or forward currency contracts. The Group has no borrowings other than trade creditors and funds in excess of immediate requirements are placed in US dollar and sterling short term fixed and floating rate deposits. The Group has overseas subsidiaries operating in China and Australia, whose costs are denominated in local currencies.

In the normal course of its operations the Group is exposed to commodity price, foreign currency and interest rate risks.

The Group places funds in excess of immediate requirements in US dollar and sterling deposits with a number of banks to spread currency, interest rate and bank risk. These deposits are kept under regular review to maximise interest receivable and with reference to future expenditure and future currency requirements.

Commodity prices are monitored on a regular basis to ensure the Group receives fair value for its products.

24. Subsidiary companies

At 31 December 2010, Griffin Mining Limited had interests in the share capital of the following principal subsidiary companies.

Name	Class of Share held	Proportion of shares held	Nature of business	Country of incorporation
China Zinc Pty Ltd	Ordinary	100%	Service company	Australia
China Zinc Limited	Ordinary	100%	Holding company	Hong Kong
Hebei Hua' Ao Mining Industry Company Ltd*		60%**	Base and precious metals mining and development	China
Panda Resources Ltd	Ordinary	100%	Holding company	England
Hebei Sino Anglo Mining Development Company Ltd*		90%	Mineral exploration and development	China

* China Zinc Ltd, China Zinc Pty Ltd and Panda Resources Ltd are directly owned by the Company. China Zinc Ltd has a controlling interest in Hebei Hua' Ao Mining Industry Company Ltd, see below, and Panda Resources Ltd has a 90% controlling interest in Hebei Sino Anglo Mining Development Company Ltd.

** The joint venture contract establishing the Hebei Hua' Ao Mining Industry Company Ltd provides that 100% of the cash flows generated by the joint venture in the first three years from commencement of commercial production (commenced in the second half of 2005) be paid to the foreign party (China Zinc). Thereafter, being with effect from 24 July 2008, the foreign party (China Zinc) receives 60% of the cash flows, in accordance with its share in the equity interest in the joint venture. The non-controlling share of the losses of Hebei Hua' Ao Mining Industry Company Ltd for 2008 amounting to $633,000 (2007 nil) have been fully provided against.

25. Related party transactions

At 31 December 2010 Hebei Hua' Ao had advanced Rmb13,407,000 ($2,029,000) (31 December 2009 Rmb 18,003,000 ($2,637,000)) to the Zhangjiakou Caijiaying Lead Zinc Mining Company, that holds a 40% interest in Hebei Hua' Ao. This loan is non-interest bearing and repayable from their future share of the profits of Hebei Hua' Ao. In addition, at 31 December 2009 Hebei Hua' Ao had advanced Rmb 3,009,000 ($441,000) to the 3rd Geological Brigade of the Hebei Province, a partner in the Zhangjiakou Caijiaying Lead Zinc Mining Company. This loan was repaid in 2010 from distribution of profits.

26. Commitments

At 31 December 2010 the Group had capital commitments of $1,340,000 (31st December 2009 $3,066,000).

27. Contingent Liabilities

As described in note 24, the joint venture contract establishing the Hebei Hua' Ao Mining Industry Company Ltd provides that 100% of the cash flows and profits generated by the joint venture in the first three years from commencement of commercial production be paid to the foreign party (China Zinc). Thereafter, being with effect from 24 July 2008, the cash flows are shared 60% by the foreign party and 40% by the Chinese party, in accordance with their share in the equity interest in the joint venture. The registered capital (equity) of Hebei Hua' Ao was provided in full by China Zinc. In 2008 Hebei Hua' Ao incurred losses and in view of the uncertainties in recovering the Chinese partners' share of these losses, full provision was made against the non-controlling share of losses from 24 July to 31 December 2008. In view of the unusual nature of the joint venture contract and uncertainty as to its interpretation, with all the registered capital of Hebei Hua' Ao being provided by China Zinc, provision has only been made for the non-controlling interest in the profits of Hebei Hua Ao for 2009 and 2010 with no provision made in respect of the net assets of Hebei Hua' Ao. At 31 December 2010, the net assets of Hebei Hua' Ao after distributions due amounted to $31.4m. The non-controlling share of the net assets at 31 December 2010 on a termination of Hebei Hua' Ao could amount to $12.5m.

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