



CAZALY

RESOURCES LIMITED

ABN: 23 101 049 334

ANNUAL REPORT 06

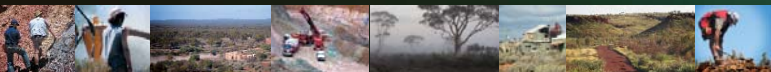


FOR THE YEAR ENDED 30 JUNE 2006



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## CORPORATE DIRECTORY

### MANAGING DIRECTOR

Nathan McMahon

### MANAGING DIRECTOR

Clive Jones

### NON-EXECUTIVE DIRECTOR & COMPANY SECRETARY

Kent Hunter

### PRINCIPAL & REGISTERED OFFICE

First Floor, 22 Oxford Close  
WEST LEEDERVILLE WA 6007  
Telephone: (08) 9380 4600  
Facsimile: (08) 9381 5911

### AUDITORS

Rix Levy Fowler  
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

## PROJECTS REVIEW

Cazaly Resources Limited has been particularly active during the past year. The Company has had a dual focus on the corporate activity and legal action involving the Shovelanna iron ore project and the advancement of its gold assets in the world class Kalgoorlie region.

Considerable success from drilling and corporate activities, particularly in respect to the Kunanalling project, has resulted in a substantial increase in the value of the assets of the Company. Resources at Kunanalling have **increased to over 600,000 ounces gold**.

The Company has a large portfolio of ground largely prospective for gold and base metals situated within Western Australia. Through astute project acquisition and creative joint venture arrangements the Company is exposed to exploration success in gold, iron ore, uranium, nickel and copper as well as several other commodities.

## SHOVELANNA IRON ORE PROJECT

Cazaly has issued proceedings before the Court of Appeal in the Supreme Court of Western Australia against the Western Australian Minister for Resources, John Bowler MLA, seeking a review of his decision to terminate Cazaly's application for E46/678 (Shovelanna Hill). In particular, Cazaly will be seeking in the Court of Appeal:

- (a) an order that Minister Bowler's decision be quashed;
- (b) a declaration that the reasons why the Rio Joint Venture lost the tenement are irrelevant and the policy that the Minister relied upon in coming to his decision is unlawful and should not have been taken into account by the Minister; and
- (c) that the hearing of Application E46/678 be remitted to the Warden for hearing, together with Objection MB57/056.

Cazaly seeks to have the Minister's decision quashed on the grounds that:

- (a) he took into account irrelevant matters;
- (b) his decision was unreasonable;
- (c) the Minister failed to take into account relevant matters, such as Cazaly's ability to develop the tenement; and
- (d) the Minister failed to accord Cazaly procedural fairness by denying it access to relevant documents, including documents that both he and the Rio Joint Venture had access to.

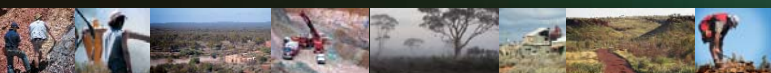
Cazaly is seeking discovery of various documents that were not provided to it during the Section 111A process. Cazaly also intends to call Mr Sam Walsh, the Chief Executive Officer of Rio Tinto, and Minister Bowler to give evidence at the hearing of the proceedings.

Cazaly has taken legal advice in relation to these proceedings. Having taken that advice, and given consideration to the relevant matters, Cazaly is of the view that it is likely to be successful in its proceedings against the Minister.

Cazaly has also lodged objections in the Warden's Court relating to applications for mining leases applied for by companies associated with Rio Tinto Ltd covering substantially the same ground as the Company's ELA46/678. The Company has been advised that His Honour Warden Calder has made his decision in relation to the applications by Cazaly Iron Pty Ltd (**Cazaly**) to:

- 1. stay the mining lease applications M46/437 to M46/440 by Hamersley Resources Limited, Hancock Prospecting Pty Limited and Wright Prospecting Pty Limited (**Rio JV**); and
- 2. amend Cazaly's objections to the mining lease applications to expand the grounds of objection.

The Warden has granted both applications.



## 4 PROJECTS REVIEW

The grant of the stay means that the mining lease applications by the Rio JV in respect of the ground containing the Shovelanna deposit cannot proceed until the Supreme Court has determined Cazaly's application for judicial review of the Minister's decision to terminate application E46/678 by Cazaly.

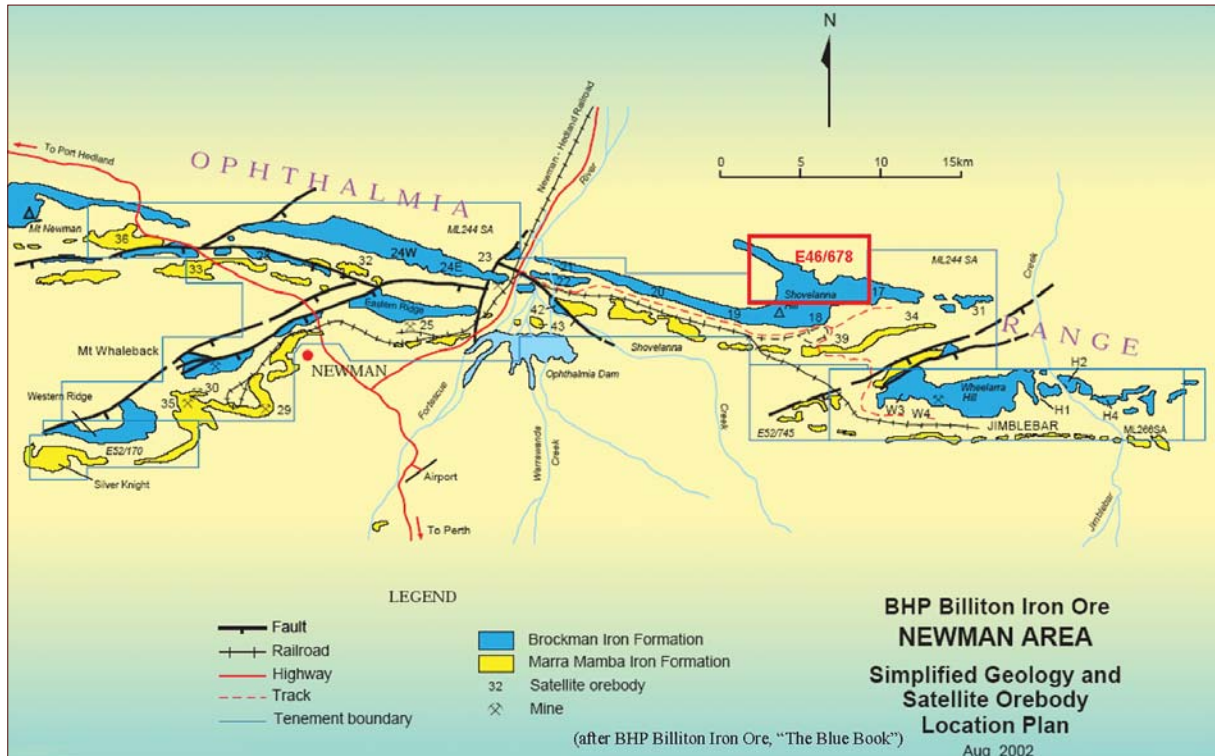
The grant of the amendments to the objections means that at the hearing of the mining lease applications by the Rio JV, Cazaly will be permitted to lead evidence supporting the following arguments which Cazaly believes justify the refusal of the mining lease applications by the Rio JV:

1. Since 1989 the Rio JV has not conducted any significant exploration on E46/209.
2. In the event that the mining lease applications by the Rio JV are granted, the Rio JV does not intend to conduct any exploration or mining in the foreseeable future.
3. The Rio JV was only able to continue to hold E46/209 by reason of a policy administered by the Department of Industry & Resources of giving special treatment to iron ore tenements so as to allow exploration licences authorised for iron ore to be utilised as holding titles.
4. The policy is inconsistent with the provisions of the Mining Act 1978 (WA) and/or contrary to the purpose of the Mining Act 1978 (WA).
5. The 11 extensions of terms granted in respect of E46/209 were unlawfully granted because:
  - (a) the Rio JV had no intention of conducting further exploration or mining on the ground the subject of E46/209 in the foreseeable future; and
  - (b) the extension of term applications did not disclose exceptional circumstances which could have justified the grant of an extension of term.
6. The Rio JV has already had an adequate opportunity to explore and develop the land the subject of the Application and, in accordance with the objectives of the Mining Act 1978 (WA), another party should now be given the opportunity.

### PROJECT BACKGROUND

The Company made application for Exploration Licence 46/678, the Shovelanna project, on August 29, 2005. The project lies approximately 25 kilometres east of Mt. Newman adjacent to BHP Billiton's Orebody 18 North deposit where mining has recently commenced and over 100 kilometres from any operation by Rio Tinto.

## SHOVELANNA PROJECT LOCATION RELATIVE TO BHP BILLITON'S MOUNT NEWMAN OPERATIONS.



The WA Department of Industry and Resources (DoIR) advised the Company that Rio Tinto Limited ("Rio") had requested the Minister for State Development exercise his discretion under section 111A of the Mining Act of 1978 to refuse the application for the E46/678 on the grounds of public interest. The Company subsequently lodged several submissions to the DoIR in support of its application for the license in response to submissions made by Rio. The Minister for State Development was given all copies of all submissions, together with all other relevant information including advice from the State Solicitor's Office, for his consideration and determination (or direction).

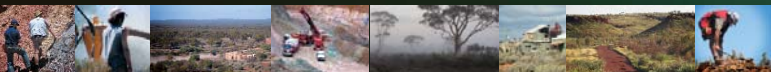
The Company was given notice of this determination made by Honourable John Bowler, Minister for Resources and Assisting the Minister for State Development, on the 21st April, 2006.

The determination essentially ruled in favour of Rio's application stating in part:

*"I have determined that the application by Cazaly Iron Pty Ltd for Exploration Licence 46/678 should, in the public interest, be terminated pursuant to section 111A(1) (c) (ii) of the Mining Act 1978."*

The Company's belief is that it is extremely difficult to reconcile this decision with what is in the best interests of the State. This could be interpreted as a direct win for big business over anybody else wanting to get on with the business of finding and developing the State's resources.

The Company has been inundated with support from both shareholders and others in the community who have expressed anger and confusion with the decision. The Directors of the Company share these feelings.



## 6 PROJECTS REVIEW

This decision goes right against the very values that underpin the WA Mining Act, which is held up by the industry and all its stakeholders to be pro-development, transparent in its actions and most of all fair. It is particularly important that we and the industry as a whole be made aware of the rationale behind the decision so that we can all make fully informed investment decisions in a totally transparent environment.

*It must be remembered that this was NOT about why Rio should have their licence granted but rather why Cazaly should not. Cazaly has had 16 tenements granted to it since September 2005 (that is since applying for the Shovelanna licence). Clearly there have been no concerns about Cazaly's ability to explore or develop any orebodies that may exist within these areas. How is Shovelanna different?*

Since lodging the application for this project Cazaly had planned for the accelerated development of the Shovelanna Iron Ore Project and the Company had completed:

- An agreement with Echelon Resources Limited who will commit the first \$2.5 million towards exploring the project. \$6M programme planned.
- A Scoping study for project development
- A project financing agreement with Investec Bank
- An MOU for the sale of ore with BHP Billiton
- Historical data assessment and a resource estimate.

The projected royalty stream to the State at current prices would have been approximately \$18 million per annum commencing within three years of access to the ground.

Cazaly and its partners have always maintained that they have not only the financial and technical ability, but more importantly *the will and the commitment* to develop the project in the best interests of their shareholders, the Pilbara region and the State of Western Australia.

If the decision was based upon the perceived long term surety of title for the current operators in the iron ore industry in the Pilbara then why was Rio's licence NOT part of a State Agreement Act area. State Agreement Act areas have been specifically excluded from the workings of the Mining Act so that this surety is in place. As it was not in such an area it then falls within the jurisdiction of the Mining Act. If the resource was part of the long term plan for Rio then it should have ensured that the licence was included in such an area.

It is also worth asking the question whether the Shovelanna resource was tabled in last years negotiations between the government and Rio as one of those resources planned to be mined within the next 20 years or so. **This question was directly asked of the Minister during the Submission process and the Company is yet to receive a response.**

The Company has been overwhelmed by support received from our shareholders and the wider Western Australian mining community and we would like to thank everyone for this support.

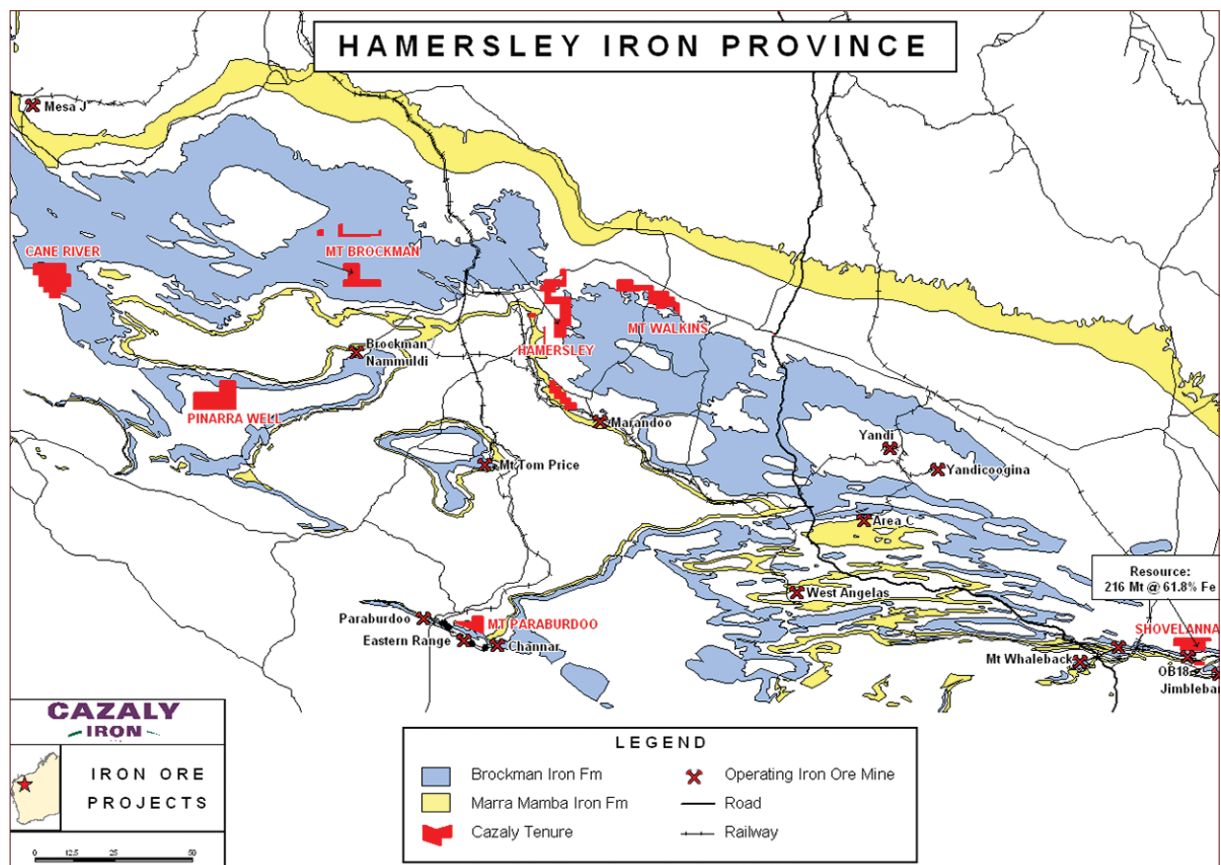
This decision sets out a dangerous new precedent in that the industry can no longer be confident that the provisions of the Mining Act be applied without political interference.

## WEST PILBARA IRON ORE PROJECTS

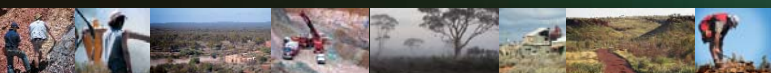
The Company has applied for 8 exploration licences prospective for iron ore mineralisation in the Pilbara region. A helicopter assisted rock chip program was completed during June. Access via helicopter was obtained on E47/1559 (Cane River) and E47/1560 (Mt Brockman). Ground truthing was completed and samples were taken of any mineralisation noted.

Previous rock chipping at Mt Brockman by Robe River resulted in some high-grade rock chips being reported. This field visit ascertained that the rock chips were from outcropping pisolitic material in potentially very large palaeochannel drainage areas. These areas were traversed with additional samples collected.

The western most area previously had a 64% Fe result returned from Robe sampling. The outcrop extends approximately 300m and 140m at its widest part. A further seven samples were taken with the five best samples averaging **56.3% Fe, 0.05% P and 5.24% LOI**. Accumulations of further pisolite have been mapped further downstream by the GSWA.



The central area previously had two rock chips taken by Robe, 48% and 59% Fe. The outcrop is approximately 200m x 75m and three samples were taken from here, averaging 57.6% Fe 0.04% P and 5.30% LOI, with a best sample of **62.6% Fe 0.04% P and 6.2% LOI**. This area acts as a feeder to Caliwinga Creek.



## 8 PROJECTS REVIEW

Reviewing the data highlights the need for detailed mapping in the area. The potential exists for substantial areas of pisolitic Channel Iron mineralisation to be discovered both in outcrop and under cover in the area. Mapping the current landscape will aid in the interpretation of palaeodrainage and allow for targeting for drill based exploration.

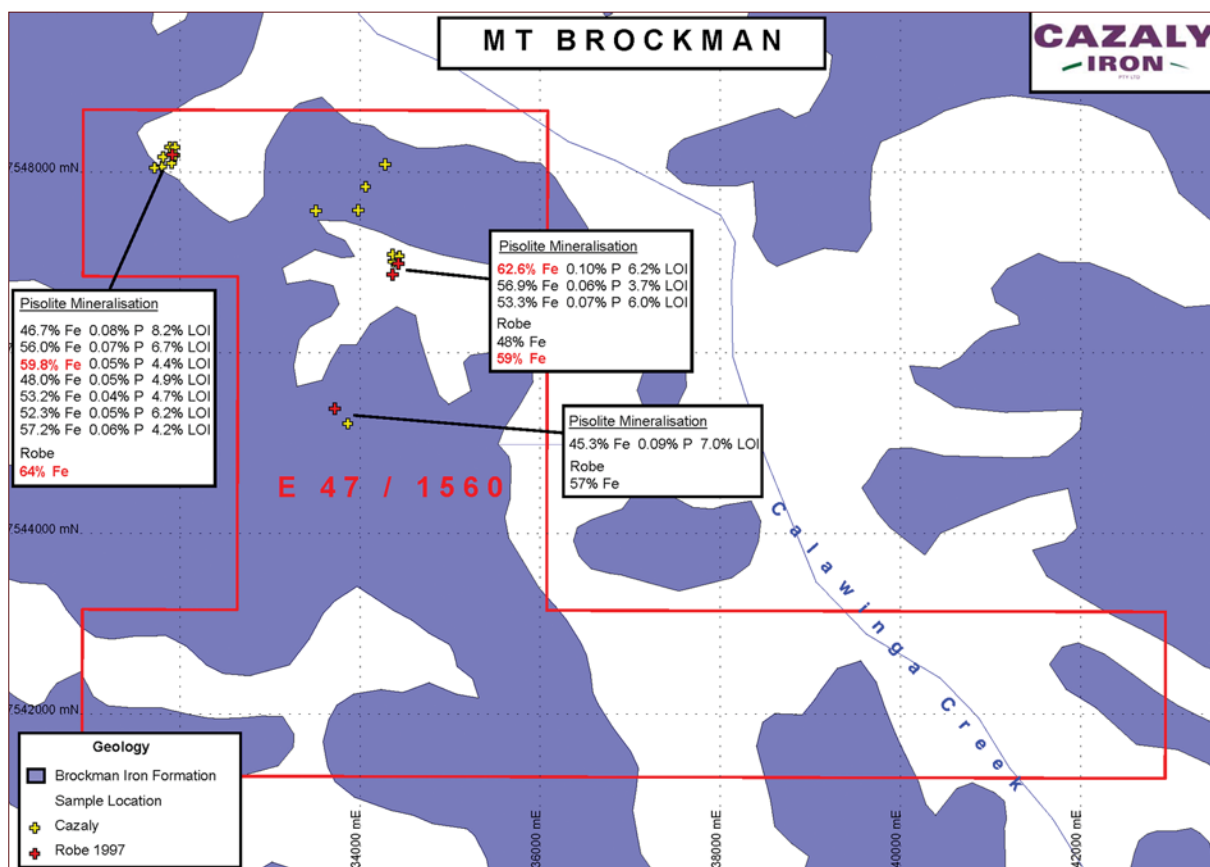
An area of detrital mineralisation was also discovered at Cane River with four samples being taken. These averaged **61.5% Fe, 0.08% P and 2.55% LOI**. The extent of the outcropping mineralisation was traversed with an approximate length of 200m and greatest width of 60m. The grades returned are highly encouraging however the need remains to ascertain if the potential exists for an economic sized deposit. Drainage patterns will accordingly be reviewed.

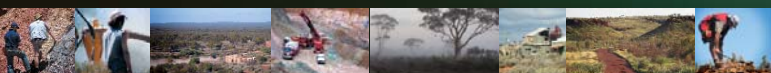
Three historical drillholes at Hamersley were located, minimal spoils remained with the tracks and drillpads having been scarified. Pisolitic material was noted and one historic drillhole, SB022 drilled by Robe, returned substantial intercepts of pisolitic mineralisation including:

10m @	56.03% Fe	56 – 66 m
4m @	57.65% Fe	80 – 84 m
6m @	53.65% Fe	86 – 92 m
24m @	55.87% Fe	92 – 116 m
8m @	61.86% Fe	116 – 124 m (bedrock mineralisation)

The drillhole is located in the central area of the “channel mouth” and drainage looks substantial in the area with a braided channel remaining. ‘Quickbird’ imagery and simple Landsat 1-4-7 is currently being obtained to assist with the review of the tenement. Initial assessment has been encouraging and follow up exploration is planned.







## KUNUNALLING/WEST KALGOORLIE PROJECT

The Kununalling project encompasses a large contiguous group of tenements situated approximately 30 kilometres west of Kalgoorlie and 30 kilometres north of Coolgardie centred along the Kununalling Shear, a major regional structure associated with gold mineralisation exhibiting features similar to the nearby Zuleika Shear host to the +7 Moz. Kundana minefield.

### Mick Adam & Wadi Heap Leach Amenability Program

Independent Metallurgical Laboratories has been conducting a preliminary heap leach amenability testwork program for Cazaly on the Wadi and Mick Adams ore deposits. Metallurgical performance to date has been encouraging. Coarse bottle roll leach tests have indicated that an average gold extraction of 77.3% can be obtained from ore stage crushed to -12.5mm. The leach kinetics for the shallow weathered ore is considered fast for a heap leach. The percolation characteristics of the ore are typical of the region with agglomeration necessary to produce good percolation rates. The amount of binder needed to agglomerate the ore is between 5-15 kg/t depending on the ore zone. Reagent consumptions from the bottle roll test are considered low for a heap leach with an average lime consumption of 0.64kg/t and 0.22kg/t for cyanide. It is expected that with addition of the cement binder the lime consumption will be reduced.

The testwork program is currently undertaking the next phase with large column testwork. The column testwork will aim to determine the metallurgical response under static leach conditions and confirm the physical integrity of the agglomerated ore.

Testwork on the nearby Burgundy deposit is currently being undertaken also.

### Resource Upgrades

The resources for the Mick Adam, Wadi and Burgundy deposits were re-estimated using parameters and techniques suitable for the current heap leach testwork. Mick Adam has been remodeled using Multiple Indicator Kriging (MIK) by respected resource consultants Hellman & Schofield, and reported at 0.8 g/t lower cut-off. The Wadi and Burgundy Deposits have been previously modeled using MIK but have also been recalculated using a 0.8 g/t lower cut-off. The lower cut-off is considered more typical of mining parameters in a heap leach operation. The remaining resources at the Kununalling Project continue to be quoted using a 1.0 g/t lower cut-off.

### Broads Dam

During the quarter the Company has received advice from the Warden that an application for Restoration for former Mining Lease 16/88 has been refused and Cazaly now has the priority to the Broads Dam project. Cazaly has been advised that the previous tenement holder is seeking Ministerial intervention on the Warden's decision. Broads Dam has a reported production of 89,000oz from 3 pits mined from 1991 to 1993. The previous owner has announced a remnant resource of 1,273,000 tonnes at 3.1 g/t for 127,000oz Au. Cazaly will examine the veracity of previous exploration and resources and develop a suitable exploration strategy in due course.

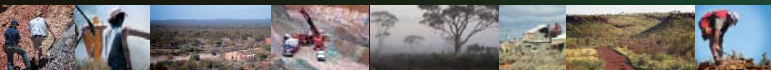
**After the re-estimation of the Mick Adam, Wadi and Burgundy Resources and the addition of the Broads Dam resource, the Company now controls total resources of 612,000oz Au.**

## MINERAL RESOURCES – KUNANALLING PROJECT

Prospect	Measured		Indicated		Inferred		Total		Oz Au
	Tonnes	Grade g/t	Tonnes	Grade g/t	Tonnes	Grade g/t	Tonnes	Grade g/t	
Mick Adam*					4,510,000	1.27	4,510,000	1.27	184,200
Broads Dam					1,273,000	3.10	1,273,000	3.10	126,900
Burgundy*					1,513,000	1.44	1,513,000	1.44	70,100
Catherwood	337,000	2.52	144,000	2.64	72,000	2.04	553,000	2.49	44,300
Wadi*	240,000	2.11	344,000	1.35	265,000	1.25	849,000	1.53	41,900
Picante	182,000	3.32	157,000	3.06	50,000	1.71	389,000	3.01	37,600
Cutters Ridge					648,000	1.80	648,000	1.80	37,500
Rajax					180,000	4.20	180,000	4.20	24,300
Emu Prospect					260,000	2.50	260,000	2.50	20,900
Premier			156,000	1.96	5,000	3.70	161,000	2.01	10,400
Blue Bell					118,000	2.00	118,000	2.00	7,600
Inkerman					25,000	3.50	25,000	3.50	2,800
Stockpiles					114,000	1.07	114,000	1.07	3,900
<b>TOTALS</b>	<b>759,000</b>	<b>2.58</b>	<b>801,000</b>	<b>2.04</b>	<b>9,033,000</b>	<b>1.71</b>	<b>10,593,000</b>	<b>1.80</b>	<b>612,400</b>

Rounding errors may occur - grades to 2 significant digits in this table.

\*Mick Adam, Wadi & Burgundy Resources are quoted using a 0.8g/t lower cut-off grade. Others use 1.0g/t lower cut-off grade.



## GRASS ROOTS EXPLORATION PROJECTS

During the year the Company has undertaken field reconnaissance exploration programmes on several of the Company's other projects including Jillewarra, Cosmos North, Mount Clifford, Mount White and Albion Downs.

Highly encouraging results were particularly returned from the Jillewarra Project, which comprises two Exploration Licences located 50km to 75km WNW of Meekatharra, in the Murchison Province of Western Australia.

Reconnaissance rock chip samples just received from the area included results of 10.8% Cu, 8.5% Cu and 73.2 g/t Au. These samples were collected from a basalt-ultramafic contact zone where previous gossan samples have returned up to 47% Cu and 24.8 g/t Au. The prospective horizon stretches over 6km through the tenement holdings and remains relatively unexplored. The Company is compiling previous exploration and geological data before initiating a systematic exploration program.

## JOINT VENTURE PROJECTS

The Company retains significant exposure to exploration success through the joint venture of several projects to other listed companies including several uranium Projects that are currently being actively explored by Newera Uranium Ltd (ASX:NRU) and the Lynas Find project where data review and planning has been undertaken by Trafford Resources Ltd (ASX:TRF).

Ongoing work is continuing on the Greater Bardoc Tectonic Zone project (joint ventured to Scimitar Resources Ltd) and Mt. Carrington (joint ventured to Drake Resources Ltd).

Newera Uranium Ltd ("NRU") has acquired a 35% interest, with additional farm-in rights to earn up to 80%, in the Lake Way, Quartz Hill and Gascoyne uranium projects. Newera has issued Cazaly 10 million NRU shares and is required to spend \$1m over each of the projects over 5 years. It is the intention of Cazaly, subject to shareholder and regulatory approvals, to make an in-specie distribution of the 10 million Newera shares to its shareholders in December 2006.

The Company retains equity positions in Trafford Resources Ltd, Northern Mining Ltd and Scimitar Resources Ltd.

## SUMMARY

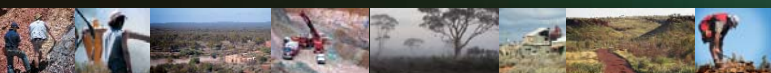
The Company considers the Minister's decision to terminate Cazaly's application for E46/678 (Shovelanna Hill) to be completely bereft of logic, legal basis and importantly his duty to the people of Western Australia. It is our belief that the Statement provided by the Minister does not disclose any reason why he should have terminated Cazaly's application. His reasons all relate to Rio Tinto and its position – they have nothing to do with Cazaly.

The Company wishes to thank all stakeholders, as well as the broader industry, for their continued support in this matter.

The Company will continue to:

1. Vigorously fight the legal action involving Shovelanna and protect the rights of Cazaly to make valid application for vacant land under the Mining Act;
2. Progress the Company's Kalgoorlie gold assets through the finalisation of the technical and mining studies and continued exploration. Total current gold resources stand at 612,000 ounces which provides a strong platform for exploitation given the current strong gold price;
3. Try and maximise value from all of its mineral assets through joint ventures and continued exploration including the uranium projects, East Kalgoorlie, Lynas Find and Jillewarra.

The Company thanks all its staff and contractors for all of their efforts during the past year. The Company has been overwhelmed by support received from our shareholders, the wider Western Australian mining community and broad sectors of the international investment community relating to the Shovelanna decision and we would like to thank everyone for this support.



## DIRECTORS' REPORT

*Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2006.*

### 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:

Kent Hunter – B Bus, CA

Mr Hunter is a Chartered Accountant with over 15 years' corporate and company secretarial experience. He has been involved in the listing of 15 junior gold and mineral exploration companies on ASX in the past four years with capital raisings exceeding \$54 million. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a non-executive director of Elixir Petroleum Limited, Gryphon Minerals Limited and Scimitar Resources Limited and is company secretary of four other ASX listed entities. Mr Hunter was appointed as Company Secretary on the incorporation of the Company.

### 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 loss of the economic entity after providing for income tax amounted to \$6,369,945 (2005: Profit \$2,706,809).

### 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

#### Shovelanna Iron Ore Project

Cazaly had lodged exploration license application 46/678, located approximately 30 kilometres east of Newman, on 29 August 2005 after the exploration license, held by previous owners, Hamersley Resources Limited (a subsidiary of Rio Tinto), Wright Prospecting Pty Ltd and Hancock Prospecting Pty Ltd, expired on 26 August 2005. The Company was advised that on 21st April 2006 that the Minister for Resources, Mr. John Bowler, had terminated E46/678 following an application by Rio Tinto Ltd under Section 111A of the Mining Act, 1978.

The Company has retained leading Queens Counsel Malcolm McCusker and Gadens Lawyers to advise and represent it.

On 4 August 2006, Cazaly, by its subsidiary Cazaly Iron Pty Ltd, lodged an application in the Supreme Court for judicial review of the Minister's decision to terminate application E46/678 pursuant to section 111A of the Mining Act 1978 (WA). Cazaly has Echelon Resources Ltd (ASX:ECH) as a joint venture party in the Shovelanna tenement.

The application by Cazaly names Minister John Bowler, Hamersley Resources Ltd (a subsidiary of Rio Tinto Ltd), Hancock Prospecting Pty Ltd and Wright Prospecting Pty Ltd as Respondents. The parties appeared before Justice Templeman of the Supreme Court for a preliminary hearing at 2:15pm on Friday 11 August 2006.

Justice Templeman held that the application by Cazaly is not a misguided or trivial complaint and that he was satisfied that Cazaly has an arguable case. Justice Templeman therefore granted the order nisi so as to allow the Minister's decision to be reviewed.

Justice Templeman also held that the application raises a matter of importance and public interest and that the Minister's decision should therefore be reviewed by the Court of Appeal.

Various programming directions were made including a direction that the Respondents file and serve any affidavits in reply to Cazaly's affidavit by 1 September 2006.

The next issue to be determined in the proceedings is whether Cazaly should get discovery of various documents including the statement of principles summarising negotiations between Rio and Minister Carpenter and the ministerial briefing note prepared by the Department of Industry & Resources.

Cazaly will seek to bring the matter before a Judge of the Court of Appeal as soon as possible so that programming directions can be made as to how this issue should be resolved.

Since applying for the ground, which was vacant at the time of application, the Company has;

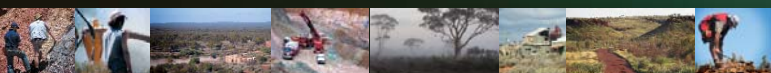
- Entered an agreement with Echelon Resources Limited (ASX: ECH) to provide technical assistance and fund the first A\$2.5 million of exploration.
- Designed a 40,000 metre drilling programme.
- Finalised a scoping study.
- Signed a Letter of Intent for project financing with Investec Bank.
- Completed a resource estimate.
- Signed a MoU for the future sale of ore with BHP Billiton.

#### **Gold Assets**

The Kunanalling project encompasses a large contiguous group of tenements situated approximately 30 kilometres west of Kalgoorlie and 30 kilometres north of Coolgardie centred along the Kunanalling Shear, a major regional structure associated with gold mineralisation exhibiting features similar to the nearby Zuleika Shear host to the +7 Moz. Kundana minefield.

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## 16 DIRECTORS' REPORT

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During the quarter the Company has received advice from the Warden that an application for Restoration for former Mining Lease 16/88 has been refused and Cazaly now has the priority to the Broads Dam project. Cazaly has been advised that the previous tenement holder is taking further action to attempt to retain the tenement. Broads Dam has a reported production of 89,000oz from 3 pits mined from 1991 to 1993. The previous owner has announced a remnant resource of 1,273,000 tonnes at 3.1 g/t for 127,000oz Au.

Cazaly will examine the veracity of previous exploration and resources and develop a suitable exploration strategy in due course.

After the recalculation of the Mick Adam, Wadi and Burgundy Resources and the addition of the Broads Dam resource, The Company now controls total resources of 612,000oz Au.

### MINERAL RESOURCES – KUNANALLING PROJECT

Prospect	Measured		Indicated		Inferred		Total		Oz Au
	Tonnes	Grade g/t	Tonnes	Grade g/t	Tonnes	Grade g/t	Tonnes	Grade g/t	
Mick Adam*					4,510,000	1.27	4,510,000	1.27	184,200
Broads Dam					1,273,000	3.10	1,273,000	3.10	126,900
Burgundy*					1,513,000	1.44	1,513,000	1.44	70,100
Catherwood	337,000	2.52	144,000	2.64	72,000	2.04	553,000	2.49	44,300
Wadi*	240,000	2.11	344,000	1.35	265,000	1.25	849,000	1.53	41,900
Picante	182,000	3.32	157,000	3.06	50,000	1.71	389,000	3.01	37,600
Cutters Ridge					648,000	1.80	648,000	1.80	37,500
Rajax					180,000	4.20	180,000	4.20	24,300
Emu Prospect					260,000	2.50	260,000	2.50	20,900
Premier			156,000	1.96	5,000	3.70	161,000	2.01	10,400
Blue Bell					118,000	2.00	118,000	2.00	7,600
Inkerman					25,000	3.50	25,000	3.50	2,800
Stockpiles					114,000	1.07	114,000	1.07	3,900
<b>TOTALS</b>	<b>759,000</b>	<b>2.58</b>	<b>801,000</b>	<b>2.04</b>	<b>9,033,000</b>	<b>1.71</b>	<b>10,593,000</b>	<b>1.80</b>	<b>612,400</b>

Rounding errors may occur - grades to 2 significant digits in this table.

\*Mick Adam, Wadi & Burgundy Resources are quoted using a 0.8g/t lower cut-off grade. Others use 1.0g/t lower cut-off grade.

The Company has been advised that following the takeover of Placer Dome Asia Pacific Limited by Barrick the Catherwood Mine License Agreement has been terminated.

#### **General**

The Company has several active exploration projects including the additional Pilbara Iron ore tenements and the Jillewarra base metals project.

The Company also retains free-carried interests in several gold, base metal and uranium tenements.

#### **Financial Position**

The net assets of the economic entity have increased by approximately \$2.5 million from 30 June 2005 to \$9.8 million in 2006 due largely to the issue of shares to raise additional funds, exercise and acquire exploration assets.

The economic entity currently has \$1.52 mil 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.

## **6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

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

On 3 October 2005, the Company issued 75,000 employee options under the Cazaly Resources Limited employee incentive scheme.

On 12 October 2005, the Company issued 1,000,000 fully paid ordinary shares at \$0.40 to Echelon Resources Limited under an agreement for Echelon to provide funding totalling \$2.5 million for the Shovelanna Iron Ore Project.

On 9 November 2005, the Company issued 1,000,000 fully paid ordinary shares at \$0.44 to clients of Argonaut Securities Pty Ltd and Paterson Securities Pty Ltd.

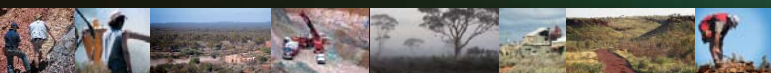
On 15 December 2005 the Company issued 2,250,000 director options as approved by the members at the Annual General Meeting on 30 November 2005.

On 10 January 2006 1,430,121 \$0.1502 options expiring on or before 31 January 2006 were exercised and 1,430,121 ordinary shares allotted and issued pursuant to the exercise.

On 31 January 2006 4,752,601 \$0.1502 options expiring on or before 31 January 2006 were exercised and 4,752,601 ordinary shares allotted and issued pursuant to the exercise.

On 3 March 2006 the Company issued 5,000,000 options to Echelon Resources Limited exercisable at \$1.00 on or before 31 December 2007 as approved by the members at the General Meeting on 17 February 2006.

On 24 March 2006, the Company issued 125,000 fully paid ordinary shares at \$2.05 to consultants for work performed.



## 18 DIRECTORS' REPORT

### 7. AFTER BALANCE DATE EVENTS

On 4 August 2006, Cazaly, by its subsidiary Cazaly Iron Pty Ltd, lodged an application in the Supreme Court for judicial review of the Minister's decision to terminate application E46/678 pursuant to section 111A of the Mining Act 1978 (WA). Cazaly has Echelon Resources Ltd (ASX:ECH) as a joint venture party in the Shovelanna tenement.

There were no other matters or circumstances that 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 McMahan** Managing Director (Corporate and Administration)

Qualifications B.Com

Experience Mr. McMahan has provided tenement management advice to the mining industry for approximately 14 years to in excess of 20 public listed mining companies. Mr. McMahan has specialised in native title negotiations, joint venture negotiations and project acquisition due diligence. He is a director of several unlisted mining and exploration companies with interests in platinum group elements, base metals, industrial minerals and diamond exploration. Mr McMahan is also a director of Graynic Metals Limited.

Interest in Shares	Fully Paid Ordinary Shares	5,010,910
and Options	35.02 cent Options expiring on 31 August 2007	1,000,000
	50 cent Options expiring on 31 August 2008	1,000,000

**Clive Jones** Managing Director (Technical)

Qualifications B.App.Sc(Geol), M.AusIMM.

Experience Clive has been involved in mineral exploration for over 23 years and has worked on the exploration for a range of commodities including gold, base metals, mineral sands, diamonds and industrial minerals both in Australia and overseas. Mr Jones has had proven exploration success as a director of Mount Burgess Mining Ltd and at Hamill Resources Ltd. where he was a founding Director. Clive also co-founded Cazaly Resources Ltd., of which he is currently Joint Managing Director; and is also currently a director of Jackson Gold Limited and of Graynic Metals Limited and Chairman of Cortona Resources Ltd. All of these companies are currently listed on the Australian Stock Exchange.

Interest in Shares	Fully Paid Ordinary Shares	4,100,001
and Options	35.02 cent Options expiring on 31 August 2007	1,000,000
	50 cent Options expiring on 31 August 2008	1,000,000

<b>Kent Hunter</b>	Non-Executive Director		
Qualifications	B.Bus, CA.		
Experience	Mr Hunter is a Chartered Accountant with over 15 years' corporate and company secretarial experience. He has been involved in the listing of 15 exploration companies on ASX in the past four years with capital raisings exceeding \$54 million. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Scimitar Resources Limited, Gryphon Minerals Limited and Elixir Petroleum Limited and is company secretary of four other ASX Listed entities.		
Interest in Shares and Options	Fully Paid Ordinary Shares		1,078,066
	35.02 cent Options expiring on 31 August 2007		250,000
	50 cent Options expiring on 31 August 2008		250,000

## 11. REMUNERATION REPORT

### *Directorships of other listed companies*

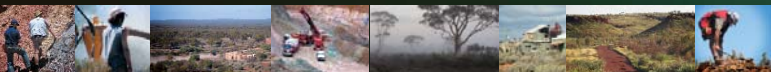
Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Nathan McMahon	Graynic Metals Limited	Since 12 February 2005
Clive Jones	Jackson Gold Limited	Since 25 March 2002
	Graynic Metals Limited	Since 12 February 2005
	Cortona Resources Limited	Since 12 January 2006
Kent Hunter	Elixir Petroleum Limited	Since 3 March 2004
	Scimitar Resources Limited	Since 21 November 2002
	Venture Minerals Limited	Since 12 May 2006
	Hamill Resources Limited	From 10 November 2000 to 16 September 2004
	Gryphon Minerals Limited	Since 20 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.



## 20 DIRECTORS' REPORT

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.

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

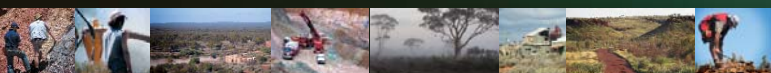
The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. This has been achieved by the issue of shares to the majority of the directors and executives to encourage the alignment of personal and shareholder interest.

### Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director of the company receiving the highest remuneration during the year was as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SECURITIES ISSUED		TOTAL
	Salary, Fees & Superannuation	Other	Non- Monetary	Superannuation	Retirement Benefits	Equity	Options (i)	\$
<b>Directors</b>								
Nathan McMahon – Managing Director (ii)								
2006	157,667	-	-	-	-	-	650,800	808,467
2005	118,336	-	-	-	-	-	28,000	146,336
Clive Jones – Managing Director (iii)								
2006	167,750	-	-	-	-	-	650,800	818,550
2005	150,000	-	-	-	-	-	28,000	178,000
Kent Hunter – Non Executive Director (iv)								
2006	25,000	51,660	-	2,250	-	-	162,700	241,610
2005	25,000	37,470	-	2,250	-	-	7,000	71,720
<b>Total Remuneration Directors</b>								
2006	350,417	51,660	-	2,250	-	-	1,464,300	1,868,627
2005	293,336	37,470	-	2,250	-	-	63,000	396,056

- i) The fair value of the Options is calculated at the date of grant using a Black-Sholes model.
- ii) An aggregate amount of \$157,667 (2005:\$118,336) 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 \$167,750 (2005:\$150,000) 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 \$51,660 (2005:\$37,470) 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.



## 22 DIRECTORS' REPORT

### Options issued as part of remuneration for the year ended 30 June 2006

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 7,325,000 options over unissued shares were granted to various parties. 2,250,000 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	\$0.50	30 November 2005	31 August 2008
Clive Jones	1,000,000	\$0.50	30 November 2005	31 August 2008
Kent Hunter	250,000	\$0.50	30 November 2005	31 August 2008

### Value of Options Granted to Directors

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

Directors	Options granted Value at grant date \$	Options exercised Value at exercised date \$	Options lapsed Value at time of lapse \$	Total value of options granted, exercised, lapsed \$	Value of options included in remuneration for the year \$	Percentage of remuneration for the year that consists of options \$
Nathan McMahon	650,800	-	-	650,800	650,800	80.50%
Clive Jones	650,800	-	-	650,800	650,800	79.51%
Kent Hunter	162,700	-	-	162,700	162,700	67.34%

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
30.11.05	31.08.08	\$0.6508	31.08.08	\$0.975	75%	5.34%	-

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, is formalised in a contract of employment. Other than the Managing Director, all executives are permanent 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:

Director	Directors Meetings	
	Number Eligible to Attend	Meetings Attended
N McMahon	8	8
C Jones	8	8
K Hunter	8	8

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	\$0.2502	400,000
31 August 2007	\$0.3502	2,250,000
31 December 2007	\$1.00	5,000,000
31 August 2008	\$0.50	2,250,000
24 January 2010	\$0.58	75,000

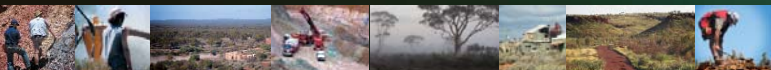
During the year ended 30 June 2006, the following ordinary shares of the Company were issued on exercise of options.

Option Expiry	Exercise Price	Number of Shares
31 January 2006	\$0.1502	9,061,580

## 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.



24 DIRECTORS' REPORT

16. AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 25 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 2006.

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

Kent Hunter  
Director

28 September 2006



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 audit of the financial report of Cazaly Resources Limited and controlled entities for the financial year ended 30 June 2006 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:

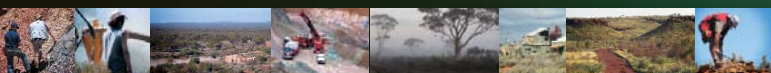
- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

RIX LEVY FOWLER  
Chartered Business Advisors

RANKO MATIE  
Partner

DATED at PERTH this 28<sup>th</sup> day of September 2006



# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

		Economic Entity		Parent Entity	
	Note	2006	2005	2006	2005
		\$	\$	\$	\$
Revenues	2	2,558,150	3,645,411	2,458,150	3,645,411
Employee benefits expense		(1,633,170)	(22,950)	(1,633,170)	(22,950)
Depreciation and amortisation expense		(23,933)	(35,597)	(23,933)	(35,597)
Borrowing costs expense		(3,705)	(3,001)	(3,705)	(3,001)
Administrative expense		(518,656)	(165,576)	(520,399)	(165,019)
Advertising and promotional expenses		(36,716)	(53,199)	(36,716)	(53,199)
Consultancy expenses		(351,995)	(29,150)	(351,995)	(29,150)
Compliance and Regulatory expenses		(48,996)	(82,079)	(48,719)	(81,867)
Communication expenses		(6,765)	(14,245)	(6,765)	(14,245)
Occupancy expenses		(60,451)	(58,709)	(60,451)	(58,709)
Written-off exploration expenditure		(5,748,231)	(161,027)	(4,997,464)	(161,027)
Provision for diminution in value of shares		(169,289)	(292,560)	(167,489)	(292,560)
Other expenses		(26,276)	(20,509)	(20,557)	(20,508)
Profit/(loss) before income tax expense/benefit	3	(6,070,033)	2,706,809	(5,413,213)	2,707,579
Income tax expense/(benefit)	6	299,912	-	(779,828)	-
Net profit / (loss) attributable to members		(6,369,945)	2,706,809	(4,633,385)	2,707,579
Basic earnings (loss) per share (cents per share)	18	(13.92)	7.46		
Diluted earnings (loss) per share (cents per share)	18	(7.29)	4.95		

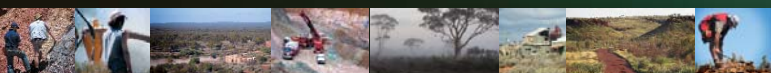
The accompanying notes form part of these financial statements

# BALANCE SHEET

AS AT 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	1,520,525	1,662,841	1,482,525	1,662,841
Trade and other receivables	8	63,758	109,562	63,757	109,562
<b>TOTAL CURRENT ASSETS</b>		<b>1,584,283</b>	<b>1,772,403</b>	<b>1,546,282</b>	<b>1,772,403</b>
<b>NON CURRENT ASSETS</b>					
Trade and other receivables	8	16,000	77,731	4,449,382	3,565,425
Financial assets	9	2,760,075	1,071,794	2,671,097	941,795
Property, plant and equipment	10	50,971	348,950	50,971	348,950
Exploration, evaluation and development	11	5,868,152	4,432,198	2,219,339	1,075,273
Deferred tax assets	6	1,358,427	-	1,357,887	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>10,053,625</b>	<b>5,930,673</b>	<b>10,748,676</b>	<b>5,931,443</b>
<b>TOTAL ASSETS</b>		<b>11,637,908</b>	<b>7,703,076</b>	<b>12,294,958</b>	<b>7,703,846</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	12	192,181	410,558	192,181	410,558
Short-term provision	13	25,670	15,881	25,670	15,881
<b>TOTAL CURRENT LIABILITIES</b>		<b>217,851</b>	<b>426,439</b>	<b>217,851</b>	<b>426,439</b>
<b>NON CURRENT LIABILITIES</b>					
Deferred tax liabilities	6	1,662,082	-	581,802	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>1,662,082</b>	<b>-</b>	<b>581,802</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>1,879,933</b>	<b>426,439</b>	<b>799,653</b>	<b>426,439</b>
<b>NET ASSETS</b>		<b>9,757,975</b>	<b>7,276,637</b>	<b>11,495,305</b>	<b>7,277,407</b>
<b>EQUITY</b>					
Issued capital	14	7,012,583	4,625,224	7,012,583	4,625,224
Reserves	15	6,463,924	-	6,463,924	-
Retained profits/(Accumulated losses)	16	(3,718,832)	2,651,413	(1,981,202)	2,652,183
<b>TOTAL EQUITY</b>		<b>9,757,975</b>	<b>7,276,637</b>	<b>11,495,305</b>	<b>7,277,407</b>

The accompanying notes form part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

Economic Entity	Issued Capital	Retained Profits/ Accumulated Losses	Option Reserved	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2004</b>	<b>4,482,050</b>	<b>(55,396)</b>	<b>-</b>	<b>4,426,654</b>
Profit / (loss) attributable to members	-	2,706,809	-	2,706,809
Shares issued during the year	2,183,174	-	-	2,183,174
In specie-distribution	(2,000,000)	-	-	(2,000,000)
Transaction costs	(40,000)	-	-	(40,000)
Equity settled transactions	-	-	-	-
<b>Balance at 30 June 2005</b>	<b>4,625,224</b>	<b>2,651,413</b>	<b>-</b>	<b>7,276,637</b>
<b>Balance at 1 July 2005</b>	<b>4,625,224</b>	<b>2,651,413</b>	<b>-</b>	<b>7,276,637</b>
Profit / (loss) attributable to members	-	(6,369,945)	-	(6,369,945)
Shares issued during the year	840,000	-	-	840,000
Options exercised during the year	1,617,299	-	-	1,617,299
Transaction costs	(69,940)	-	-	(69,940)
Option reserve	-	-	6,463,924	6,463,924
<b>Balance at 30 June 2006</b>	<b>7,012,583</b>	<b>(3,718,532)</b>	<b>6,463,924</b>	<b>9,757,975</b>

Parent Entity	Issued Capital	Retained Profits/ Accumulated Losses	Option Reserved	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2004</b>	<b>4,482,050</b>	<b>(55,396)</b>	<b>-</b>	<b>4,426,654</b>
Profit / (loss) attributable to members	-	2,707,579	-	2,707,579
Shares issued during the year	2,183,174	-	-	2,183,174
In specie-distribution	(2,000,000)	-	-	(2,000,000)
Transaction costs	(40,000)	-	-	(40,000)
Equity settled transactions	-	-	-	-
<b>Balance at 30 June 2005</b>	<b>4,625,224</b>	<b>2,652,183</b>	<b>-</b>	<b>7,277,407</b>
<b>Balance at 1 July 2005</b>	<b>4,625,224</b>	<b>2,652,183</b>	<b>-</b>	<b>7,277,407</b>
Profit / (loss) attributable to members	-	(4,633,385)	-	(4,633,385)
Shares issued during the year	840,000	-	-	840,000
Options exercised during the year	1,617,299	-	-	1,617,299
Transaction costs	(69,940)	-	-	(69,940)
Option reserve	-	-	6,463,924	6,463,924
<b>Balance at 30 June 2006</b>	<b>7,012,583</b>	<b>(1,981,202)</b>	<b>6,463,924</b>	<b>11,495,305</b>

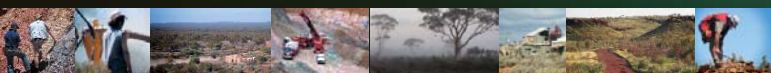
The accompanying notes form part of these financial statements

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Economic Entity 2006 \$	2005 \$	Parent Entity 2006 \$	2005 \$
<b>Cash Flows from Operating Activities</b>					
- Payments to suppliers and employees		(639,831)	(371,734)	(635,577)	(370,965)
- Interest received		71,740	96,809	71,740	96,809
- Other revenue		239,119	187,162	139,119	187,162
- Interest paid		-	(93)	-	(93)
- Payments for exploration and evaluation		(2,383,873)	(2,335,480)	(1,341,217)	(126,877)
<i>Net cash used in operating activities</i>	19	(2,712,845)	(2,423,336)	(1,765,935)	(213,964)
<b>Cash Flows From Investing Activities</b>					
- Proceeds from sale of exploration assets		-	-	-	150,000
- Proceeds from sale of equity investments		494,749	198,698	494,749	198,698
- Purchase of plant and equipment		(5,953)	(43,746)	(5,953)	(43,746)
- Purchase of exploration assets		(9,941)	(51,791)	(9,941)	(51,791)
- Purchase of equity investments		(104,909)	(268,559)	(44,130)	(138,560)
- Purchase of term deposit		-	(6,000)	-	(6,000)
- Loans to other entities		-	(61,731)	-	(61,731)
- Loans (to)/receipts from associated entities		61,731	-	(983,958)	(2,489,371)
<i>Net cash used in investing activities</i>		435,677	(233,129)	(549,233)	(2,442,501)
<b>Cash Flows from Financing Activities</b>					
- Proceeds from issue of securities		2,201,050	1,933,174	2,201,050	1,933,174
- Payment for costs of issue of securities		(66,198)	(40,000)	(66,198)	(40,000)
<i>Net cash provided by financing activities</i>		2,134,852	1,893,174	2,134,852	1,893,174
<b>Net increase in cash held</b>		(142,316)	(763,291)	(180,316)	(763,291)
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>1,662,841</b>	<b>2,426,132</b>	<b>1,662,841</b>	<b>2,426,132</b>
<b>Cash and cash equivalents at end of the financial year</b>	7	<b>1,520,525</b>	<b>1,662,841</b>	<b>1,482,525</b>	<b>1,662,841</b>

The accompanying notes form part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. The transition from previous GAAP to AIFRS has not effected the economic entity's financial performance, position and cashflows at the date of transition or at the latest date of reporting in the economic entity's most recent financial report under previous GAAP.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available for-sale financial assets that have been measured at fair value.

The following is a summary of the accounting policies adopted by the Company in the preparation of the consolidated financial information. The accounting policies have been consistently applied unless otherwise stated.

#### (a) *Principles of Consolidation*

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Economic Entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable assets acquired exceed the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Economic Entity are eliminated in full.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**(b) Plant and Equipment**

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

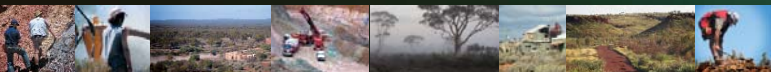
**(c) Exploration, Evaluation and Development Expenditure**

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:

- 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.



## 32 NOTES TO THE FINANCIAL STATEMENTS

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

## (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) Other Financial Assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

## (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 Company 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**(e) Other Financial Assets (Continued)****(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.

**(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.

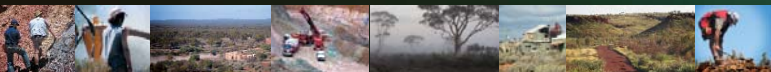
**(g) Trade and Other Receivables**

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**

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).



## 34 NOTES TO THE FINANCIAL STATEMENTS

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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.

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.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (k) *Taxation*

The Economic Entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### (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.

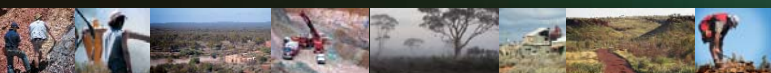
### (m) *Trade and Other Payables*

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.



## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (o) *Share Based Payments*

Equity-settled share based payments granted after 7 November 2002 that were unvested as of 1 January 2005, 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.

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.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (s) *Joint Venture Entities*

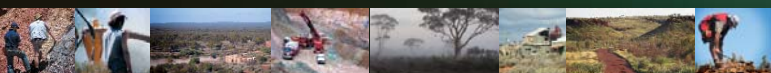
A joint venture entity is an entity in which Cazaly holds a long-term interest and which is jointly controlled by Cazaly and one or more other venturers. Decisions regarding the financial and operating policies essential to the activities, economic performance and financial position of that venture require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

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.



## 38 NOTES TO THE FINANCIAL STATEMENTS

## 2. REVENUE

## Operating activities

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
- interest received	71,619	98,371	71,619	98,371
- option fees	155,000	300,000	55,000	300,000
- profit on sale of tenement	-	2,107,381	-	2,107,381
- profit on sale of shares	147,412	22,498	147,412	22,498
- other revenue	2,184,119	1,117,161	2,184,119	1,117,161

Total Revenue	2,558,150	3,645,411	2,458,150	3,645,411
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## 3. LOSS FOR THE YEAR

## (i) Expenses

## Borrowing costs

- other persons	3,705	3,001	3,705	3,001
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## Depreciation of non-current assets

- plant and equipment	23,933	31,983	23,933	31,983
- amortisation of leasehold improvements	-	3,614	-	3,614
	23,933	35,597	23,933	35,597

## Rental expense on operating leases

- minimum lease payments	38,609	36,702	38,609	36,702
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## Write down of investments

	169,289	292,560	167,489	292,560
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## Exploration expense written off

	5,748,231	161,027	4,997,464	161,027
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## Employee equity settled benefits

	1,464,300	-	1,464,300	-
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## 4. KEY MANAGEMENT PERSONNEL COMPENSATION

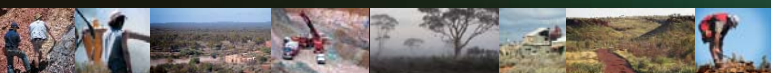
(a) Name and positions held by directors' in office at any time during the financial year are:

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

(b) Details of the nature and amount of emoluments of each director are as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SECURITIES ISSUED		TOTAL
	Salary, Fees & Superannuation	Other	Non- Monetary	Superannuation	Retirement Benefits	Equity	Options (i)	\$
<b>Directors</b>								
Nathan McMahon – Managing Director (ii)								
2006	157,667	-	-	-	-	-	650,800	808,467
2005	118,336	-	-	-	-	-	28,000	146,336
Clive Jones – Managing Director (iii)								
2006	167,750	-	-	-	-	-	650,800	818,550
2005	150,000	-	-	-	-	-	28,000	178,000
Kent Hunter – Non Executive Director (iv)								
2006	25,000	51,660	-	2,250	-	-	162,700	241,610
2005	25,000	37,470	-	2,250	-	-	7,000	71,720
<b>Total Remuneration Directors</b>								
2006	350,417	51,660	-	2,250	-	-	1,464,300	1,868,627
2005	293,336	37,470	-	2,250	-	-	63,000	396,056

- i) The fair value of the Options is calculated at the date of grant using a Black-Sholes model.
- ii) An aggregate amount of \$157,667 (2005:\$118,336) 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 \$167,750 (2005:\$150,000) 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 \$51,660 (2005:\$37,470) 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.



## 40 NOTES TO THE FINANCIAL STATEMENTS

## 4. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

## (c) Shareholdings

Number of Shares held by Directors and Executive

2006	Balance 1.7.05	Received as Remuneration	Options Exercised	Net Change - Other	Balance 30.06.06
N B McMahon	5,239,688	-	136,440	-	5,376,128
C B Jones	4,050,001	-	50,000	-	4,100,001
K M Hunter	877,300	-	175,766	25,000	1,078,066
	10,166,989	-	362,206	25,000	10,554,195
2005	Balance 1.7.04	Received as Remuneration	Options Exercised	Net Change - Other	Balance 30.06.05
N B McMahon	3,883,784	-	1,500,000	(144,096)	5,239,688
C B Jones	3,250,000	-	1,000,000	(200,000)	4,050,001
K M Hunter	827,300	-	-	50,000	877,300
	7,961,084	-	2,500,000	(294,096)	10,166,989

## (d) Option Holdings

Number of \$0.1502 Options expiring 31 January 2006, held by Directors and Executives

	Balance 1.7.05	Issued	Options Exercised	Lapsed	Balance 30.06.06
Nathan McMahon	136,440	-	136,440	-	-
Clive Jones	50,000	-	50,000	-	-
Kent Hunter	175,776	-	175,776	-	-
	362,206	-	362,206	-	-

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

	Balance 1.7.05	Issued	Options Exercised	Lapsed	Balance 30.06.06
Nathan McMahon	1,000,000	-	-	-	1,000,000
Clive Jones	1,000,000	-	-	-	1,000,000
Kent Hunter	250,000	-	-	-	250,000
	2,250,000	-	-	-	2,250,000

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

	Balance 1.7.05	Issued	Options Exercised	Lapsed	Balance 30.06.06
Nathan McMahon	-	1,000,000	-	-	1,000,000
Clive Jones	-	1,000,000	-	-	1,000,000
Kent Hunter	-	250,000	-	-	250,000
	-	2,250,000	-	-	2,250,000

## 4. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

## (e) Compensation Options

The following table illustrates details of compensation options granted to Directors and Executives during the financial year:

2006	Number Granted	Number Vested	Grant Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date \$
N B McMahon	1,000,000	1,000,000	30.11.2005	31.08.2008	0.50	0.6508
C B Jones	1,000,000	1,000,000	30.11.2005	31.08.2008	0.50	0.6508
K M Hunter	250,000	250,000	30.11.2005	31.08.2008	0.50	0.6508
	2,250,000	2,250,000				

The weighted average fair value of the share options granted during the financial year is \$0.6508 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.

2005	Number Granted	Number Vested	Grant Date	Expiry Date	Exercise Price \$	Fair Value at Grant Date \$
N B McMahon	1,000,000	1,000,000	06.10.2004	31.08.2007	0.3502	0.028
C B Jones	1,000,000	1,000,000	06.10.2004	31.08.2007	0.3502	0.028
K M Hunter	250,000	250,000	06.10.2004	31.08.2007	0.3502	0.028
	1,250,000	1,250,000				

## (i) Director and Executives' Option Valuation Calculation

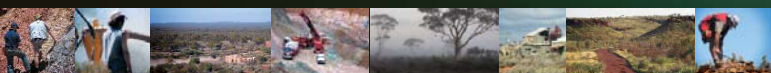
	2006 31.08.08 Options	2005 31.08.07 Options
Grant date share price	\$0.975	\$0.18
Exercise price	\$0.50	\$0.3502
Expected volatility	75%	50%
Option life	2.75 years	2.9 years
Dividend yield	-	-
Risk-free interest rate	5.34%	5.37%

## (f) Shares issued on exercise of compensation options

There were no options exercised during the year that were granted as compensation options

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.



## 42 NOTES TO THE FINANCIAL STATEMENTS

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

## 5. AUDITORS' REMUNERATION

Remuneration of the auditor for:

- Auditing or reviewing the financial report	13,950	9,800	13,950	9,800
- Other services	-	-	-	-
	13,950	9,800	13,950	9,800

Consolidated		Company	
2006	2005	2006	2005

## 6. INCOME TAX EXPENSE

The components of the tax expense/(income) comprise:

Current tax	-	-	-	-
Deferred tax	299,912	-	(779,828)	-
	299,912	-	(779,828)	-

(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% (2005: 30%)

(1,820,408)	812,042	(1,623,964)	812,273
-------------	---------	-------------	---------

Add:

Tax effect of:

Other non-allowable items	2,016,065	-	2,016,065	-
Tax benefit of revenue losses not recognised				
Effect of deferred tax assets not recognised				
Other	127,856	-	127,856	-

Less:

Tax effect of:

Tax benefit of deductible equity raising costs	(23,601)	(19,629)	(23,601)	(19,629)
Recognition of previously unrecognised losses	-	(102,697)	-	(102,697)
Recognition of subsidiary tax losses	-	-	(283,207)	-
Adjustments in respect of subsidiaries	-	-	(992,978)	-
Tax exempt revenues	-	(569,490)	-	(569,490)
Other	-	(120,226)	-	(120,457)
Income tax attributable to entity	299,912	-	(779,828)	-

## 6. INCOME TAX EXPENSE (CONT.)

	Consolidated		Company	
	2006	2005	2006	2005
(b) Deferred tax assets at 30% (2005: 30%) comprise the following				
Carry forward revenue losses	1,149,641	-	1,149,641	-
Capital raising costs	57,545	-	57,545	-
Provisions and accruals	13,166	-	13,166	-
Other	138,075	-	137,535	-
	<u>1,358,427</u>	<u>-</u>	<u>1,357,887</u>	<u>-</u>
Deferred tax liabilities at 30% (2005: 30%) comprise the following				
Exploration expenditure	1,662,082	-	581,802	-
Other	-	-	-	-
	<u>1,662,082</u>	<u>-</u>	<u>581,802</u>	<u>-</u>

(c) The following deferred tax balances at 30% (2005: 30%) have not been recognised

Carry forward revenue losses	-	1,026,160	-	1,026,160
Capital raising costs	-	61,287	-	61,287
Provisions and accruals	-	9,420	-	9,420
Other	-	218,692	-	218,692
	<u>-</u>	<u>1,315,559</u>	<u>-</u>	<u>1,315,559</u>

The tax benefits of the above Deferred Tax Assets will only be obtained if:

- (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the company in utilising the benefits.

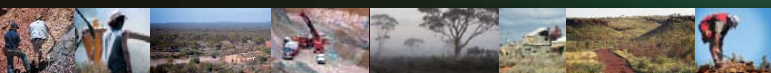
Deferred Tax Liabilities:

Exploration expenditure	-	1,315,559	-	1,315,559
Other	-	-	-	-
	<u>-</u>	<u>1,315,559</u>	<u>-</u>	<u>1,315,559</u>

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

Deferred tax recognised directly in equity:

Relating to equity raising costs	3,742	-	3,742	-
Other	-	-	-	-
	<u>3,742</u>	<u>-</u>	<u>3,742</u>	<u>-</u>



## 44 NOTES TO THE FINANCIAL STATEMENTS

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

## 7. CASH AND CASH EQUIVALENTS

Cash at bank	138,820	118,936	138,820	118,936
Petty cash	500	500	500	500
Deposits at call (i)	1,381,205	1,543,405	1,343,205	1,543,405
	<u>1,520,525</u>	<u>1,662,841</u>	<u>1,482,525</u>	<u>1,662,841</u>

(i) The bank deposits are short term deposits maturing within 30 days, and pay interest at a rate of 5.32% per annum.

## 8. TRADE AND OTHER RECEIVABLES

**Current**

Other debtors	63,758	109,562	63,757	109,562
---------------	--------	---------	--------	---------

**Non-Current**

Bonds (i)	16,000	16,000	16,000	16,000
Loans to other entities	-	61,731	-	61,731
Loans to associated entities	-	-	4,433,382	3,487,694
	<u>16,000</u>	<u>77,731</u>	<u>4,449,382</u>	<u>3,565,425</u>

(i) Bonds are term deposits, held by way of bank guarantee.

## 9. FINANCIAL ASSETS

**Current**

Shares in associated entities, at cost	2,000,000	-	2,000,000	1
Shares in listed corporations, at cost	1,224,361	1,378,442	1,134,283	1,248,442
Less: Provision for write-down to recoverable amount	(464,286)	(306,648)	(463,186)	(306,648)
	<u>2,760,075</u>	<u>1,071,794</u>	<u>2,671,097</u>	<u>941,795</u>

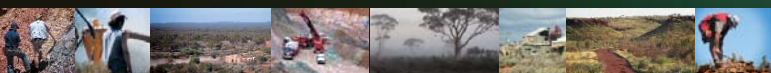
## 10. PROPERTY, PLANT AND EQUIPMENT

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Field Plant and Equipment				
At cost	-	280,000	-	280,000
Accumulated depreciation	-	-	-	-
	-	280,000	-	280,000
Plant and Equipment				
At cost	82,407	76,453	82,407	76,453
Accumulated depreciation	(57,541)	(41,039)	(57,541)	(41,039)
	24,866	35,414	24,866	35,414
Office Furniture and Equipment				
At cost	19,464	19,464	19,464	19,464
Accumulated depreciation	(7,652)	(5,068)	(7,652)	(5,068)
	11,812	14,396	11,812	14,396
Motor Vehicle				
At cost	27,273	27,272	27,273	27,272
Accumulated depreciation	(12,980)	(8,844)	(12,980)	(8,844)
	14,293	18,428	14,293	18,428
Leasehold Improvement				
At cost	5,344	5,344	5,344	5,344
Accumulated amortisation	(5,344)	(4,632)	(5,344)	(4,632)
	-	712	-	712
	50,971	348,950	50,971	348,950

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

	\$					
2006	Plant and Equipment	Field Plant & Equipment	Office Furniture	Motor Vehicles	Leasehold Improvement	Total
Balance at the beginning of the year	35,414	280,000	14,396	18,428	712	348,950
Additions	5,954	-	-	-	-	5,954
Disposals	-	(280,000)	-	-	-	(280,000)
Depreciation/expense	(16,502)	-	(2,584)	(4,135)	(712)	(23,933)
Carrying amount at the end of the year	24,866	-	11,812	14,293	-	50,971

	\$					
2005	Plant and Equipment	Field Plant & Equipment	Office Furniture	Motor Vehicles	Leasehold Improvement	Total
Balance at the beginning of the year	48,050	-	14,666	23,759	4,326	90,801
Additions	10,866	280,000	2,880	-	-	293,746
Disposals	-	-	-	-	-	-
Depreciation/expense	(23,502)	-	(3,150)	(5,331)	(3,614)	(35,597)
Carrying amount at the end of the year	35,414	280,000	14,396	18,428	712	348,950



## 46 NOTES TO THE FINANCIAL STATEMENTS

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

## 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)	5,821,152	4,385,198	2,219,339	1,075,273
- Royalty assets	47,000	47,000	-	-
	<u>5,868,152</u>	<u>4,432,198</u>	<u>2,219,339</u>	<u>1,075,273</u>

## Movement

(a) Brought forward	4,385,198	1,883,180	1,075,273	1,883,180
Exploration expenditure capitalised during the year	7,184,185	2,663,045	6,141,531	126,877
Exploration expenditure written off	(5,748,231)	(161,027)	(4,997,464)	(161,027)
Exploration expenditure transferred to controlled entity	-	-	-	(773,757)
	<u>5,821,152</u>	<u>4,385,198</u>	<u>2,219,339</u>	<u>1,075,273</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.

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

## 12. TRADE AND OTHER PAYABLES

## Current

## Unsecured

Trade creditors	150,451	328,012	150,451	328,012
Other creditors and accrued expenses	41,730	82,546	41,730	82,546
	<u>192,181</u>	<u>410,558</u>	<u>192,181</u>	<u>410,558</u>

## 13. PROVISION

**Current**

Provision for Annual Leave

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

25,670	15,881	25,670	15,881
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## 14. ISSUED CAPITAL

51,377,456 Fully paid ordinary shares

(2005: 40,190,876) – (a)

7,016,326	4,534,585	7,016,326	4,534,585
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Nil Options (2005: 9,063,899) – (b)

-	90,639	-	90,639
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7,016,326	4,625,224	7,016,326	4,625,224
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## (a) Ordinary Shares

At the beginning of the reporting period

4,534,585	4,378,502	4,534,585	4,378,502
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Shares issued during the year

- 1,250,000 on 15 November 2005	-	250,000	-	250,000
- 1,145,874 on 16 December 2005	-	229,174	-	229,174
- 2,000,000 on 4 February 2006	-	800,000	-	800,000
- 2,500,000 18 February 2006	-	875,000	-	875,000
- 145,000 on 2 March 2006	-	29,000	-	29,000
- 1,000,000 on 12 October 2005	440,000	-	400,000	-
- 1,000,000 on 9 November 2005	440,000	-	440,000	-
- 125,000 on 23 March 2006	256,250	-	256,250	-

Options exercise during the year

- 1,145,874 on 16 December 2004	-	11,459	-	11,459
- 145,000 on 2 March 2005	-	1,450	-	1,450
- 220,000 on 27 October 2005	35,244	-	35,244	-
- 8,841,580 on 31 January 2006	1,416,421	-	1,416,421	-

Capital reduction pursuant to in-specie  
distribution of Graynic Metals Limited shares

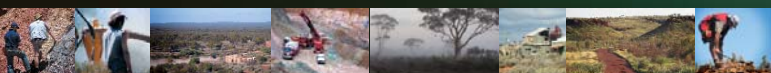
-	(2,000,000)	-	(2,000,000)
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Transaction costs relating to share issues

(66,197)	(40,000)	(66,197)	(40,000)
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At reporting date

7,016,326	4,534,585	7,016,326	4,534,585
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## 48 NOTES TO THE FINANCIAL STATEMENTS

## 14. ISSUED CAPITAL (CONT.)

	Economic Entity		Parent Entity	
	2006 No.	2005 No.	2006 No.	2005 No.
Fully Paid				
At the beginning of the reporting period	40,190,876	33,150,002	40,190,876	33,150,002
Shares issued during the year				
- 1,250,000 on 15 November 2004	-	1,250,000	-	1,250,000
- 1,145,874 on 16 December 2004	-	1,145,874	-	1,145,874
- 2,000,000 on 4 February 2005	-	2,000,000	-	2,000,000
- 2,500,000 18 February 2005	-	2,500,000	-	2,500,000
- 145,000 on 2 March 2005	-	145,000	-	145,000
- 1,000,000 on 12 October 2005	1,000,000	-	1,000,000	-
- 220,000 on 27 October 2005	220,000	-	220,000	-
- 1,000,000 on 9 November 2005	1,000,000	-	1,000,000	-
- 8,841,580 on 31 January 2006	8,841,580	-	8,841,580	-
- 125,000 on 23 March 2006	125,000	-	125,000	-
At reporting date	51,377,456	40,190,876	51,377,456	40,190,876

On 3 October 2005, the Company issued 75,000 employee options under the Cazaly Resources Limited employee incentive scheme.

On 12 October 2005, the Company issued 1,000,000 fully paid ordinary shares at \$0.40 to Echelon Resources Limited under an agreement for Echelon to provide funding totalling \$2.5 million for the Shovelanna Iron Ore Project.

On 9 November 2005, the Company issued 1,000,000 fully paid ordinary shares at \$0.44 to clients of Argonaut Securities Pty Ltd and Paterson Securities Pty Ltd.

On 15 December 2005 the Company issued 2,250,000 director options as approved by the members at the Annual General Meeting on 30 November 2005.

On 31 January 2006 9,061,580 \$0.1502 options expiring on or before 31 January 2006 were exercised and 8,841,580 ordinary shares allotted and issued pursuant to the exercise.

On 3 March 2006 the Company issued 5,000,000 options to Echelon Resources Limited exercisable at \$1.00 on or before 31 December 2007 as approved by the members at the General Meeting on 17 February 2006.

On 24 March 2006, the Company issued 125,000 fully paid ordinary shares at \$2.05 to consultants for work performed.

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.

## 14. ISSUED CAPITAL (CONT.)

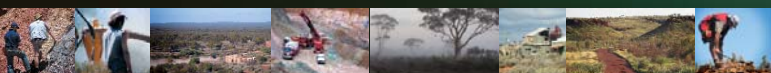
	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
(b) <i>Options</i>				
At the beginning of the reporting period	90,639	103,548	90,639	103,548
Options converted during the year				
- 1,145,874 on 16 December 2004	-	(11,459)	-	(11,459)
- 145,000 on 2 March 2005	-	(1,450)	-	(1,450)
Options converted during the year				
- 220,000 on 27 October 2005	(2,200)		(2,200)	
- 8,841,580 on 31 January 2006	(88,416)		(88,416)	
Options lapsed during the year				
- 2,319 on 31 January 2006	(23)		(23)	
At reporting date	-	90,639	-	90,639

	No	No	No	No
<i>Movement</i>				
At the beginning of the reporting period	9,063,899	10,354,773	9,063,899	10,354,773
Options converted during the year				
- 1,145,874 on 16 December 2004	-	(1,145,874)		(1,145,874)
- 145,000 on 2 March 2005	-	(145,000)		(145,000)
- 220,000 on 27 October 2005	(220,000)	-	(220,000)	-
- 8,841,580 on 31 January 2006	(8,841,580)	-	(8,841,580)	-
Options lapsed during the year				
- 2,319 on 31 January 2006	(2,319)		(2,319)	
At reporting date	-	9,063,899	-	9,063,899

## 15. OPTION RESERVE

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance at beginning of reporting period	-	-	-	-
Directors options	1,464,300	-	1,464,300	-
Employee equity settled transactions	11,123		11,123	-
Options issued to Echelon Resources as per Agreement dated 28 November 2005	4,988,500	-	4,988,500	-
	6,463,924	-	6,463,924	-

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



## 50 NOTES TO THE FINANCIAL STATEMENTS

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$	\$	\$	\$

## 16. RETAINED PROFITS/(ACCUMULATED LOSSES)

Retained profits/(Accumulated losses)				
at the beginning of the financial period	2,649,404	(57,406)	2,652,183	(55,396)
Net profit/(loss) attributable to members	(6,068,024)	2,706,810	(5,413,213)	2,707,579
Retained profits/(Accumulated losses)				
at the end of the financial period	(3,418,620)	2,649,404	(2,761,030)	2,652,183

## 17. FINANCIAL INSTRUMENTS

The economic entity's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the entity. The economic entity also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the period under review, it has been the entity's policy not to trade in financial instruments.

The main risks arising from the economic entity's financial instruments are interest rate risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

## (a) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

2006	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non-interest bearing	2006 Total
	\$	\$	\$	\$	\$
Financial assets					
Cash	139,320	1,381,205	-	-	1,520,525
Receivables	-	16,000	-	63,758	79,758
Investments	-	-	-	2,760,075	2,760,075
	139,320	1,397,205	-	2,823,833	4,360,358
Weighted average Interest rate	5.00%	5.77%	-	-	
Financial Liabilities					
Payables	-	-	-	192,181	192,181
	-	-	-	192,181	192,181
Weighted average interest rate	-	-	-	-	

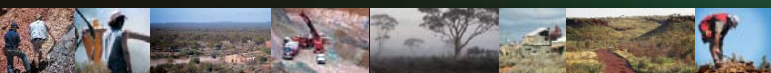
## 17. FINANCIAL INSTRUMENTS (CONT.)

2005	Floating Interest Rate \$	Fixed Interest maturing in 1 year or less \$	Fixed Interest maturing over 1 to 5 years \$	Non-interest bearing \$	2005 Total \$
Financial assets					
Cash	118,936	1,543,405	-	500	1,662,841
Receivables	-	16,000	-	171,293	187,293
Investments	-	-	-	1,071,794	1,071,794
	118,936	1,559,405	-	1,243,587	2,921,928
Weighted average Interest rate	4.50%	5.32%	-		
Financial Liabilities					
Payables	-	-	-	410,558	410,558
				410,558	410,558
Weighted average interest rate	-	-	-	-	

## (b) Net Fair Values

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

	2006		2005	
	Carrying Amount \$	Net fair Value \$	Carrying Amount \$	Net fair Value \$
<b>On-balance sheet financial instruments</b>				
<b>Financial assets</b>				
Cash and deposits	1,520,525	1,520,525	1,662,841	1,662,841
Receivables	79,758	79,758	187,293	187,293
Investments	2,760,075	2,760,075	1,071,794	1,071,794
	4,360,358	4,360,358	2,921,928	2,921,928
<b>Financial liabilities</b>				
Payables	192,181	192,181	410,558	410,558
Interest bearing liabilities	-	-		
	192,181	192,181	410,588	410,558



## 52 NOTES TO THE FINANCIAL STATEMENTS

## 17. FINANCIAL INSTRUMENTS (CONT.)

## (c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity. The economic entity has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The economic entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the economic entity maximum exposure to credit risk.

Economic Entity	
2006	2005
\$	\$

## 18. EARNINGS PER SHARE

(a) Earnings / (Loss) used in the calculation of basic EPS	(6,369,945)	2,706,809
	<i>Number of Shares</i>	<i>Number of Shares</i>
(b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share:	45,757,021	36,303,137
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted earnings per share:	87,331,311	54,640,186

## 19. CASH FLOW INFORMATION

## (i) Reconciliation of cash flows from operating activities with profit/(loss) after income tax

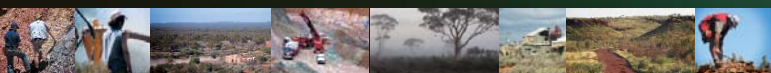
	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
- Profit / (Loss) after income tax	(6,369,945)	2,706,809	(4,633,385)	2,707,579
Non-cash flows in loss for the year				
- Depreciation	23,933	31,983	23,933	31,983
- Amortisation	-	3,614	-	3,614
- Profit on sale of shares	(147,412)	(22,498)	(147,412)	(22,498)
- Employee equity settled transactions	1,464,300	-	1,464,300	-
- Share based payments	256,250	-	256,250	-
- Provision for diminution of investment	169,289	292,560	167,488	292,560
- Reversal of diminution provision	(2,184,119)	-	(2,184,119)	-
- Profit on sale of tenements	-	(3,337,381)	-	(3,337,381)
- Exploration write-off	5,748,231	161,027	4,997,464	161,027
Cash flows not in loss for the year				
- Payments for exploration and evaluation	(2,383,873)	(2,335,480)	(1,341,217)	(126,877)
Changes in assets and liabilities				
- Decrease/(Increase) in receivables & prepayments	245,318	57,123	245,320	57,122
- Increase/(Decrease) in trade and other creditors, accruals and employee entitlements	474,972	7,780	(604,768)	7,780
- Movement in provisions	(9,789)	11,127	(9,789)	11,127
Net cash inflows (outflows) from operating Activities	(2,712,845)	(2,423,336)	(1,765,935)	(213,964)

## (ii) Acquisition of Entities

During the year 100% of the following controlled entities were acquired:

Purchase consideration

- Hayes Mining Pty Ltd	-	-	-	1
- Cyril Resources Pty Ltd	-	-	1	-
- Sammy Resources Pty Ltd	-	-	1	-
	-	-	1	-



## 54 NOTES TO THE FINANCIAL STATEMENTS

## 20. COMMITMENTS

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 is currently in negotiation to extend the lease agreement with Giorgio Longo.

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:

	2006 \$	2005 \$
Not longer than one year	2,705,180	2,356,140
Longer than one year, but not longer than five years	2,705,180	9,424,560
Longer than five years	2,705,180	-
	<u>8,115,540</u>	<u>11,780,700</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:

**PLACER DOME ASIA PACIFIC – KUNUNALLING PROJECT**

On 9 December 2003 Cazaly acquired the Kunanalling project from Placer Dome Asia Pacific Limited ("PDAP") whereby Cazaly is the register holder or is entitled to be registered of the holder and beneficial owner of the Kunanalling project and Tenements. A payment sum the PDAP the sum of \$57,000 and assignment to Cazaly 100% interest in the Kunanalling Project provided that PDAP will retain;

- (i) the once off right exercisable within 60 days of being notified of the establishment of 500,000 or more once resources on the Kunanalling Project to clawback a 70% interest in respect of the resource area.
- (ii) PDAP the right to explore for conceptual targets within a declared area of the Kunanalling Project at Cazaly Resources Ltd Expense. Any discovery of 500,000 or more ounces would be deemed to be owned 70% by PDAP and 30% by Cazaly Resources. Any resource discovery of less than 500,000 ounces would continue to be 100% owned by Cazaly Resources.
- (iii) the option to acquire or to process any ore produced from the project owned or acquired by Cazaly Resources within 100km of the treatment plant.
- (iv) a 2% net smelter royalty on all gold produced from the Kunanalling

### NORTHLANDER PROJECT - HAMPTON HILL MINING AGREEMENT

On 5 March 2004 Cazaly acquired a 49% interest in the Northlander Project from Hampton Hill Mining NL. Hampton Hill Mining is the registered holder or is entitled to be registered as the holder and 49% beneficial owner of the Northlander Project and the Tenements. In consideration of Cazaly resources paying Hampton Hill Mining the sum of \$21,000, Hampton Hill Mining will assign 49% interest in the Northlander Project provided that;

- (i) Hampton Hill Mining will retain the once off right within 60 days of being notified of the establishment of a 500,000 or more ounce resource on the Northlander Project, to claw back a 34.3% interest or a 70% interest if PDAP does not exercise its equivalent rights within the 60 day period.
- (ii) a 0.98% Net Smelter Returns Royalty on all gold produced from mine within the Northlander Project.
- (iii) the right to explore for conceptual targets within a declared area of the northlander Project. Any reluctant resourced discovery of 500,000 or more ounces would be deemed to be owned 70% by Hampton hill Mining ( this will be subject to clawback, the respective interest would then be PDAP 35.7% Hampton Hill Mining 34.5% and Cazaly Resources Ltd 30%. Any resource discovery of less than 500,000 ounces would continue to be 100% owned by Cazaly Resources.

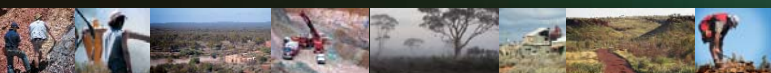
### NORTHLANDER PROJECT - PLACER DOME ASIA PACIFIC AGREEMENT

On 5th March 2004 Cazaly hereby offers to acquire a 51% interest in the Northlander Project from Placer Dome Asia Pacific Ltd ("PDAP"). PDAP is the registered holder or is entitled to be registered as the holder and 51% beneficial owner of the Northlander Project and the Tenements. In consideration of Cazaly resources paying PDAP the sum of \$21,930, PDAP will assign 51% interest in the Northlander Project provided that;

- (i) PDAP will retain the once off right within 60 days of being notified of the establishment of a 500,000 or more ounce resource on the Northlander Project, to claw back a 35.7% interest or a 70% interest if Hampton Hill Mining NL does not exercise its equivalent rights within the 60 day period.
- (ii) a 1.02% Net Smelter Returns Royalty on all gold produced from mine within the Northlander Project.
- (iii) the right to explore for conceptual targets within a declared area of the northlander Project. Any reluctant resourced discovery of 500,000 or more ounces would be deemed to be owned 70% by Hampton hill Mining ( this will be subject to clawback, the respective interest would then be PDAP 35.7% Hampton Hill Mining 34.5% and Cazaly Resources Ltd 30%. Any resource discovery of less than 500,000 ounces would continue to be 100% owned by Cazaly Resources.

### WEST KALGOORLIE PROJECT (ORA BANDA, GRANTS PATCH, CARBINE PROJECTS) - PLACER DOME ASIA PACIFIC AGREEMENT

On 13th September 2004 Cazaly acquired the West Kalgoorlie project from PDAP whereby Cazaly is the register holder or is entitled to be registered of the holder and beneficial owner of the Kunanalling project and Tenements. A payment to PDAP of \$1,000 was the consideration for the assignment to Cazaly 100% interest in the Kunanalling Project provided that PDAP will retain;



## 56 NOTES TO THE FINANCIAL STATEMENTS

- (i) the once off right exercisable within 60 days of being notified of the establishment of 300,000 or more once resources on the Kunanalling Project to clawback a 70% interest in respect of the resource area by the reimbursement of 2.5 times the previous exploration costs.
- (ii) PDAP the right to explore for conceptual targets within a declared area of the West Kalgoorlie Project at Cazaly Resources Ltd Expense. Any discovery of 300,000 or more ounces would be deemed to be owned 70% by PDAP and 30% by Cazaly Resources. Any resource discovery of less than 300,000 ounces would continue to be 100% owned by Cazaly Resources.
- (iii) the option to acquire or to process any ore produced from the project owned or acquired by Cazaly Resources within 100km of the treatment plant.
- (iv) a 2% net smelter royalty on all gold produced from the West Kalgoorlie project except where a pre-existing royalty exists.

### CASTLE HILL PROJECT – PLACER DOME ASIA PACIFIC AGREEMENT

On 13th September 2004 Cazaly acquired the West Kalgoorlie project from PDAP whereby Cazaly is the register holder or is entitled to be registered of the holder and beneficial owner of the Kunanalling project and Tenements. A payment to PDAP of \$1,000 was the consideration for the assignment to Cazaly 100% interest in the Kunanalling Project provided that PDAP will retain;

- (i) the once off right exercisable within 60 days of being notified of the establishment of 300,000 or more once resources on the Kunanalling Project to clawback a 70% interest in respect of the resource area by the reimbursement of 2.5 times the previous exploration costs.
- (ii) PDAP the right to explore for conceptual targets within a declared area of the West Kalgoorlie Project at Cazaly Resources Ltd Expense. Any discovery of 300,000 or more ounces would be deemed to be owned 70% by PDAP and 30% by Cazaly Resources. Any resource discovery of less than 300,000 ounces would continue to be 100% owned by Cazaly Resources.
- (iii) the option to acquire or to process any ore produced from the project owned or acquired by Cazaly Resources within 100km of the treatment plant.
- (iv) a 2% net smelter royalty on all gold produced from the Castle Hill project except where a pre-existing royalty exists.

In each of the Kununalling, West Kalgoorlie, Northlander and Castle Hill Agreements there are several smaller, non-material royalty provisions that encumber the tenements.

### SHOVELANNA MEMORANDUM OF UNDERSTANDING

Cazaly Resources Limited (ASX:CAZ) (**Cazaly**) and Echelon Resources Limited (ASX:ECH) (**Echelon**) have signed a Memorandum of Understanding (**MOU**) with BHP Billiton Iron Ore Pty Ltd (**BHP Billiton**) in relation to the long term sale of iron ore from the Shovelanna Iron Ore Project (**Shovelanna**) contained within application E46/678.

The terms of the MOU provide that in the event Cazaly is granted E46/678:

- Cazaly will deliver to BHP Billiton approximately five million wet tonnes per annum of primary crushed ore, subject to Cazaly delineating a JORC compliant Proven and Probable Reserve of at least 100 million tonnes and such Reserve being compatible with specifications to be agreed.

- First production is planned within two to three years of receipt of all necessary consents and approvals for the commencement of exploration at Shovelanna.
- Within six months of determining the size and quality of a Reserve, BHP Billiton must elect whether to purchase any additional ore in excess of 100 million tonnes on terms and conditions to be agreed. Cazaly may sell additional ore not purchased by BHP Billiton to third parties.
- BHP Billiton will pay Cazaly a predetermined price based on the Benchmark Price for Mt. Newman Lump and Fines (FOB).
- Cazaly has calculated that its margin based on current prices will be in the range of \$70 million to \$85 million per annum. These calculations are based on production of five million tonnes per annum and standard industry contract mining and primary crushing costs.
- Under the MOU the parties are to negotiate a detailed binding formal agreement within the next 4 months or such other period as agreed. Cazaly and Echelon have agreed to exclusively negotiate with BHP Billiton during this period.
- Cazaly will be responsible for the exploration, mining and primary crushing of ore from E46/678 together with delivery of the ore to an agreed delivery point on or near the boundary between E46/678 and BHP Billiton's adjoining Ore Body 18.
- BHP Billiton and Cazaly will work together in good faith to assess whether Ore Body 18 North and Shovelanna should be developed as a single unified mining operation.
- BHP Billiton will have the benefit of change of control provisions.
- Cazaly will transfer to Echelon a 14% interest in E46/678 upon Echelon complying with its obligations under the agreement between Cazaly and Echelon.

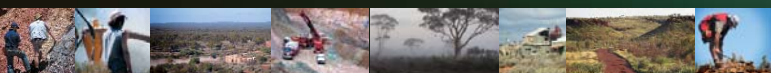
The MOU is non binding and conditional upon E46/678 being unencumbered and being granted on terms and conditions acceptable to BHP Billiton, any challenge to that grant being dismissed or discontinued, BHP Billiton completing satisfactory legal and technical due diligence, receipt of associated State and Federal consents and approvals including Ministerial consent as required under the Mining Act 1978 (WA) and the consent of the Mount Newman Joint Venture Participants and execution of definitive documentation.

#### ECHELON JOINT VENTURE AGREEMENT

In consideration for Echelon committing to provide technical capabilities and funding \$2.5 million in exploration funds for the Shovelanna project, Echelon will receive a 14% interest in ELA 46/678 and receive 5 million options in Cazaly, exercisable at \$1.00, on or before 31 December 2007.

#### PERIPHERAL PROJECTS

The Company retains various small free-carried in the Menzies, Menzies West, Bardoc, Goongarrie, Mt. Carrington, Golden Mile South, Yilgangi, Mt. Vettors, Lake Way, Gasgoyne, Quartz Hill and Quartz Circle projects.



## 21. CONTROLLED ENTITIES

Parent Entity	Country of Incorporation	Consolidated Entity Interest	
		2006	2005
Cazaly Resources Limited	Australia		
<b>Controlled Entities</b>			
Hayes Mining Pty Ltd	Australia	100%	100%
Cyril Resources Pty Ltd	Australia	100%	-
Sammy Resources Pty Ltd	Australia	100%	100%

On 1 July 2005 the parent entity acquired 100% of Cyril Resources 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

On 4 August 2006, Cazaly, by its subsidiary Cazaly Iron Pty Ltd, lodged an application in the Supreme Court for judicial review of the Minister's decision to terminate application E46/678 pursuant to section 111A of the Mining Act 1978 (WA). Cazaly has Echelon Resources Ltd (ASX:ECH) as a joint venture party in the Shovelanna tenement.

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 economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

## 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.

These transactions were made on commercial terms and conditions and at market rates.

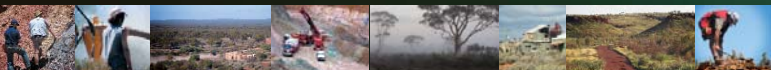
## 25. SHARE BASED PAYMENTS

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 (WAEP) of and movements in share options issued under Share Based Payment Scheme during the year:

	2006		2005	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
<b>At beginning of reporting period</b>	<b>2,650,000</b>			-
Granted during the period				
- Vendor options	5,000,000	1.00		
- Employee options	75,000	0.58	400,000	0.2502
- Director remuneration	2,250,000	0.50	2,250,000	0.3502
<b>Balance the end of reporting period</b>	<b>9,975,000</b>		<b>2,650,000</b>	
<b>Exercisable at end of reporting period</b>	<b>9,975,000</b>		<b>2,650,000</b>	

- (i) The compensation options outstanding at 30 June 2006 had a weighted average exercise price between \$0.25 and \$1.00 and a weighted average remaining life between 1.83 years and 4.31 years.
- (ii) The respective weighted average fair values of options granted during 2006 were \$0.6508.
- (iii) Included under employee benefits expense in the income statement is \$1,464,000 (2005: nil), and relates to employee equity-settled payment transactions.



## DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 15 to 49, 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 2006 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.

Kent Hunter  
Director

Perth,  
28 September 2006



# INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF CAZALY RESOURCES LIMITED

## Scope

The financial report and directors' responsibility The financial report comprises the income statement, balance sheet, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Cazaly Resources Limited (the company) and Cazaly Resources Limited (the consolidated entity) for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the period.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error; and for the accounting policies and accounting estimates inherent in the financial report.

## Audit approach

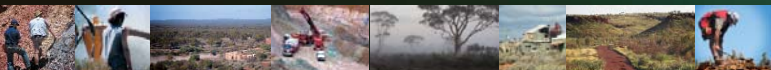
We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



## 62 INDEPENDENT AUDIT REPORT

**Independence**

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out in this financial report has not changed as at the date of providing our audit opinion.

**Audit Opinion**

In our opinion, the financial report of Cazaly Resources Limited is in accordance with:

- (a) 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 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**RIX LEVY FOWLER**  
Chartered Business Advisors

**RANKO MATIĆ**  
Partner

DATED at PERTH this 28<sup>th</sup> day of September 2006

## ADDITIONAL SHAREHOLDER INFORMATION

### SHAREHOLDING

The distribution of members and their holdings of equity securities in the company as at 22 September 2006 was as follows:

Number Held as at 22 September 2006	Class of Equity Securities Fully Paid Ordinary Shares
1-1,000	370
1,001 - 5,000	1,094
5,001 - 10,000	526
10,001 - 100,000	581
100,001 and over	64
<b>TOTALS</b>	<b>2,635</b>

Holders of less than a marketable parcel: - fully paid shares 370

### SUBSTANTIAL SHAREHOLDERS

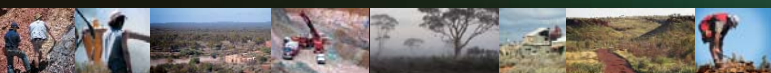
The names of the substantial shareholders listed in the Company's register as at 22 September 2006.

Shareholder	Number
-------------	--------

Clive Bruce Jones	4,050,001
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### UNQUOTED SECURITIES

Class of Equity Security	Number	Number of Security Holders
31 August 2008 Option - \$0.50	2,250,000	3
31 August 2007 Option - \$0.3502	2,250,000	3
2 July 2009 Options - \$0.2502	400,000	2



## 64 ADDITIONAL SHAREHOLDER INFORMATION

### 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.

### ASX LISTING RULE 4.10.19

In accordance with Listing Rule 4.10.19, the company states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objective is primarily mineral exploration.

### TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest ordinary fully paid shareholders as at 22 September 2006 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Mr Clive Bruce Jones	4,050,001	7.882
Citicorp Nominees Pty Limited	3,637,001	7.078
Nathan Bruce McMahon	2,200,001	4.282
ANZ Nominees Limited		
<Cash Income A/C>	2,189,350	4.261
Echelon Resources Limited	1,000,000	1.946
Mr Kent Michael Hunter	900,000	1.751
Kingsreef Pty Ltd	584,244	1.137
French Consulting Pty Ltd	500,000	0.973
Richard Stanley De Ravin	450,000	0.875
Avril Natalie Shear	450,000	0.875
Mrs Debra Lee McMahon	410,934	0.799
Cleland Projects Pty Ltd	400,000	0.778
Andrew Murie	360,500	0.701
Mrs Debra Lee McMahon	344,128	0.669
Karen Cameron Murie	312,000	0.607
William Ng & Cun Pei Tong Ng	300,000	0.583
Jezza Nominees Ltd	297,500	0.579
Debra Lee McMahon	280,000	0.544
Mines and Resources Australia	275,000	0.535
Unaval Nominees Pty Ltd	262,500	0.510
TOTAL	19,203,159	37.365

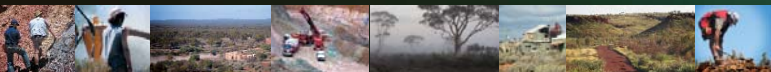
## CORPORATE GOVERNANCE

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.

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.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at <http://www.asx.com.au/supervision/governance/index.htm>

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	1.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Security Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by CEO and CFO	1.4.1.1
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1.2
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2 Attestations by CEO and CFO	1.4.1.1
Recommendation 7.3 Reporting on Principle 7.2.	1.3
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2.4
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5 Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1 Company Code of Conduct	3



## 1. BOARD OF DIRECTORS

### 1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

### 1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr K Hunter is a Non-Executive Director, and is an independent director as he meets the following criteria for independence adopted by the Company.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member; or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member; or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr K Hunter is a Non-Executive Director of the Company and meets the Company's criteria for independence. His experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

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

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

### 1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: the development of the Company's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

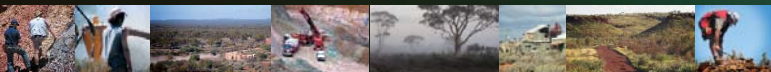
### 1.4 Board Policies

#### 1.4.1 *Conflicts of Interest*

Directors must:

disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and

- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.
- If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.



#### ***1.4.2 Commitments***

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

#### ***1.4.3 Confidentiality***

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

#### ***1.4.4 Continuous Disclosure***

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

#### ***1.4.5 Education and Induction***

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

#### ***1.4.6 Independent Professional Advice***

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

#### ***1.4.7 Related Party Transactions***

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

**1.4.8 Shareholder Communication**

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

**1.4.9 Trading in Company Shares**

Due to the size of the Company, the Board does not consider it appropriate to implement a Share Trading Policy. Rather, it reminds directors, officers and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information".

**1.4.10 Performance Review/Evaluation**

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 30 June 2005 and will be implemented for the financial year ended 30 June 2006. The objective of this evaluation will be to provide best practice corporate governance to the Company.

**1.4.11 Attestations by CEO and CFO**

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CEO or CFO. Due to the size and scale of operations of the Company these roles are performed by the Board as a whole.

**2. BOARD COMMITTEES****2.1 Audit Committee**

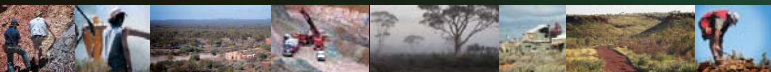
Due to the size and scale of operations of the Company the full Board undertakes the role of the Audit Committee. Below is a summary of the role and responsibilities of an Audit Committee.

**2.1.1 Role**

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of three (3) members, the Company does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. However, in accordance with the ASX Listing Rules, the Company is moving towards establishing an audit committee consisting primarily of Independent Directors.

In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Company and the independence of the external auditor.



## 70 ADDITIONAL SHAREHOLDER INFORMATION

### 2.1.2 Responsibilities

The Audit Committee or as at the date of this report the full Board of the Company reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Company each year reviews the appointment of the external auditor; their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or as at the date of this report the full Board of the Company is also responsible for establishing policies on risk oversight and management.

### 2.1.3 Risk Management Policies

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. On 28 September 2006 Mr Nathan McMahon (Managing Director) and Mr Kent Hunter (Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## 2.2 Remuneration Committee

### 2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of three (3) members, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

### 2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer; reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

### 2.2.3 Remuneration Policy

Directors' Remuneration was approved by resolution of the Board on 8 September 2003.

#### 2.2.3.1 Senior Executive Remuneration Policy

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.

#### *2.2.3.2 Non-Executive Director Remuneration Policy*

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

#### **2.2.4 Current Director Remuneration**

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

### **2.3 Nomination Committee**

#### **2.3.1 Role**

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of three (3) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

#### **2.3.2 Responsibilities**

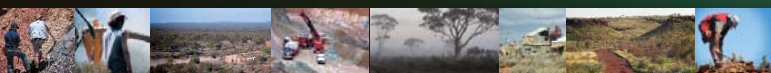
The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

#### **2.3.3 Criteria for selection of Directors**

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

### **3. COMPANY CODE OF CONDUCT**

The Board has decided against the implementation of a code of conduct as it does not believe that it is in the best interests of its employees or other stakeholders to have what purports to be an exhaustive code of conduct. The Board feels that such a code may be too prescriptive and not allow the employees the discretion they need to best serve the Company's stakeholders.



## SCHEDULE OF MINERAL TENEMENTS AS AT 28 SEPTEMBER 2006

PROJECT	TENEMENTS	PROJECTS	TENEMENT
Gasgoyne Uranium	2ELA's – 20%	Kunanalling – Placer JV	15M's, 13MLA's, 9P's, 2PLA's
Plonky Well	1 ELA	Kunanalling 100%	1 ELA, 1 EL, 2M's, 50PLA's
Jillewarra	2 EL's		
Sylvania	2ELA's	Kunan - Northlander	1M, 9MLA's, 17P's, 2PLA's
Albion Downs	1 ELA, 1PLA	Lynas Find	4PLA's
Yerilla	10PLA's, 1ELA	Merolia	1 EL, 2ELA's, 3P's.
Coolgardie	1 ELA	Mt. Howe	1 ELA
Warda Warra	8PLA's	Mt. Vettors JV	1 EL, 3P's, 3PLA's
Bounty	1 ELA	Mt. White	2ELA's
Broads Dam.	7PLA's	Mt. Clifford	1 ELA, 2P's, 1PLA
West Kalgoorlie	79P's, 30PLA's, 2EL's, 2L's, 23M's, 17MLA's	Ora Banda	10PLA's
Kunanalling 100%	3EL's, 2M's, 20P's, 42PLA's	Quartz Circle JV	1 EL, 7P's
Bonnie Vale	1 ELA	Quartz Circle 100%	1 ELA, 2PLA's – 20%
Austin Downs	1 ELA	Yerilla	1 ELA

Notes:EL = Granted Elexploration Licence

M = Granted Mining Lease

P = Granted Prospecting Licence

MLA = Mining Lease Application

ELA= Exploration Licence Application

PLA = All tenements are 100% owned unless detailed  
in Notes 20 of the Joint Venue Summary.



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