



ABN: 23 101 049 334

and
Controlled Entities

Annual Financial Report

For the Year Ended
30 June 2008

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CORPORATE DIRECTORY

MANAGING DIRECTOR

Nathan McMahon

MANAGING DIRECTOR

Clive Jones

NON-EXECUTIVE DIRECTOR

Kent Hunter

COMPANY SECRETARY

Lisa Wynne

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First Floor, 22 Oxford Close
WEST LEEDERVILLE WA 6007
Telephone: (08) 9380 4600
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AUDITORS

Bentleys
Level 1,
12 Kings Park Road
WEST PERTH WA 6005

SHARE REGISTRAR

Advanced Share Registry Services
110 Stirling Highway
NEDLANDS WA 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871

STOCK EXCHANGE LISTING

Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: CAZ

BANKERS

National Australia Bank
50 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2007.

1. *DIRECTORS*

The names of directors in office at any time during or since the end of the year are:

Nathan McMahon
Clive Jones
Kent Hunter

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Lisa Wynne was appointed to the role 6 August 2007 following Kent Hunter's resignation.

Ms Wynne has a Bachelor of Commerce and is a Chartered Accountant with 6 years experience working with listed entities in senior financial roles responsible for management and financial reporting, taxation, and ensuring continuous disclosure and compliance. Lisa presently works with a number of emerging ASX and AIM listed resource companies and specialises in financial and company secretarial transaction and corporate work.

2. *PRINCIPAL ACTIVITIES*

The principal activity of the economic entity during the financial period was mineral exploration.

There were no significant changes in the nature of the economic entity's principal activities during the financial period.

3. *OPERATING RESULTS*

The gain of the economic entity after providing for income tax amounted to \$1,009,436 (2007: \$1,197,992).

4. *DIVIDENDS PAID OR RECOMMENDED*

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

5. REVIEW OF OPERATIONS

PILBARA IRON ORE PROJECTS

The Company has five distinct project areas, within the Pilbara region, that are all prospective for iron ore mineralisation. The Hamersley Project covers approximately 85km² and is situated approximately 50km northeast of the Tom Price township in the Pilbara Region of Western Australia. Preliminary work by Cazaly Iron and a review of historical work conducted highlighted the potential for both channel iron deposits (CIDs) and bedded iron deposits (BIDs). Previous drilling within the tenement has confirmed the presence of pisolitic material and the results of a recent close spaced gravity survey have been particularly encouraging.

Previous drilling has returned intersection grading up to 61% Fe.

The project is very close to road and railway infrastructure providing potential future development advantages. A competitor's proposed rail corridor crosses the northern portion of the tenement. Drilling is commencing in October 2008.

PARKER RANGE IRON ORE PROJECT, Yilgarn Iron Province

(CAZ earning 80% iron ore rights from GDA, SBM claiming certain buy back rights, portion CAZ 100%)

RC drilling continued over potentially prospective Banded Iron Formation (BIF) in the Mount Caudan area at Parker Range. Drilling has occurred over several lines testing approximately 2.5km of strike. The BIF alternates between 10 to 65 meters thick with the BIF at the northern end of the prospect complicated by fault displacements.

Superficial enrichment was observed in most of the holes (commonly at the base of the hill), varying in thickness between a few meters up to around 20 meters. The mineralised zones have some components of manganese and silica. Results from the more recent drilling are pending. Results from drilling in the previous quarter are shown below.

Reconnaissance sampling was also undertaken further south of the drilling area to check extensions of the BIF. A total of 48 rock chip samples were collected from several areas which may be prospective for additional iron ore mineralisation.

Metallurgical drilling, Order of Magnitude Studies, environmental baseline studies and resource drilling are all ongoing.

Mt Caudan Significant Intercepts (> 55%Fe)

HoleID	East	North	Depth	Azm	Dip	From	Length	Fe %	SiO2%	Al2O3%	P%	S%	LOI%
PKRC0020	742414	6499251	50	113.0	-60	3	20	59.1	4.87	1.72	0.02	0.10	8.25
PKRC0021	742344	6499279	81	113.0	-60	3	7	59.4	3.55	4.20	0.01	0.05	5.61
						60	17	58.9	3.53	1.56	0.02	0.04	9.64
PKRC0022	742350	6499020	60	113.0	-60	12	17	60.5	2.55	0.83	0.01	0.11	9.11
						33	4	56.8	4.16	2.83	0.06	0.10	9.64
PKRC0023	742255	6499060	100	113.0	-60	3	2	55.8	4.57	5.44	0.02	0.07	8.22
						24	4	59.3	4.40	3.73	0.01	0.03	3.95
						73	17	57.3	6.77	0.79	0.00	0.02	9.40
						95	5	57.4	7.00	1.84	0.00	0.03	8.37
PKRC0024	742168	6498502	25	113.0	-60	13	12	57.6	5.79	1.22	0.04	0.03	10.04
PKRC0025	742142	6498506	75	113.0	-60	10	5	56.6	7.81	1.14	0.02	0.02	9.79
						19	19	58.7	4.79	1.62	0.02	0.05	9.17
						49	5	57.1	5.57	3.15	0.13	0.07	8.81
						57	3	55.9	5.98	4.07	0.06	0.04	9.13
PKRC0026	742120	6498515	15	113.0	-60	3	3	58.5	2.81	4.55	0.02	0.06	7.70
PKRC0027	742082	6498102	60	113.0	-60	29	24	59.7	2.49	1.51	0.01	0.06	9.02

Holes located on WGS84 Zone 50. All assays conducted by XRF spectrometry on fused bead with loss on ignition (LOI) determined by Thermo-gravimetric analysers. Significant results estimated over 1 minimum 2m width using 55% lower cut and 2m of internal dilution.

Rhodes Ridge Iron Ore Project

Cazaly has exploration licence applications in respect of the Rhodes Ridge project which contains one of the largest undeveloped iron ore resources in Western Australia. Cazaly has agreed to transfer the tenements to FMG upon grant in return for a royalty from future production. Upon transfer of the tenements, Cazaly will receive an advance on future royalties calculated at \$0.05 per tonne of the inferred JORC compliant resource contained in the Rhodes Ridge Project with an agreed minimum payment of \$20 million and an agreed maximum of \$100 million.

The Rhodes Ridge Joint Venture which comprises a subsidiary of Rio Tinto Limited, Hancock Prospecting Pty Ltd and Wright Prospecting Pty Ltd, has objected to the grant of the tenements on the basis that the Rhodes Ridge Joint Venture claims to hold rights of occupancy over the land pursuant to the Iron Ore (Rhodes Ridge) Agreement Authorisation Act 1972 (WA). Cazaly contends that the rights of occupancy have not been validly renewed and that the land is open for mining under the Mining Act 1978 (WA).

The Mining Warden has determined that there should be a preliminary hearing in relation to whether or not the Rhodes Ridge Joint Venture has valid and subsisting rights of occupancy. This preliminary hearing has been listed for 4 and 5 December 2008.

If the Warden determines that the Rhodes Ridge Joint Venture does not hold valid and subsisting rights of occupancy, there is no reason why the Rhodes Ridge Joint Venture should be heard in opposition to the grant of the tenements and Cazaly believes there is no reason why the tenement applications should not be granted.

West Kalgoorlie Project

Carbine Resources Limited (“Carbine”) is earning up to 70 percent by farming in to Cazaly’s entire gold exploration and development portfolio in the Kunanalling, Ora Banda, Grants Patch, Carbine and Split Rocks regions, collectively known as the West Kalgoorlie project. These tenements cover approximately 533 square kilometres and now contain mineral resources of 612,000 ounces of gold.

Activities for the period were focussed on completing the approvals stage for commencement of mining of the Catherwood deposit and advancing exploration over known prospects.

Drill programmes were completed on the Backflip prospect at Grants Patch, the Boundary and Carnage prospects in the Ora Banda Project Area and the Sabrina prospect and Picante deposit in the Kunanalling Project Area. The Backflip prospect now represents a priority target for a significant high-grade resources amenable to mechanised underground mining.

Furthermore, as a result of various existing joint ventures and its own sole managed exploration activities, the Company remains exposed to further potential exploration success on several fronts.

Summary

The Company has been very active with exploration advancing the Company’s assets at the West and East Kalgoorlie gold and nickel projects and over the Pilbara and Yilgarn iron ore projects. Additionally work is continuing over several other projects which the Company has in joint venture including at Quartz Circle, which is in Joint venture with Graynic Metals, Lake Way (Newera Uranium), Jillewarra (Red Emperor) and others.

Financial Position

The net assets of the economic entity have increased by \$5,713,612 from 30 June 2007 to \$14.93 million in 2008 due largely to the issue of shares to raise additional funds, exercise and acquire exploration assets.

The economic entity currently has \$2.1 million in cash assets which the Directors believe puts the economic entity in a sound financial position with sufficient capital to effectively explore its current landholdings.

Future Developments, Prospects and Business Strategies

The economic entity will continue its mineral exploration activity at and around its exploration projects with the object of identifying commercial resources.

The economic entity will also continue to identifying new mineral exploration opportunities within Australia and the rest of the world for further potential acquisitions which may offer value enhancing opportunities for shareholders.

The following significant changes in the state of affairs of the economic entity occurred during the financial period:

On 7 August 2007, the Company completed a placement of 5,750,000 ordinary shares to a range of institutional investors. The placement raised \$3,450,000 before costs. The funds raised were used for continued exploration and to fund working capital.

On 24 September 2007, the Company issued 75,000 employee options under the Cazaly Resources Limited employee incentive scheme.

On 26 October 2007, the Company issued 225,000 employee options under the Cazaly Resources Limited employee incentive scheme.

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS (Cont'd)

On 6 December 2007, the Company issued 2,500,000 to Directors as approved by shareholders at the Annual General Meeting held on 30 November 2007.

On 23 May 2008, the Company issued 100,000 employee options under the Cazaly Resources Limited employee incentive scheme.

On 24 June 2008, the Company issued 350,000 ordinary shares on the exercise of 350,000 35 cent options to raise \$122,500.

During the year, a total of 2,000,000 options were exercised by Directors to raise \$587,600.

7. AFTER BALANCE DATE EVENTS

Since 30 June, the Australian stock market has been extremely volatile resulting in the Company's financial assets undergoing a significant change in value. Subsequently the fair value of the Company's financial assets as at the date of this report has reduced by approximately 2.5 million.

Apart from the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

8. FUTURE DEVELOPMENTS

The economic entity will continue its mineral exploration activity at and around its exploration projects with the object of identifying commercial resources.

9. ENVIRONMENTAL ISSUES

The economic entity is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

10. INFORMATION ON DIRECTORS

Nathan McMahon	Managing Director (Corporate and Administration)		
Qualifications	<i>B.Com</i>		
Experience	Mr McMahon has provided tenement management advice to the mining industry for approximately 14 years to in excess of 20 public listed mining companies. Mr McMahon has specialised in native title negotiations, joint venture negotiations and project acquisition due diligence. Mr McMahon is a Director of several listed companies. These include on the ASX; joint Managing Director of Cazaly Resources Ltd., a Director of Catalyst Metals Ltd, Hodges Resources Ltd and Bannerman Resources Ltd. He is also a Director of the AIM listed company Universal Coal PLC.		
Interest in Shares and Options	Fully Paid Ordinary Shares		5,222,796
	\$1.9436 Options expiring on 30 November 2009		1,000,000
	\$0.75 Options expiring on 30 November 2009		1,000,000
Clive Jones	Managing Director (Technical)		
Qualifications	<i>B.App.Sc(Geol), M.AusIMM.</i>		
Experience	Mr Jones has been involved in mineral exploration for over 22 years and has worked on the exploration for a range of commodities including gold, base metals, mineral sands, uranium and iron ore. Mr Jones is a Director of several ASX listed companies. He is Chairman of Cortona Resources Ltd., joint Managing Director of Cazaly Resources Ltd and a Director of Graynic Metals Ltd and Bannerman Resources Ltd.		
Interest in Shares and Options	Fully Paid Ordinary Shares		5,140,001
	\$1.9436 Options expiring on 30 November 2009		1,000,000
	\$0.75 Options expiring on 30 November 2009		1,000,000
Kent Hunter	Non-Executive Director		
Qualifications	<i>B.Bus, CA.</i>		
Experience	Mr Hunter is a Chartered Accountant with over 15 years' corporate and company secretarial experience. He has been involved in the listing of over 20 exploration companies on ASX in the past 8 years.. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Cazaly Resources Limited, Scimitar Resources Limited and Gryphon Minerals Limited and is company secretary of two other ASX Listed entities.		
Interest in Shares and Options	Fully Paid Ordinary Shares		1,328,066
	\$0.4436 Options expiring on 31 August 2008		250,000
	\$1.9436 Options expiring on 30 November 2009		200,000
	\$0.75 Options expiring on 30 November 2009		500,000

11. REMUNERATION REPORT

Directorships of other listed companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Nathan McMahon	Graynic Metals Limited	Since February 2005
	Bannerman Resources Limited	Since June 2007
	Catalyst Metals Limited	Since July 2007
	Northern Mining Limited	From April 2005 to December 2006
	Hodges Resources Limited	Since May 2007
Clive Jones	Jackson Gold Limited	Since March 2002
	Graynic Metals Limited	Since February 2005
	Cortona Resources Limited	Since January 2006
	Bannerman Resources	Since January 2007
Kent Hunter	Elixir Petroleum Limited	From March 2004 to November 2007
	Scimitar Resources Limited	Since November 2002
	Venture Minerals Limited	Since May 2006
	Hamill Resources Limited	From November 2000 to September 2004
	Venture Minerals Limited	From May 2006 to July 2008
	Gryphon Minerals Limited	Since January 2004

This report details the nature and amount of remuneration for each director of Cazaly Resources Limited.

Remuneration Policy

The remuneration policy of Cazaly Resources Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The board of Cazaly Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed by the managing director and approved by the board after seeking professional advice from independent external consultants.

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits.

The economic entity is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions, within the same industry. The Board however acquired and were issued shares as part of the terms of the Initial Public Offer. Board members have retained these securities which assist in aligning their objectives with overall shareholder value.

Options have been issued to Board members to provide a mechanism to participate in the future development of the Company and an incentive for their future involvement with and commitment to the Company.

Options and performance incentives will be issued in the event that the entity moves from an exploration entity to a producing entity, and key performance indicators such as profits and growth can be used as measurements for assessing Board performance.

11. REMUNERATION REPORT (Cont'd)

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits.

All remuneration paid to directors is valued at the cost to the Company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The managing director in consultation with independent advisors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. This has been achieved by the issue of shares to the majority of the directors and executives to encourage the alignment of personal and shareholder interest.

Details of Remuneration for Year Ended 30 June 2008

The remuneration for each key management person and company executive of the company during the year was as follows:

	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity	Options (i)		
	\$		\$	\$	\$	\$	\$	\$	\$	%
Nathan McMahon – Managing Director (ii)										
2008	180,000	-	-	-	-	-	-	210,000	390,000	54%
2007	180,000	-	-	-	-	-	-	220,000	400,000	55%
Clive Jones – Managing Director (ii)										
2008	180,000	-	-	-	-	-	-	210,000	390,000	54%
2007	180,000	-	-	-	-	-	-	220,000	400,000	55%
Kent Hunter – Non Executive Director (iv)										
2008	25,000	-	-	33,497	2,250	-	-	105,000	165,747	63%
2007	25,000	-	-	42,827	2,250	-	-	44,000	114,077	39%
Lisa Wynne – Company Secretary (v)										
2008	-	-	-	22,036	-	-	-	9,998	32	31%
2007	-	-	-	-	-	-	-	-	-	-
Total Remuneration										
2008	385,000	-	-	55,533	2,250	-	-	534,998	977,781	55%
2007	385,000	-	-	42,827	2,250	-	-	484,000	914,077	53%

i) The fair value of the Options is calculated at the date of grant using a Black-Scholes model.

ii) An aggregate amount of \$180,000 (2007:\$ 180,000) was paid, or was due and payable to Kingsreef Pty Ltd, a company controlled by Mr Nathan McMahon, for the provision of corporate and tenement management services to the Company.

iii) An aggregate amount of \$180,000 (2007:\$ 180,000) was paid, or was due and payable to Widerange Corporation Pty Ltd, a company controlled by Mr Clive Jones, for the provision of geological services to the Company.

iv) An aggregate amount of \$33,497 (2007:\$ 42,827) was paid, or was due and payable to Mining Corporate Advisory Services Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services to the Company.

v) An aggregate amount of \$22,036 (2007: Nil) was paid, or was due and payable to Sila Consulting Pty Ltd, a company of which Ms Wynne is a Director, for the provision of company secretarial services to the Company.

11. REMUNERATION REPORT (Cont'd)

Options issued as part of remuneration for the year ended 30 June 2008

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Cazaly Resources Limited and its subsidiaries to increase goal congruence between executives, directors and shareholders.

During and since the end of financial year, an aggregate of 2,900,000 options over unissued shares were granted to various parties. 2,500,000 options of the total number granted were issued to the following directors and executives as disclosed in the table below:

Directors	Number	Exercise Price	Vesting Date	Expiry Date
Nathan McMahon	1,000,000	\$0.75	30 November 2007	30 November 2009
Clive Jones	1,000,000	\$0.75	30 November 2007	30 November 2009
Kent Hunter	500,000	\$0.75	30 November 2007	30 November 2009

Value of Options Granted to Directors

The following table sets out the value of options granted, exercised and lapsed during the year:

	Options granted	Options exercised	Options lapsed	Value of options included in remuneration for the year	Percentage of remuneration for the year that consists of options %
Directors	Value at grant date \$	Value at exercise date \$	Value at time of lapse \$	\$	
Nathan McMahon	210,000	-	-	210,000	53.85%
Clive Jones	210,000	-	-	210,000	53.85%
Kent Hunter	105,000	-	-	105,000	63.35%

The following factors and assumptions were used in determining the fair value of options issued to Directors on grant date:

Grant Date	Expiry Date	Fair Value Per Option	Exercise Date	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
30.11.07	30.11.09	\$0.21	30.11.09	\$0.375	135%	6.54%	-

Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company.

Employment Contracts of Directors and Senior Executives

The employment conditions of the Managing Directors, Nathan McMahon and Clive Jones, are formalised in a contract of employment. Other than the Managing Directors, all executives are employees of Cazaly Resources Limited.

The employment contracts stipulate a range of one to three-month resignation periods. The economic entity may terminate an employment contract without cause by providing one to three months written notice or making payment in lieu of notice, based on the individual's annual salary component.

12. MEETINGS OF DIRECTORS

The number of directors' meetings held during the financial year each director held office during the financial year and the number of meetings attended by each director are:

Directors Meetings		
Director	Number Eligible to Attend	Meetings Attended
N McMahon	11	11
C Jones	11	10
K Hunter	11	11

The economic entity does not have a formally constituted audit committee as the board considers that the company's size and type of operation do not warrant such a committee.

13. INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

14. OPTIONS***Unissued Shares Under Option***

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
2 July 2009	\$0.1938	150,000
31 August 2008	\$0.4436	1,750,000
24 January 2010	\$0.5236	75,000
15 September 2008	\$0.3500	150,000
5 October 2011	\$0.8036	100,000
15 October 2008	\$0.4436	1,000,000
30 November 2009	\$1.9436	2,200,000
19 June 2012	\$0.8600	250,000
14 September 2012	\$0.39	75,000
26 October 2012	\$0.45	225,000
30 November 2009	\$0.75	2,500,000
22 May 2013	\$0.30	100,000

During the year ended 30 June 2008, the following ordinary shares of the Company were issued on exercise of options.

Option Expiry	Exercise Price	Number of Shares
19 July 2007	\$0.2938	1,000,000
5 October 2007	\$0.2938	1,000,000
24 June 2008	\$0.35	350,000

15 PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The economic entity was not a party to any such proceedings during the year.

16. AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 16 of the directors' report.

17. NON AUDIT SERVICES

The board of directors is satisfied that the provision of non-audit services performed during the year by the Company's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

No other fees were paid or payable to the auditors for non-audit services performed during the year ended 30 June 2008.

Signed in accordance with a resolution of the Board of Directors.



Nathan McMahon
Managing Director

30 September 2008

To The Board of Directors

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

This declaration is made in connection with our review of the financial report of Cazaly Resources Limited and Controlled Entities for the year ended 30 June 2008 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



RANKO MATIĆ
Director

DATED at PERTH this 30th day of September 2008

**INCOME STATEMENT
FOR THE YEAR ENDED
30 JUNE 2008**

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	2	1,716,352	421,192	1,706,753	421,192
Other Income	2	3,025,497	4,343,641	1,728,575	2,658,314
Employee benefits expense		(1,073,884)	(1,037,932)	(1,073,884)	(1,036,899)
Depreciation and amortisation expense		(28,079)	(17,891)	(28,079)	(17,891)
Finance costs		(3,344)	(3,275)	(3,339)	(3,275)
Administrative expense		(236,198)	(251,967)	(163,121)	(251,912)
Advertising and promotional expenses		(24,257)	(19,697)	(24,257)	(16,666)
Consultancy expenses		(183,947)	(126,704)	(183,947)	(126,709)
Compliance and Regulatory expenses		(334,012)	(106,765)	(154,111)	(106,981)
Occupancy expenses		(120,912)	(40,946)	(120,912)	(40,946)
Written-off exploration expenditure		(168,813)	(915,570)	(48,477)	(28,608)
Impairment of loans to controlled entities		-	-	(4,175,814)	-
Provision for diminution in value of shares		(1,457,244)	-	(833,595)	(1,818,561)
Other expenses		(16,067)	(7,719)	(15,568)	(7,718)
Profit/(loss) before income tax	3	1,095,092	2,236,367	(3,389,776)	(376,660)
Income tax (expense)/benefit	6	(85,656)	(1,038,375)	32,273	(764,002)
Net profit /(loss) attributable to members		1,009,436	1,197,992	(3,357,503)	(1,140,662)
Basic earnings (loss) per share (cents per share)	18	1.69	2.32		

The accompanying notes form part of these financial statements

BALANCE SHEET
AS AT
30 JUNE 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	7	2,072,718	545,813	2,072,718	507,813
Trade and other receivables	8	2,177,741	135,793	2,176,967	132,049
Prepayments		21,675	-	21,675	-
TOTAL CURRENT ASSETS		4,272,134	681,606	4,271,360	639,862
NON CURRENT ASSETS					
Trade and other receivables	8	56,605	-	18,605	3,349,636
Financial assets	9	4,844,744	3,076,293	3,860,782	1,796,754
Property, plant and equipment	10	74,105	50,193	74,105	50,193
Exploration, evaluation and development	11	8,488,493	7,168,840	3,114,656	3,185,052
Deferred tax assets	6	1,257,012	1,375,028	1,144,470	1,374,830
TOTAL NON CURRENT ASSETS		14,720,959	11,670,354	8,212,618	9,756,465
TOTAL ASSETS		18,993,093	12,351,960	12,483,978	10,396,327
CURRENT LIABILITIES					
Trade and other payables	12	1,307,767	370,692	1,307,767	370,692
Short-term provision	13	54,408	27,123	54,408	27,123
TOTAL CURRENT LIABILITIES		1,362,175	397,815	1,362,175	397,815
NON CURRENT LIABILITIES					
Trade and other payables	12	-	-	43,730	-
Deferred tax liabilities	6	2,703,818	2,740,657	1,119,236	1,386,348
TOTAL NON CURRENT LIABILITIES		2,703,818	2,740,657	1,162,966	1,386,348
TOTAL LIABILITIES		4,065,993	3,138,472	2,525,141	1,784,163
NET ASSETS		14,927,100	9,213,488	9,958,837	8,612,164
EQUITY					
Issued capital	14	9,017,161	4,969,582	9,017,161	4,969,582
Reserves	15	7,421,043	6,764,446	7,421,043	6,764,446
Retained profits/(Accumulated losses)	16	(1,511,104)	(2,520,540)	(6,479,367)	(3,121,864)
TOTAL EQUITY		14,927,100	9,213,488	9,958,837	8,612,164

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
30 JUNE 2008**

Economic Entity

	Issued Capital	Retained Profits/ Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2006	7,012,583	(3,718,532)	6,463,924	9,757,975
Profit / (loss) attributable to members	-	1,197,992	-	1,197,992
Shares issued during the year	518,700	-	-	518,700
Options exercised during the year	361,900	-	(361,900)	-
Reduction of capital – In-specie distribution	(2,900,000)	-	-	(2,900,000)
Option reserve	-	-	662,422	662,422
Deferred tax liability component	(23,601)	-	-	(23,601)
Balance at 30 June 2007	4,969,582	(2,520,540)	6,764,446	9,213,488
Profit / (loss) attributable to members	-	1,009,436	-	1,009,436
Shares issued during the year	3,450,000	-	-	3,450,000
Options exercised during the year	710,100	-	-	710,100
Transaction costs	(117,000)	-	-	(117,000)
Option reserve	-	-	656,597	656,597
Deferred tax liability component	4,479	-	-	4,479
Balance at 30 June 2008	9,017,161	(1,511,104)	7,421,043	14,927,100

Parent Entity

	Issued Capital	Retained Profits/ Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2006	7,012,583	(1,981,202)	6,463,924	11,495,305
Profit / (loss) attributable to members	-	(1,140,662)	-	(1,140,662)
Shares issued during the year	518,700	-	-	518,700
Options exercised during the year	361,900	-	(361,900)	-
Reduction of capital – In-specie distribution	(2,900,000)	-	-	(2,900,000)
Option reserve	-	-	662,422	662,422
Deferred tax liability component	(23,601)	-	-	(23,601)
Balance at 30 June 2007	4,969,582	(3,121,864)	6,764,446	8,612,164
Profit / (loss) attributable to members	-	(3,357,503)	-	(3,357,503)
Shares issued during the year	3,450,000	-	-	3,450,000
Options exercised during the year	710,100	-	-	710,100
Transaction costs	(117,000)	-	-	(117,000)
Option reserve	-	-	656,597	656,597
Deferred tax liability component	4,479	-	-	4,479
Balance at 30 June 2008	9,017,161	(6,479,367)	7,421,043	9,958,837

The accompanying notes form part of these financial statements

**CASH FLOW STATEMENT
FOR THE YEAR ENDED
30 JUNE 2008**

		Economic Entity		Parent Entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
Cash Flows from Operating Activities					
- Payments to suppliers and employees		(1,372,769)	(792,168)	(1,321,401)	(783,884)
- Interest received		156,225	65,558	154,884	64,918
- Other revenue		377,695	358,790	377,695	358,790
- Payments for exploration and evaluation		(2,351,755)	(2,233,536)	(609,457)	(1,011,600)
<i>Net cash used in operating activities</i>	19	<u>(3,190,604)</u>	<u>(2,601,356)</u>	<u>(1,398,279)</u>	<u>(1,371,776)</u>
Cash Flows From Investing Activities					
- Proceeds from sale of exploration assets		535,000	505,000	335,000	-
- Proceeds from sale of equity investments		241,311	832,388	38,794	831,440
- Purchase of plant and equipment		(51,991)	(17,113)	(51,991)	(17,113)
- Purchase of equity investments		(1,388,710)	(212,331)	(1,269,160)	(201,148)
- Recoupment of exploration expenditure from Joint Venture operations		1,041,945	-	810,066	-
- Proceeds for Joint Venture Management		296,854	-	288,596	-
- Loans (to)/receipts from associated entities		-	-	(1,231,221)	(734,815)
<i>Net cash used in investing activities</i>		<u>674,409</u>	<u>1,107,944</u>	<u>(1,079,916)</u>	<u>(121,636)</u>
Cash Flows from Financing Activities					
- Proceeds from issue of securities		4,160,100	518,700	4,160,100	518,700
- Payment for costs of issue of securities		(117,000)	-	(117,000)	-
<i>Net cash provided by financing activities</i>		<u>4,043,100</u>	<u>518,700</u>	<u>4,043,100</u>	<u>518,700</u>
Net increase in cash held		1,526,905	(974,712)	1,564,905	(974,712)
Cash and cash equivalents at beginning of the financial year		545,813	1,520,525	507,813	1,482,525
Cash and cash equivalents at end of the financial year	7	<u>2,072,718</u>	<u>545,813</u>	<u>2,072,718</u>	<u>507,813</u>

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the economic entity of Cazaly Resources Limited and controlled entities, and Cazaly Resources Limited as an individual parent entity. Cazaly Resources Limited is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board¹ and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

A controlled entity is any entity over which Cazaly Resources Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 21 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	40.0%
Office furniture and equipment	18.0%
Motor vehicle	22.5%
Leasehold improvements	Term of Lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(c) Exploration, Evaluation and Development Expenditure

Costs incurred during exploration and evaluation related to an area of interest are accumulated. Costs carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not at balance date reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. In these instances the entity must have rights of tenure to the area of interest and must be continuing to undertake exploration operations in the area.

These assets are considered for impairment on an annual basis, depending on the existence of impairment indicators including:

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- the period for which the Economic Entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Economic Entity has decided to discontinue such activities in the specific area; and
- sufficient key data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

(d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a diminishing value basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(e) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Financial Instruments (Continued)

Classification and Subsequent Measurement

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(g) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the entity will not be able to collect the debts. Bad debts are written off when identified.

(h) Revenue and Other Income

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(i) Impairment of Assets

At each reporting date, the Economic Entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from the other assets, the Economic Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Profit and Loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A reversal of an impairment loss is recognised in the Profit and Loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation increase

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Taxation

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Tax Consolidation

Cazaly Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2004.

(l) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

(m) Trade and Other Payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of these goods and services.

(n) Provisions

Provisions are recognised when the Economic Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(o) Share Based Payments

Equity-settled share based payments granted, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Economic Entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(p) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(q) Earnings Per Share

Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for an bonus element.

Diluted EPS is calculated as net earnings attributable to members, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that would have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(r) Employee Benefits

Provision is made for the Economic Entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(s) Joint Venture Entities

A joint venture entity is an entity in which Cazaly holds a long-term interest and which is jointly controlled by Cazaly and one or more other venturers. Decisions regarding the financial and operating policies essential to the activities, economic performance and financial position of that venture require the consent of each of the venturers that together jointly control the entity.

Cazaly has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policy are determined by the participants such that the operation itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that the policies are those of the participants, not a separate entity carrying on a trade or a business of its own.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008**

The financial statements of Cazaly include its share of the assets, liabilities and cash flows in such joint venture operations, measured in accordance with the terms of each arrangement, which is usually pro-rata to Cazaly's interest in the joint venture operations.

(t) *Royalty Assets*

Royalty assets are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off

(u) *Critical Accounting Estimates and Judgments*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Judgements – Deferred exploration and evaluation expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in note 1(c).

Key Judgements Share based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 26.

The financial report was authorised for issue on 30 September 2008 by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2008

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
2. REVENUE				
Revenue				
- interest received	165,286	62,402	163,945	61,762
- option fees	765,000	500	765,000	500
- management fees	408,371	-	400,113	-
- other revenue	377,695	358,290	377,695	358,290
	<u>1,716,352</u>	<u>421,192</u>	<u>1,706,753</u>	<u>421,192</u>
Other Income				
- profit on sale of tenement	2,967,483	1,107,366	1,728,575	2,366
- profit on sale of shares	58,014	764,483	-	763,533
- fair value gains on other financial assets at fair value through profit or loss	-	2,471,792	-	1,892,415
	<u>3,025,497</u>	<u>4,343,641</u>	<u>1,728,575</u>	<u>2,658,314</u>
3. LOSS FOR THE YEAR				
(i) Expenses				
Borrowing costs				
- other persons	<u>3,344</u>	<u>3,275</u>	<u>3,339</u>	<u>3,275</u>
Depreciation of non-current assets				
- plant and equipment	25,585	17,891	25,585	17,891
- motor vehicle	<u>2,494</u>	<u>-</u>	<u>2,494</u>	<u>-</u>
	<u>28,079</u>	<u>17,891</u>	<u>28,079</u>	<u>17,891</u>
Rental expense on operating leases				
- minimum lease payments	<u>87,453</u>	<u>32,725</u>	<u>87,453</u>	<u>32,725</u>
Fair value loss on other financial assets at fair value through profit or loss	<u>1,457,244</u>	<u>-</u>	<u>833,595</u>	<u>-</u>
Exploration expense written off	<u>168,813</u>	<u>915,570</u>	<u>48,477</u>	<u>28,608</u>
Employee benefits:				
- Superannuation benefits	36,888	41,938	36,888	41,938
- Employee equity settled benefits	<u>656,597</u>	<u>662,423</u>	<u>656,597</u>	<u>662,423</u>

**NOTES TO THE FINANCIAL STATEMENTS
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4. KEY MANAGEMENT PERSONNEL COMPENSATION

a) Name and positions held by directors' in office at any time during the financial year are:

Mr Nathan McMahon	Managing Director
Mr Clive Jones	Managing Director
Mr Kent Hunter	Director

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report..

b) Shareholdings

Number of Shares held by Key Management Personnel

2008

	Balance 1.7.07	Received as Remuneration	Options Exercised	Net Change - Other ⁽ⁱ⁾	Balance 30.06.08
N McMahon	5,510,910	-	1,000,000	(1,288,114)	5,222,796
C Jones	4,140,001	-	1,000,000	-	5,140,001
K Hunter	1,328,066	-	-	-	1,328,066
	<u>10,978,977</u>	<u>-</u>	<u>2,000,000</u>	<u>(1,288,114)</u>	<u>11,650,863</u>

(i) Includes 661,886 of on-market purchase and an involuntary sale of 1,950,000 ordinary shares in April 2008 pursuant to the (purported) exercise of rights by a secured creditor of Opes Prime Group Ltd. No consideration has been received by the Mr McMahon at this time. Mr McMahon is pursuing actions against the major financier of the Opes Prime Group Ltd.

2007

	Balance 1.7.06	Received as Remuneration	Options Exercised	Net Change - Other	Balance 30.06.07
N McMahon	5,376,128	-	500,000	(365,218)	5,510,910
C Jones	4,140,001	-	-	-	4,140,001
K Hunter	1,078,066	-	250,000	-	1,328,066
	<u>10,554,195</u>	<u>-</u>	<u>750,000</u>	<u>(365,218)</u>	<u>10,978,977</u>

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4. KEY MANAGEMENT PERSONNEL COMPENSATION (Cont'd)

c) Option Holdings

Number of \$0.2938 (formerly \$0.3502) Options expiring 31 August 2007, held by Directors and Executives

	Balance 1 July 07	Issued	Option Exercised	Lapsed	Balance 30 June 08
Nathan McMahon	1,000,000	-	(1,000,000)	-	-
Clive Jones	1,000,000	-	(1,000,000)	-	-
Kent Hunter	-	-	-	-	-
	<u>2,000,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>

Number of \$0.4436 (formerly \$0.50) Options expiring 31 August 2008, held by Directors and Executives

	Balance 1 July 07	Issued	Option Exercised	Lapsed	Balance 30 June 08
Nathan McMahon	500,000	-	-	-	500,000
Clive Jones	1,000,000	-	-	-	1,000,000
Kent Hunter	250,000	-	-	-	250,000
	<u>1,750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,000</u>

Number of \$1.9436 (formerly \$2.00) Options expiring 30 November 2009, held by Directors and Executives

	Balance 1 July 07	Issued	Option Exercised	Lapsed	Balance 30 June 08
Nathan McMahon	1,000,000	-	-	-	1,000,000
Clive Jones	1,000,000	-	-	-	1,000,000
Kent Hunter	200,000	-	-	-	200,000
	<u>2,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,200,000</u>

Number of \$0.75 Options expiring 30 November 2009, held by Directors and Executives

	Balance 1 July 07	Issued	Option Exercised	Lapsed	Balance 30 June 08
Nathan McMahon	-	1,000,000	-	-	1,000,000
Clive Jones	-	1,000,000	-	-	1,000,000
Kent Hunter	-	500,000	-	-	500,000
	<u>-</u>	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>

d) Compensation Options

The following table illustrates details of compensation options granted to Directors and Executives:
2008

	Number Granted	Number Vested	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
					\$	\$
N B McMahon	1,000,000	1,000,000	30.11.2007	30.11.2009	\$0.75	0.210
C B Jones	1,000,000	1,000,000	30.11.2007	30.11.2009	\$0.75	0.210
K M Hunter	500,000	500,000	30.11.2007	30.11.2009	\$0.75	0.210
	<u>2,500,000</u>	<u>2,500,000</u>				

The weighted average fair value of the share options granted during the financial year is \$0.210 each. All options granted during the year vested immediately. Options were priced using binomial option pricing model. Details of factors used to calculate fair value of these options are disclosed in note (e) (i) below.

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4. KEY MANAGEMENT PERSONNEL COMPENSATION (Cont'd)

d) Compensation Options

2007

	Number Granted	Number Vested	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
					\$	\$
N B McMahon	1,000,000	1,000,000	11.12.2006	30.11.2009	\$2.00	0.22
C B Jones	1,000,000	1,000,000	11.12.2006	30.11.2009	\$2.00	0.22
K M Hunter	200,000	200,000	11.12.2006	30.11.2009	\$2.00	0.22
	<u>2,200,000</u>	<u>2,200,000</u>				

(i) Key Management Personnel Option Valuation Calculation

	2007 30.11.09 Options	2007 30.11.09 Options
Grant date share price	\$0.375	\$0.605
Exercise price	\$0.75	\$2.00
Expected volatility	135%	120%
Option life	3 years	2.92 years
Dividend yield	-	-
Risk-free interest rate	6.54%	5.71%

e) Shares issued on exercise of compensation options

	Date of exercise of options		Number of ordinary shares issued on exercise of options during the year	
	2008	2007	2008	2007
N McMahon	4 October 2007	21 June 2007	1,000,000	500,000
C Jones	18 July 2007	-	1,000,000	-
K Hunter	-	29 June 2007	-	250,000

The economic entity policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the economic entity. The contracts for service between the economic entity and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to date of retirement. The company may terminate the contracts without cause by providing one to three months written notice or making payment in lieu of notice based on the individual's annual salary component at industry award redundancy rates.

**NOTES TO THE FINANCIAL STATEMENTS
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
5. AUDITORS' REMUNERATION				
Remuneration of the auditor for:				
- Auditing or reviewing the financial report	34,000	26,437	34,000	26,437
	<u>34,000</u>	<u>26,437</u>	<u>34,000</u>	<u>26,437</u>
6. INCOME TAX EXPENSE				
The components of the tax expense/(income) comprise:				
Current tax	-	-	-	-
Deferred tax	85,656	1,038,375	(32,273)	764,002
	<u>85,656</u>	<u>1,038,375</u>	<u>(32,273)</u>	<u>764,002</u>
(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax (benefit) on loss from ordinary activities before income tax at 30% (2007: 30%)	328,527	670,910	(1,016,933)	(112,998)
Add:				
Tax effect of:				
Other non-allowable items	274,463	391,576	199,006	204,510
Tax benefit of revenue losses not recognised				
Effect of deferred tax assets not recognised				
Loan write-down to subsidiaries in tax consolidated group				
Under provision of prior year	-	-	1,252,594	545,568
Recognition of (losses)/taxable income & gains of subsidiaries in tax consolidated group	-	269,490	-	269,490
	-	-	(99,486)	-
Less:				
Tax effect of:				
Tax benefit of deductible equity raising costs	(30,621)	(23,601)	(30,621)	(23,601)
Recognition of previously unrecognised losses				
Under/Over provision of prior year	(486,713)	-	(336,831)	-
Recognition of subsidiary tax losses		-		151,033
Adjustments in respect of subsidiaries		-		-
Tax exempt revenues		(270,000)		(270,000)
Other		-		-
Income tax attributable to entity	<u>85,656</u>	<u>1,038,375</u>	<u>(32,273)</u>	<u>764,002</u>
The applicable weighted average effective tax rates are as follows:	7.8%	46.4%	(1%)	202.8%

5. INCOME TAX EXPENSE (CONT.)

NOTES TO THE FINANCIAL STATEMENTS
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
(b) Deferred tax assets at 30% (2007: 30%) comprise the following				
Carry forward revenue losses	975,941	1,198,117	975,940	1,198,117
Carry forward capital losses	23,891	40,090	23,891	40,090
Capital raising and future black hole deductions	151,458	33,945	38,917	33,945
Provisions and accruals	21,722	18,678	21,722	18,678
Other	84,000	84,198	84,000	84,000
	<u>1,257,012</u>	<u>1,375,028</u>	<u>1,144,470</u>	<u>1,374,830</u>
Deferred tax liabilities at 30% (2007: 30%) comprise the following				
Exploration expenditure	2,532,447	2,136,551	934,396	955,515
Investments	165,612	602,575	179,224	429,302
Other	5,759	1,531	5,616	1,531
	<u>2,703,818</u>	<u>2,740,657</u>	<u>1,119,236</u>	<u>1,386,348</u>
(c) Deferred tax recognised directly in equity:				
Relating to equity raising costs	(4,479)	23,601	(4,479)	23,601
Other		-		-
	<u>(4,479)</u>	<u>23,601</u>	<u>(4,479)</u>	<u>23,601</u>

NOTES TO THE FINANCIAL STATEMENTS
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
7. CASH AND CASH EQUIVALENTS				
Cash at bank	25,078	397,802	25,078	397,802
Petty cash	495	500	495	500
Deposits at call (i)	2,047,145	147,511	2,047,145	109,511
	<u>2,072,718</u>	<u>545,813</u>	<u>2,072,718</u>	<u>507,813</u>
(i) The bank deposits are bank accepted bills maturing on 22 July 2008, with a yield of 7.56%.				
8. TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables	2,029,500	-	2,029,500	-
Other debtors	148,241	135,793	147,467	132,049
	<u>2,177,741</u>	<u>135,793</u>	<u>2,176,967</u>	<u>132,049</u>
Non-Current				
Bonds (i)	56,605	-	18,605	-
Loans to associated entities	-	-	-	3,349,636
	<u>56,605</u>	<u>-</u>	<u>18,605</u>	<u>3,349,636</u>
(i) Bonds are term deposits, held by way of bank guarantee.				
9. FINANCIAL ASSETS				
Current				
Available-for-sale financial assets:				
Shares in controlled entities, at cost	-	-	3	3
Shares in listed corporations, at fair value through profit and loss	4,844,744	3,076,293	3,860,779	1,796,751
	<u>4,844,744</u>	<u>3,076,293</u>	<u>3,860,782</u>	<u>1,796,754</u>

NOTES TO THE FINANCIAL STATEMENTS
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10. PROPERTY, PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Plant and Equipment				
At cost	143,211	92,794	143,211	92,794
Accumulated depreciation	(91,647)	(69,053)	(91,647)	(69,053)
	<u>51,564</u>	<u>23,741</u>	<u>51,564</u>	<u>23,741</u>
Office Furniture and Equipment				
At cost	27,764	26,190	27,764	26,190
Accumulated depreciation	(13,815)	(10,825)	(13,815)	(10,825)
	<u>13,949</u>	<u>15,365</u>	<u>13,949</u>	<u>15,365</u>
Motor Vehicle				
At cost	27,272	27,272	27,272	27,272
Accumulated depreciation	(18,680)	(16,185)	(18,680)	(16,185)
	<u>8,592</u>	<u>11,087</u>	<u>8,592</u>	<u>11,087</u>
Leasehold Improvement				
At cost	5,344	5,344	5,344	5,344
Accumulated amortisation	(5,344)	(5,344)	(5,344)	(5,344)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>74,105</u>	<u>50,193</u>	<u>74,105</u>	<u>50,193</u>

Movement in the carrying amounts for each class of plant and equipment between the beginning and end of the current financial year.

	2008			
	\$			
	Plant and Equipment	Office Furniture	Motor Vehicles	Total
Balance at the beginning of the year	23,741	15,365	11,087	50,193
Additions	50,417	1,574	-	51,991
Disposals	-	-	-	-
Depreciation/expense	(22,594)	(2,990)	(2,495)	(28,079)
Carrying amount at the end of the year	<u>51,564</u>	<u>13,949</u>	<u>8,592</u>	<u>74,105</u>

	2007			
	\$			
	Plant and Equipment	Office Furniture	Motor Vehicles	Total
Balance at the beginning of the year	24,866	11,812	14,293	50,971
Additions	10,386	6,727	-	17,113
Disposals	-	-	-	-
Depreciation/expense	(11,511)	(3,174)	(3,206)	(17,891)
Carrying amount at the end of the year	<u>23,741</u>	<u>15,365</u>	<u>11,087</u>	<u>50,193</u>

**NOTES TO THE FINANCIAL STATEMENTS
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
11. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS				
Non-Current				
Costs carried forward in respect of areas of interest in:				
- Exploration and evaluation phases – at cost – (a)	8,441,493	7,121,840	3,114,656	3,185,052
- Royalty assets	47,000	47,000	-	-
	<u>8,488,493</u>	<u>7,168,840</u>	<u>3,114,656</u>	<u>3,185,052</u>
Movement				
(a) Brought forward	7,121,840	5,821,152	3,185,052	2,219,339
Exploration expenditure capitalised during the year	2,825,463	2,216,258	1,082,594	994,321
Recoupment of exploration expenditure from joint venture partners	(1,336,997)	-	(1,105,117)	-
Exploration expenditure written off	<u>(168,813)</u>	<u>(915,570)</u>	<u>(48,477)</u>	<u>(28,608)</u>
	<u>8,441,493</u>	<u>7,121,840</u>	<u>3,114,052</u>	<u>3,185,052</u>

The value of the economic entity interest in exploration expenditure is dependent upon:

- the continuance of the economic entity rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The economic entity exploration properties may be subjected to claim(s) under native title, or contain sacred sites, or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
12. TRADE AND OTHER PAYABLES				
Current				
Trade creditors	548,109	200,659	548,109	200,659
Other creditors and accrued expenses	759,658	170,033	759,658	170,033
	<u>1,307,767</u>	<u>370,692</u>	<u>1,307,767</u>	<u>370,692</u>
Non-Current				
Loans from controlled entities	-	-	43,730	-
	<u>-</u>	<u>-</u>	<u>43,730</u>	<u>-</u>
	<u>1,307,767</u>	<u>370,692</u>	<u>1,351,497</u>	<u>370,692</u>
13. PROVISION				
Current				
Provision for Annual Leave	<u>54,408</u>	<u>27,123</u>	<u>54,408</u>	<u>27,123</u>
14. ISSUED CAPITAL				
60,977,456 Fully paid ordinary shares (2006: 52,877,456) with no par value	<u>9,017,161</u>	<u>4,969,582</u>	<u>9,017,161</u>	<u>4,969,582</u>
(a) Movements in Ordinary Shares				
	Notes	Number of shares	Issue price	\$
Opening balance at 1 July 2008		52,877,456	-	4,969,582
Placement	(i)	5,750,000	\$0.60	3,450,000
Exercise of options	(ii)	1,000,000	\$0.2938	293,800
Exercise of options	(iii)	1,000,000	\$0.2938	293,800
Exercise of options	(iv)	350,000	\$0.35	122,500
Transaction costs relating to share issues		-	-	(117,000)
Deferred tax liability component	(vi)	-	-	4,479
Closing balance at 30 June 2008		<u>60,977,456</u>		<u>9,017,161</u>
(i)	On 17 July 2007, the Company issued ordinary shares 5,750,000 to a range of institutional investors by way of a placement pursuant to section 708 of the Corporations Act at a price of 60 cents.			
(ii)	On 18 July 2007, the Company issued 1,000,000 ordinary shares to Clive Jones following the exercise of 29.38 cent options with an expiry date of 31 August 2007.			
(iii)	On 4 October 2007, the Company issued 1,000,000 ordinary shares to Nathan McMahon following the exercise of 29.38 cent options with an expiry date of 31 August 2007.			
(iv)	On 24 June 2008, the Company issued 250,000 ordinary shares following the exercise of 35 cent options with an expiry date of 31 August 2008.			
(v)	Deferred tax recognised directly in equity relating to equity raising costs			

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES TO THE FINANCIAL STATEMENTS
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14. ISSUED CAPITAL

(a) Capital risk management

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the Company's activities, being mineral exploration, the Company does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Company's capital risk management is the current working capital position against the requirements of the Company to meet exploration programmes and corporate overheads. The Company's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

The working capital position of the Company and the parent entity at 30 June 2008 and 30 June 2007 are as follows:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	2,072,718	545,813	2,072,718	507,813
Trade and other receivables	2,177,741	135,793	2,176,967	132,049
Trade and other payables	(1,307,767)	(370,692)	(1,307,767)	(370,692)
Working capital position	<u>2,942,692</u>	<u>310,914</u>	<u>2,941,918</u>	<u>269,170</u>

15. OPTION RESERVE

Economic Entity		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

This reserve is used to record the value of equity benefits provided to the employees and directors as part of their remuneration.

**16. RETAINED PROFITS/
(ACCUMULATED LOSSES)**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Retained profits/(Accumulated losses) at the beginning of the financial period	(2,520,540)	(3,718,532)	(3,121,864)	(1,981,202)
Net profit/(loss) attributable to members	<u>1,009,436</u>	<u>1,197,992</u>	<u>(3,357,503)</u>	<u>(1,140,662)</u>
Retained profits/(Accumulated losses) at the end of the financial period	<u>(1,511,104)</u>	<u>(2,520,540)</u>	<u>(6,479,367)</u>	<u>(3,121,864)</u>

**NOTES TO THE FINANCIAL STATEMENTS
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17. FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise receivables, payables, available for sale investments, cash and short-term deposits.

The Board of Directors has overall responsibility for the oversight and management of the Company's exposure to a variety of financial risks (including fair value interest rate risk, credit risk, liquidity risk and cash flow interest rate risk).

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Interest rate risks

The Company's exposure to market interest rates relates to cash deposits held at variable rates. The Board constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions.

Credit risk

The maximum exposure to credit risk at balance date is the carrying amount (net of provision of doubtful debts) of those assets as disclosed in the balance sheet and notes to the financial statements. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties.

Liquidity risk

The responsibility for liquidity risk management rests with the Board of Directors. The Company manages liquidity risk by maintaining sufficient cash or credit facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Sensitivity Analysis

Interest Rate Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

NOTES TO THE FINANCIAL STATEMENTS
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17. FINANCIAL INSTRUMENTS (Cont'd)

Interest Rate Sensitivity Analysis

At 30 June 2008, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2008	2007
	\$	\$
Change in profit		
— Increase in interest rate by 1.0%	20,722	5,453
— Decrease in interest rate by 1.0%	(20,722)	(5,453)

Price Sensitivity Analysis

Management believes the estimated fair values resulting from the valuation of listed investments and recorded in the balance sheet and the related changes in fair values recorded in the income statement are reasonable and the most appropriate at balance sheet date. At 30 June 2008, the effect on profit as a result of changes in the ASX All Ordinaries, with all other variables remaining constant would be as follows:

	2008	2007
	\$	\$
Change in profit		
— Increase in ASX all ordinaries by 10%	484,474	307,629
— Decrease in ASX all ordinaries 10%	(484,474)	(307,629)

Maturity profile of financial instruments

The following table details the Company's exposure to interest rate risk as at 30 June 2008:

2008	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	Total
	\$	\$		\$	\$
Financial assets					
Cash and cash equivalents	25,078	2,047,145	-	495	2,072,718
Trade and other receivables	-	-	-	2,177,741	2,234,346
Financial assets	-	-	56,605	4,844,744	4,844,744
	<u>25,078</u>	<u>2,047,145</u>	<u>56,605</u>	<u>7,022,980</u>	<u>9,151,808</u>
Weighted average Interest rate	1.25%	7.55%			
Financial Liabilities					
Trade and other payables	-	-	-	1,307,767	1,307,767
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,307,767</u>	<u>1,307,767</u>
Weighted average interest rate	-	-	-	-	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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17. FINANCIAL INSTRUMENTS (cont'd)

The following table details the Company's exposure to interest rate risk as at 30 June 2007:

2007	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2007 Total
	\$	\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	147,501	397,802	-	500	545,803
Trade and other receivables	-	-	-	135,793	135,793
Financial assets	-	-	-	3,076,293	3,076,293
	<u>147,501</u>	<u>397,802</u>	<u>-</u>	<u>3,212,586</u>	<u>3,757,889</u>
Weighted average Interest rate	4.25%	6.30%	-	-	
Financial Liabilities					
Trade and other payables	-	-	-	370,692	370,692
	<u>-</u>	<u>-</u>	<u>-</u>	<u>370,692</u>	<u>370,692</u>
Weighted average interest rate	-	-	-	-	

(b) Net Fair Values

The carrying value and net fair values of financial assets and liabilities at balance date are:

	2008		2007	
	Carrying Amount	Net fair Value	Carrying Amount	Net fair Value
	\$	\$	\$	\$
On-balance sheet financial instruments				
Financial assets				
Cash and deposits	2,072,718	2,072,718	545,813	545,813
Receivables	2,234,346	2,234,346	135,793	135,793
Investments	<u>4,844,744</u>	<u>4,844,744</u>	<u>3,076,293</u>	<u>3,076,293</u>
	<u>9,151,808</u>	<u>9,151,808</u>	<u>3,757,899</u>	<u>3,757,899</u>
Financial liabilities				
Payables	<u>1,307,767</u>	<u>1,307,767</u>	<u>370,690</u>	<u>370,690</u>
	<u>1,307,767</u>	<u>1,307,767</u>	<u>370,690</u>	<u>370,690</u>

**Economic
Entity**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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		2008		2007	
		\$		\$	
18. EARNINGS PER SHARE					
(a)	Earnings / (Loss) used in the calculation of basic EPS	1,009,436		1,197,992	
		Number of		Number of	
		Shares		Shares	
(b)	Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share:	59,722,250		51,664,544	
		Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
19. CASH FLOW INFORMATION					
(i)	Reconciliation of cash flows from operating activities with profit/(loss) after income tax				
-	Profit / (Loss) after income tax	1,009,436	1,197,992	(3,357,503)	(1,140,662)
	Non operating cash flows in loss for the year				
-	Depreciation	28,079	17,891	28,079	17,891
-	(Profit)/Loss on sale of shares	(54,696)	(764,483)	3,318	(763,533)
-	Employee equity settled transactions	525,000	530,000	525,000	530,000
-	Share based payments	131,597	132,423	131,597	132,423
-	Fair value adjustment to investments	1,457,244	(2,471,793)	833,595	(1,892,416)
-	Provision for diminution of loans	-	-	4,175,314	1,818,561
-	Profit on sale of tenements	(3,732,483)	(1,107,366)	(2,493,575)	(2,366)
-	Exploration write-off	168,813	915,570	48,477	28,608
-	Management fees received	(408,371)	-	(400,113)	-
	Changes in assets and liabilities				
-	Decrease/(Increase) in receivables & prepayments	(100,802)	(56,038)	(65,774)	(52,293)
-	Increase/(Decrease) in trade and other creditors, accruals and employee entitlements	498,102	198,156	261,460	198,156
-	Movement in provisions	27,285	1,453	27,285	1,453
-	Decrease/(Increase) in exploration	(2,825,464)	(2,233,536)	(1,083,166)	(1,011,600)
-	Increase in deferred tax assets	118,016	(16,337)	230,360	(16,943)
-	Increase in deferred tax liabilities	(32,360)	1,054,712	(262,633)	780,945
	Net cash inflows (outflows) from operating Activities	(3,190,604)	(2,601,356)	(1,398,279)	(1,371,776)
(ii)	Non-cash financing and investing activities				
	Share based payments (note 26)	656,597	662,423	656,597	662,423
20. COMMITMENTS					

**NOTES TO THE FINANCIAL STATEMENTS
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30 JUNE 2008**

On 10 November 2003 the economic entity entered into a lease agreement with Giorgio Longo and Clotilda Aurora Longo for the premises known as entire First Floor, 22 Oxford Close, Leederville, Western Australia. The initial term, is for two (2) years expiring on 30 September 2006 in consideration for a rental fee of \$30,000 per annum. The economic entity has negotiated an extension of the lease agreement with Giorgio Longo until 30 September 2010 for a rental fee of \$60,000 per annum

The commitments outlined below are contingent on the economic entity exercising its rights to acquire exploration assets pursuant to option agreements detailed below.

In order to maintain rights of tenure to mining tenements subject to these agreements, the economic entity would have the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	Economic Entity		Patent Entity	
	2008	2007	2008	2007
	\$			\$
Not longer than one year	2,741,354	664,630	823,327	250,933
Longer than one year, but not longer than five years	988,718	2,658,520	584,974	1,003,733
Longer than five years		-		-
	<u>3,730,072</u>	<u>3,323,150</u>	<u>1,408,301</u>	<u>1,254,666</u>

At the moment the economic entity has commitments in excess of cash, however the Board believes it will be able to raise the additional funds to satisfy the commitments for the future.

If the economic entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Joint Venture Commitments

The economic entity has entered into the following joint ventures:

CARBINE WEST KALGOORLIE JOINT VENTURE

Cazaly reached Agreement with Carbine Resources Ltd whereby Carbine will earn a 50 percent stake, with an option to increase to 70 percent, in Cazaly's entire gold exploration and development portfolio in the Kunanalling, Ora Banda, Grants Patch, Carbine and Split Rocks regions. These tenements cover approximately 533 square kilometers and contain mineral resources of 612,400 ounces of gold.

Carbine issued Cazaly with 2,000,000 ordinary fully paid shares in Carbine. On or before the first anniversary of the agreement, Carbine will pay a further \$1,000,000 either, at Carbine's election, by cash or by 50/50 combined cash and Carbine shares, with the issue price of the shares being the 30-day volume weighted average price (30 day VWAP) as calculated on the day prior to payment date. This payment will give Carbine an initial 35% stake in the projects.

Carbine undertakes to fund exploration on the project areas equivalent to \$4,500,000 over a period of no more than 36 months after the date of the agreement. On completion of this expenditure commitment, Carbine will have earned a 50% stake in the projects.

20. COMMITMENTS (Cont'd)

Any mine developments on the project areas will be funded entirely by Carbine. Carbine will then

**NOTES TO THE FINANCIAL STATEMENTS
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be entitled to recoup its investment (included accumulated interest charges) before sharing operating cash flows on a 50/50 basis with Cazaly.

Carbine will assume the role of Manager of the joint venture on completion of the payments mentioned in item 1. To that end it has undertaken to use the professional services of Cazaly's existing geology team and has agreed to reimburse Cazaly direct costs plus 12 percent management fee for these services.

Any proceeds from the agreed sale, transfer or relinquishment of tenements in the project areas during the period up to completion of the earn-in commitments, shall be shared 50% Cazaly, 50% Carbine.

There remains several minor royalty provisions on many of the individual tenements that comprise the West Kalgoorlie Joint Venture.

EAST KALGOORLIE JOINT VENTURE

Cazaly entered into a Joint Venture and Farm-In Agreement with Northern Mining Ltd whereby Northern Mining may earn an initial 75% interest in the project by completing 15,000 metres of RC or diamond drilling within 60 months from the 10th February 2006. Cazaly also received \$195,000 cash and \$625,000 worth of shares in Northern Mining.

There are incidental third party royalties on various tenements within the project.

JILLEWARRA JOINT VENTURE AGREEMENT

The Company accepted an offer from Red Emperor Resources NL to farm in to the Jiliewarra copper/gold project. The Company will receive cash of \$100,000 and 1,000,000 shares for the right of Red Emperor to earn 51% by the expenditure of \$1,200,000 within 42 months of listing. Cazaly will manage this exploration.

GLOBAL NICKEL INVESTMENTS JOINT VENTURES

The Company finalised four separate Farm-In and Joint Venture Agreements with Global Nickel Investments Ltd ("GNI") on the following terms:

JUTSON ROCKS PROJECT

\$120,000 cash payment plus 750,000 shares for 70% of the project with the Expenditure Commitment of 3,000m RC within 4 years

FORRESTANIA

\$50,000 cash plus 250,000 shares for 70% of the project with the Expenditure Commitment of \$300,000 within 4 years

COSMOS NORTH AND MT. WHITE

\$50,000 cash plus 250,000 shares for 70% of the project with the Expenditure Commitment \$300,000 within 4 years

BANDALUP

\$50,000 cash plus 300,000 shares for 70% of the project with the Expenditure Commitment of \$300,000 within 4 years

20. COMMITMENTS (Cont'd)

PARKER RANGE IRON ORE PROJECT

**NOTES TO THE FINANCIAL STATEMENTS
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Cazaly Iron may earn an 80% interest in iron ore on the tenements by spending \$1 million on exploration for iron ore within three years. The Company will retain a 20% interest in the iron ore rights, free carried to the completion of a bankable feasibility study. Cazaly took a placement of 8,000,000 ordinary fully paid shares. Various “buy-back” rights are claimed by St. Barbara Mines Ltd.

GENERAL PERIPHERAL PROJECTS

Cazaly has free-carried interests in several smaller projects that are deemed to be non material at this stage. There are no potential liabilities for Cazaly in these Agreements. These projects include Magellan, Golden Mile South, Cosmo Newberry, Big Bell and Christmas Bore.

21. CONTROLLED ENTITIES

Parent Entity	Country of Incorporation	Consolidated Entity Interest	
		2007	2006
Cazaly Resources Limited	Australia		
Controlled Entities			
Hayes Mining Pty Ltd	Australia	100%	100%
Cazaly Iron Pty Ltd	Australia	100%	100%
Sammy Resources Pty Ltd	Australia	100%	100%

On 1 July 2005 the parent entity acquired 100% of Cazaly Iron Pty Ltd, with Cazaly Resources Ltd entitled to all profits earned from 1 July 2005, for purchase consideration of \$1.00

22. SEGMENT INFORMATION

The economic entity operates predominantly in one geographical segment, being Western Australia, and in one industry, mineral mining and exploration.

23. EVENTS SUBSEQUENT TO REPORTING DATE

Since 30 June, the Australian stock market has been extremely volatile resulting I the Company’s financial assets undergoing a significant change in value. Subsequently the fair value of the Company’s financial assets as at the date of this report has reduced by approximately \$2.5 million.

Apart from the above, no other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

**NOTES TO THE FINANCIAL STATEMENTS
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24. RELATED PARTY INFORMATION

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with related entities:

(i) Director related Entities

Remuneration (excluding the reimbursement of costs) received or receivable by the directors of the Economic entity and aggregate amounts paid to superannuation plans in connection with the retirement of directors are disclosed in Note 4 to the accounts.

Mr McMahon is a director and shareholder of Catalyst Metals Limited ("Catalyst") and Hodges Resources Limited ("Hodges"). Catalyst and Hodges have an agreement based on normal commercial terms and conditions to reimburse Cazaly for office rental and administration and overheads.

Mr Jones is a director and shareholder of Cortona Resources Limited ("Cortona"). Cortona has an agreement based on normal commercial terms and conditions to reimburse Cazaly for office rental and administration and overheads.

Mr McMahon and Mr Jones are directors and shareholders of Bannerman Resources Limited ("Bannerman"). Bannerman has an agreement based on normal commercial terms and conditions to reimburse Cazaly for office rental and administration and overheads.

Aggregate amounts of each of the above types of other transaction with key management personnel of Cazaly Resources Limited:

	2008	2007
	\$	\$
<i>Sales</i>		
Rent, administrative and office overheads:		
Catalyst Metals Limited	25,559	-
Hodges Resources Limited	43,144	785
Bannerman Resources Limited	30,102	25,447
Cortona Resources Limited	38,501	7,305

NOTES TO THE FINANCIAL STATEMENTS
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30 JUNE 2008

26. SHARE BASED PAYMENTS

Options are issued to vendors as part of purchase consideration and also to directors and employees as part of their remuneration as disclosed in Note 4. The options issued may be subject to performance criteria, and are issued to directors and employees of Cazaly Resources Limited to increase goal congruence between executives, directors and shareholders.

The following table illustrates the number and weighted average exercise prices of and movements in share options issued under Share Based Payment Scheme during the year:

	2008		2007	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Exercise Price		Exercise Price
		\$		\$
At beginning of reporting period	13,025,000		9,975,000	
Granted during the period				
- Employee & consultants options	400,000	0.40	2,350,000	0.47
- Director remuneration	2,500,000	0.75	2,200,000	0.22
- Exercised	(2,350,000)	0.30	(1,500,000)	0.35
- Expired	(5,000,000)	0.94	-	-
Balance the end of reporting period	<u>8,575,000</u>		<u>13,025,000</u>	
Exercisable at end of reporting period	<u>8,575,000</u>		<u>13,025,000</u>	

- (i) The compensation options outstanding at 30 June 2008 had a weighted average exercise price between \$0.19 and \$0.86 and a weighted average remaining life between 0.16 years and 5 years.
- (ii) The respective weighted average fair values of options granted during 2008 were \$0.2251.
- (iii) Included under employee benefits expense in the income statement is \$656,597 (2007: \$662,423), and relates to equity-settled payment transactions.

**NOTES TO THE FINANCIAL STATEMENTS
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27. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5 Non-current Assets Held for Sale and Discontinued Operations AASB 6 Exploration for and Evaluation of Mineral AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report	1.1.2009	1.7.2009
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 111 Construction Contracts AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101 Presentation of Financial Statements	As above	1.1.2009	1.7.2009

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 52, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and economic entity; and
2. the Chief Executive Officer and Company Secretary have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Nathan McMahon
Managing Director

Perth,
30 September 2008

Independent Audit Report

To the Members of Cazaly Resources Limited

We have audited the accompanying financial report of Cazaly Resources Limited (the company) and Cazaly Resources Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 10 to 12 of the directors' report and not in the financial report.

Directors Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- a. The financial report of Cazaly Resources Limited and Cazaly Resources Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1
- c. the remuneration disclosures that are contained in pages 10 to 12 of the directors' report comply with Accounting Standard AASB 124.



BENTLEYS
Chartered Accountants



RANKO MATIĆ
Director

DATED at PERTH this 30th day of September 2008

ADDITIONAL SHAREHOLDER INFORMATION**Shareholding**

The distribution of members and their holdings of equity securities in the company as at 25 September 2008 was as follows:

	Class of Equity Securities
Number Held as at 22 September 2006	Fully Paid Ordinary Shares
1-1,000	356
1,001 - 5,000	1,065
5,001 – 10,000	538
10,001 - 100,000	680
100,001 and over	73
TOTALS	2,712

Substantial Shareholders

Substantial shareholders in the Company are set out below

Shareholder	Number
Clive Jones	5,140,001
Nathan McMahon	5,222,796

Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
2 July 2009 Options - \$0.1938	150,000	1
24 January 2010 Options - \$0.5236	75,000	1
15 September 2008 Options - \$0.35	150,000	1
5 October 2011 Options - \$0.8036	100,000	1
15 October 2008 Options - \$0.4436	1,000,000	1
30 November 2009 Options - \$1.9436	2,200,000	3
19 June 2012 Options - \$0.86	250,000	1
14 September 2012 Options - \$0.39	75,000	1
26 October 2012 Options - \$0.45	225,000	2
30 November 2009 Options - \$0.75	2,500,000	3
22 May 2013 Options - \$0.30	100,000	1

ADDITIONAL SHAREHOLDER INFORMATION (Cont.)**Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary Shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Quoted and Unquoted Options

- These options have no voting rights.

Twenty Largest Shareholders

The names of the twenty largest ordinary fully paid shareholders as at 25 September 2008 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Mr Clive Bruce Jones	4,050,001	6.642
Nathan Bruce McMahon	2,700,001	4.428
Mrs Karen Cameron Murie	1,677,015	2.750
Citicorp Nominees Pty Limited	1,431,354	2.347
Mr Phil Miolin	1,043,176	1.711
ANZ Nominees Limited	2,156,700	3.617
Apollinax Inc	1,000,000	1.640
Mr Clive Bruce Jones	1,000,000	1.640
Merrill Lynch (Australia)	963,706	1.580
Mr Kent Michael Hunter	874,706	1.434
A22 Pty Limited	684,501	1.123
Kingsreef Pty Ltd	684,244	1.122
Mr Andrew Murie	552,500	0.906
Shoc Pty Ltd	531,276	0.871
Red Emperor Resources NI	440,000	0.722
Tilpa Pty Ltd	420,000	0.687
Pata Nominees Pty Ltd	420,000	0.689
Mrs Debra Lee McMahon	410,934	0.674
Kouta Bay Pty Ltd	403,066	0.661
Mr Andrew Murie & Mrs Karen Cameron Murie	400,000	0.656
TOTAL	20,691,008	33.932

CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

The Board of Directors of Resources Limited is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of Cazaly Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

For further information on corporate governance policies adopted by Cazaly Resources Limited, refer to our website: www.cazalyresources.com.au.

Board Objectives

The Board will develop strategies for the Company, review strategic objectives, and monitor the performance against those objectives. The overall goals of the corporate governance process are to:

- drive shareholders value;
- assure a prudential and ethical base to the Company's conduct and activities; and
- ensure compliance with the Company's legal and regulatory obligations.

Principle 1: Lay solid foundations for management and oversight

The board has adopted a Charter that sets out the roles and responsibilities of the board. This may be viewed at the Corporate Governance page of the Company's website. The Charter includes, amongst other things that the Board will:

- developing initiatives for profit and assets growth;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- acting on behalf of, and being accountable to, the Shareholders;
- identifying business risks and implementing actions to manage those risks; and
- developing and effecting management and corporate systems to assure quality
- reviewing the Company's systems of risk management and internal compliance and control, codes of conduct and legal compliance
- ensuring that policies and procedures are in place consistent with the Company's objectives, and ensuring the Company and its officers act legally, ethically and responsibly in all matters

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in Board discussions on a fully informed basis.

Principle 2: Structure the board to add value

Composition

The board currently consists of three directors, two executives and one non-executive. Details of their experience, qualifications and committee memberships are set in the directors report. All directors were in office at the date of this report:

Clive Jones – Managing Director

Executive Director since August 2003

Term in office – 61 months

Nathan McMahon – Managing Director

Executive Director since June 2003

Term in office - 63 months

Kent Hunter

Independent Non-executive director since August 2003

Term in office – 61 months

Appointment

Election of Board members is substantially the province of the Shareholders in general meeting. However, the Company commits to the following principles:

- the Board to comprise of Directors with a blend of skills, experience and attributes appropriate for the Company and its business;
- the principal criterion for the appointment of new Directors being their ability to add value to the Company and its business.

Board Independence

The Board has accepted the ASX Corporate Governance Councils definition of an Independent Director contained in their report titled “The Principles of Good Corporate Governance and Best Practice Recommendations – March 2003”.

Mr Hunter is a Non-Executive Director and is considered to be Independent. In reaching that determination, the Board has taken into account:

- The specific disclosures made in accordance with the Corporations Act, but each such director in respect of any material contract or relationship
- That no such director is, or is associated directly with, a substantial shareholder of the company
- Where applicable, the related party dealings referable to each such Director, noting that those dealings are not material under accounting standards. Full details of related party dealings are set out in the notes to the financial statements
- That no such non-executive Director has within the last three years been employed in an executive capacity by the company
- That no such non-executive Director is, or is associate with a supplier or customer of the company which is material under accounting standards
- That such non-executive Director’s are free from any interest and any business or other relationship which could, or could reasonable be perceived to, materially interfere with the director’s ability to act in the best interests of the Company.

Under the accounting standards, a matter is considered to be material if it is equal to or greater than 10% of the appropriate base amount.

Mr McMahon is an Executive Director of the Company and does not meet the Company’s criteria for independence. Mr McMahon’s experience and knowledge of the Company make his contribution to the Board such that it is appropriate for him to remain on the Board.

Mr Jones is an Executive Director of the Company and does not meet the Company’s criteria for independence. Mr Jones’s experience and knowledge of the Company make his contribution to the Board such that it is appropriate for him to remain on the Board.

Given the size of the company and the industry in which it operates, the current Board structure is considered to best serve the Company in meeting its objectives, given its small capitalisation, limited resources and existing operations.

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience.

Independent professional advice

There are procedures in place, as agreed by the board, to enable directors to seek independent professional advice on issues arising in the course of their duties at the company's expense.

Remuneration and Nomination Committee

As the entire board consist of three (3) members, the Company does not have a Remuneration and Nomination Committee. The Directors believe given the size and scope of the operations of the Company, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee.

Where appropriate, independent consultants are engaged to identify possible new candidates for the Board.

Nomination Arrangements

Where a vacancy is considered to exist, the Board will select an appropriate candidate through consultation with external parties and consideration of the needs of shareholders and the Company. Such appointments will be referred to shareholders for re-election at the next annual general meeting. All Directors, except the Managing Director, are subject to re-election by shareholders at least every three years.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board will determine the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities. The Board will then appoint the most suitable candidate (assuming one is available) who must stand for election at the next annual general meeting.

Performance

During the reporting year the Company did not conduct a formal evaluation of Directors and Executives. The Board undertakes an annual review of its own performance with external advice as appropriate.

Principle 3: Promote ethical and responsible decision making**Code of Conduct**

The Directors, officers and employees of the Company are required to conduct themselves in accordance with the Company's Code of Conduct which can be viewed on the Governance Page of the Company's website.

Share Trading Policy

The Company also has policies concerning trading in the Company's securities by directors, officers and employees. This policy can be viewed on the Governance Page of the Company's website.

Principle 4: Safeguard integrity of financial reporting**Audit Committee**

The Board has established an audit committee in July 2008, which operates under a charter of the Board and can be viewed the on Governance Page of the Company's website.

Given the size and scope of the operations of the Company, the full board has assumed those responsibilities that are ordinarily assigned to a audit committee.

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non information.

The members of the audit committee at the date of this report were:

K Hunter (Chairman)
N McMahon
C Jones
L Wynne (Secretary)

For details on member qualifications and refer to the Directors' Report.

Appointment of auditor

The shareholders in a general meeting are responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

Principle 5: Make timely and balanced disclosure

The Board has designated the Managing Director as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. The Company has a Continuous Disclosure Policy available for viewing on the Governance page of the Company's website.

Principle 6: Respect the rights of shareholders

The Board of Cazaly is committed to open and effective communication, ensuring all shareholders is informed of all significant development concerning the Company. The Company has in place an effective Shareholder Communications Policy. This policy can be viewed on the Governance page of the Company's website.

Principle 7: Recognise and manage risk

Identification and Management of Risk

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole.

The Board's collective experience will enable accurate identification of the principal risks which may affect the Company's business. Management of these risks will be discussed by the Board at periodic (at least annual) strategic planning meetings. In addition, key operational risks and their management, will be recurring items for deliberation at Board meetings.

A copy of the Company's risk management policy can be viewed on the Governance page of the Company's website.

The Board has received assurance from the Financial Controller and Managing Director that the declarations made in accordance with section 295A of the Corporation Act 2001 are:

1. founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board
2. the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8: Encourage enhanced performance

Performance

During the reporting year the Company did not conduct a formal process for evaluation of Directors and Executives due to their only being three in total. The Board undertakes an annual review of its own performance with external advice as appropriate.

Principle 9: Remunerate fairly and responsibly

Remuneration Arrangements

As the entire board consist of three (3) members, the Company does not have a Remuneration and Nomination Committee. The Directors believe given the size and scope of the operations of the Company, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee.

Where appropriate, independent consultants are engaged to appropriate levels of remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant employment market conditions. To assist in achieving the objective the Board links the nature and amount of executive directors' emoluments to the company's financial and operational performance. The expected outcomes of this remuneration structure are:

- Retention and motivation of Directors
- Performance rewards to allow Directors to share the rewards of the success of Cazaly Resources Limited

The remuneration of an executive director will be decided by the Remuneration and Nomination Committee. In determining competitive remuneration rates the Committee reviews local and international trends among comparative companies and the industry generally. It also examines terms and conditions for the employee share option plan.

Where applicable, the Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. During the year there were no Non-Director Executives.

The value of shares and options were they to be granted to senior executives would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

The maximum remuneration of non-executive Directors is the subject of shareholder resolution in accordance with the Company's Constitution, and the Corporations Act 2001 as applicable. The appointment of non-executive Director remuneration within that maximum will be made by the Board having regard to the inputs and value of the Company of the respective contributions by each non-executive Director. Usually Non-Executive Directors do not receive performance based bonuses and but may participate in equity schemes of the Company.

The Board may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

Full details regarding the remuneration of Directors, is included in the Directors' Report.

Principle 10: Recognise the legitimate interest of stakeholders**Code of conduct**

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices. The Directors, officers and employees of the Company are required to conduct themselves in accordance with the Company's Code of Conduct which can be viewed on the Governance page of the Company's website.

Explanation of departure

During the financial year Cazaly has complied with each of the 10 Essential Corporate Governance Principles and the corresponding Best Practice Recommendations.

Best Practice Recommendation	Notification of Departure	Explanation of Departure
2.1 & 2.2 Structure of the Board	The majority of the board are not independent directors and the Chair is does not meet the criteria for Independence	The Board continues to strive to meet the principles of Good Corporate Governance and Best Practice Recommendations published by the ASX or other such principles and guidance as the Board may consider appropriate from time to time, however the Board also recognises that complying the ASX Corporate Governance Council Recommendations 2.1 and 2.2 is impractical given the size of the company and the industry in which it operates. The Board instead aims to assess the independence of the Company's non-executive Director on an ongoing basis requiring full disclosure where conflicts of interest arise. The Board (subject to members' voting rights in general meeting) is responsible for selection of new board members and succession planning, and has regard to a candidate's experience and competence in areas such as exploration, financial and administration. The wide commercial and technical experience of Messrs McMahon and Jones assists Cazaly in meeting its corporate objectives and plans.
2.4 The board should establish a nomination committee	The Company has not established a formal nomination committee	The Board continues to strive to meet the principles of Good Corporate Governance and Best Practice Recommendations published by the ASX or other such principles and guidance as the Board may consider appropriate from time to time, however the Board also recognises that complying the ASX Corporate Governance Council Recommendation 2.4.is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members and therefore the Directors believe, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee
9.2 The board should establish a remuneration committee	The Company has not established a formal remuneration committee	The Board continues to strive to meet the principles of Good Corporate Governance and Best Practice Recommendations published by the ASX or other such principles and guidance as the Board may consider appropriate from time to time, however the Board also recognises that complying the ASX Corporate Governance Council Recommendation 2.4.is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members and therefore the Directors believe, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee

9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives

Non-executive directors received options

The Board continues to strive to meet the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX or other such principles and guidance as the Board may consider appropriate from time to time, however during the reporting period, the Company issued 2,700,000 options to Non-Executive Directors. Non-Executive Directors typically do not participate in equity or option schemes, however the Board has determined that, consistent with the size of the Company and the activities focused nature of business and shareholding structure, the Company will seek shareholder approval for the issue of share options to Non-Executive Directors from time to time. The Board believes the options issued to Non-Executive Directors provide them with a mechanism to participate in the future development of the Company and act as an incentive for their future involvement with and commitment to the Company. The Directors believe that the success of the Company in the future will depend in large part upon the skills of the people engaged to manage the Company's operations. Accordingly, it is important that the Company is able to attract and retain people of the highest calibre. The Directors consider that the most appropriate means of achieving this is to provide Directors with an opportunity to participate in the Company's future growth and an incentive to contribute to that growth and thus to enhance overall shareholder wealth creation.

SCHEDULE OF MINERAL TENEMENTS AS AT 25 SEPTEMBER 2008

PROJECTS	TENEMENTS	PROJECTS	TENEMENTS	PROJECTS	TENEMENTS
7 MILE HILL	1 ELA	IOCG-WEBB	1 EL	PARKER RANGE RMS	1 ELA, 1 MLA, 3 PLA's
ALBION DOWNS	4 EL's, 1 PL, 1 ELA	JILLEWARRA	2 EL's, 1 PL	PICCADILLY	5 PL's
ALICE HILL	1 ELA	JOWETTS WELL	5 PLA's	PRAIRIE DOWNS	3 PLA's
BANDALUP	1 EL	JUTSON ROCKS	2 EL's	QUARTZ CIRCLE	11 PL's, 2 EL's, 1 MLA
BARDOC	1 ML, 7 PL's	KANOWNA LIGHTS	2 PL's, 3 ML's, 1 MLA	SNAKE HILL	3 PL's
BARE HILL	1 EL	KILLI KILLI HILLS	1 ELA	STRAWBERRY ROCKS	1 ELA
BIG BEN	1 ELA	KINTORE	5 PLA's	SYLVANIA	1 EL
BLACKFLAG	8 EL's	KOOLINE	1 ELA	TEN MILE HILL	2 PL's
BLAIR	2 EL's, 1 PL	KOONMARRA	1 ELA	TEN MILE WELL	3 PL's
BLAIR NORTH	1 EL	LAKE LEFROY	1 ELA	UR-FOSSIL DOWNS	1 EL
BOUNTY	1 EL	LAKE MACKAY	2 ELA's	UR-JAILOR BORE	1 EL
BRITISH WELL	2 PL's	LYNAS FIND	10 PL's	UR-LAKEWAY	4 EL's
BURBANKS	4 PLA's	MABEL DOWNS	1 ELA	UR-MAROON RANGE	1 ELA
CANE GRASS	4 PLA's	MAGELLEN	1 ELA, 1 EL	UR-MT HARRIS	1 ELA
CARDINIA BORE	9 PLA's	MENZIES	14 PL's	UR-PELLS RANGE	1 EL
CAZR-PARKER RANGE	1 EL	MENZIES EAST	12 PL's	UR-QUARTZ HILL NT	1 EL
CHRISTMAS BORE	2 PL's	MILL WELL	1 ELA	UR-RAWLINSON RANGE	2 EL, 1 ELA
CLIFFORD MT	1 EL, 1 PL	MT BURGESS	1 ELA	UR-SUNSHINE	2 ELA's
COOLGARDIE	1 ELA	MT DUGEL	1 EL	VETTERSBERG	3 PL's, 2 ML's
COSMO NEWBERRY	2 EL's	MT MONGER	1 ELA	WHITE MT	1 EL
COWAN	1 EL	MT STUART	1 ELA	WHITE MT NTH	2 EL's
FE-BONNEY DOWNS	2 ELA's	MT VETTERS	1 EL, 6 PL's, 4 MLA's	WODGINA	1 ELA
FE-ETHEL CREEK	2 ELA's	MT WELD	1 ELA	YALLEEN	1 ELA
FE-HAMERSLEY	1 EL, 2 PL's	NANUTARRA	1 ELA	YAMARNA	11 PL's
FE-JONES CREEK	1 ELA	NEBO	2 ELA's	YERILLA	1 EL, 10 PL's
FE-MAGELLEN	3 PL's	NT-ACACIA BORE	1 EL	YILGANGI	1 EL, 1 PL, 1 MLA
FE-MT CECIL RHODES	2 ELA's	NT-DAVENPORT		HIGGINSVILLE	1 ELA
FE-MT EVELYN_	2 ELA's	NT-KARUKAI	1 ELA	IOCG-POLLOCK HILL	1 ELA
FE-MT WILKINS	1 ELA	NT-KEEP RIVER	1 Authorisation Application	NT-WINNECKE 2	1 EL
FE-PEEDAMULLA	1 ELA	NT-KURINELLI	2 EL	NT-WINNIKE 1	1 EL
FE-PILBARA	2 EL's	NT-KURINELLI EAST	1 EL	NT-WAUCHOPE	
FE-RHODES RIDGE	4 ELA's, 29 PLA's	NT-MT ISABEL	1 EL	NT-WHISTLE DUCK	1 ELA
FORRESTANIA	2 EL's, 2 ELA's	GARDEN WELL	1 ELA	NT-NAVIGATOR	1 EL
GALILEE	1 EL	GOONGARRIE	10 PL's	NT-QUARTZ HILL	1 EL
HAKE	6 PL's	NT-WINNECKE	1 EL		

Notes: EL = Granted Exploration Licence MLA = Mining Lease Application M = Granted Mining Lease
 ELA= Exploration Licence Application P = Granted Prospecting Licence PLA =
 All tenements are 100% owned unless detailed in Notes 20 of the Joint Venue Summary.