Cazaly Resources Limited

ABN: 23 101 049 334

and

Controlled Entities

Annual Report

For the Year Ended
30 June 2010

CAZALY
RESOURCES LIMITED

CONTENTS

CORPORATE DIRECTORY

MANAGING DIRECTOR
Nathan McMahon

MANAGING DIRECTOR
Clive Jones

NON-EXECUTIVE DIRECTOR
Kent Hunter

COMPANY SECRETARY
Lisa Wynne

PRINCIPAL & REGISTERED OFFICE
Level 2, 38 Richardson Street
WEST PERTH WA 6005
Telephone: (08) 9322 6283
Facsimile: (08) 9322 6398

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

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

STOCK EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: CAZ

BANKERS
National Australia Bank
50 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the company and its controlled entities ("Economic Entity") for the financial year ended 30 June 2010.

1. DIRECTORS

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

Nathan McMahon
Clive Jones
Kent Hunter

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

COMPANY SECRETARY

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

Lisa Wynne

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

2. PRINCIPAL ACTIVITIES

The principal activity of the Economic Entity during the financial period was mineral exploration.

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

3. OPERATING RESULTS

The loss of the Economic Entity after providing for income tax amounted to $1,370,163 (2009: $5,290,296).

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

Parker Range Iron Ore Project

Cazaly continued work on the Parker Range Pre-Feasibility Study (PFS) and results released shortly after the end of December. Development work has been ongoing. The Parker Range Project lies approximately 15 kilometres south-east of Marvel Loch and approximately 63 kilometres by road south of the Perth–Kalgoorlie railway.

The PFS indicates very robust economics for the project which greatly benefits from its close location to existing and accessible infrastructure including road, rail, port, power and township. This access allows for the relatively rapid development and ramp up to planned full production of 4 Mtpa within 1.5 years. A Definitive Feasibility Study (DFS) into the project commenced following these results, the initial phase of which incorporated a bridging programme of further metallurgical testwork.

The PFS study showed that the Company is on track to become the second major iron ore producer in the Yilgarn region of Western Australia, behind Koolyanobbing Operations who have successfully operated in the region for many years.

The study also highlighted Kwinana as the preferred export port over Esperance due to its closer proximity and lower capital costs requirements.

The targeted fines only product has ultra-low phosphorous content and chemical properties which are highly marketable (Table 1).

Table 1: Parker Range Target Product Specification

Ore Type	**Fe**	**CaFe***	**SiO2**	**AI2O3**	**P**	**Mn**	**TiO2**	**LOI**
	%	%	%	%	%	%	%	%
Min	56.0	61.4	3.50	2.10	0.016	1.30	0.02	8.80
Max	57.5	63.3	6.50	2.90	0.029	2.20	0.10	9.20

* CaFe: calcined Fe% grade

Resources and Mining

The PFS was based upon the existing October 2009 global resource for the Mount Caudan iron ore deposit of 40.4mt @ 53.8% Fe as modelled by Runge Limited using a nominal 50% Fe wireframe. From this an Indicated and Inferred resource estimate utilising a 52% Fe low cut resulted in a resource of 28.7mt @ 55.4% Fe as follows;

Table 2: Mount Caudan Deposit Mineral Resource Estimate (52%Fe Cut-off Grade)

Type	**Total**								
	Tonnes	**Fe**	**CaFe**	**Al_2O_3**	**P**	**SiO_2**	**LOI**	**Mn**	**S**
	t	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Canga	1,342,000	53.5	57.1	6.8	0.01	8.6	6.3	0.9	0.06
Oxide	27,363,000	55.5	61.1	2.6	0.02	6.5	9.2	1.3	0.08
Total	**28,705,000**	**55.4**	**60.9**	**2.8**	**0.02**	**6.6**	**9.0**	**1.3**	**0.08**

The Company did not declare an ore reserve as part of the PFS with this work to be completed in the DFS. The existing resource model was utilised to estimate mineable resources which comprise 90% Indicated and 10% Inferred material. Given the continuity of mineralisation and the close proximity of inferred to indicated material the Company firmly expects that further planned drilling will readily convert a reasonable proportion of the inferred resource material to indicated status which can then be considered for conversion to an ore reserve as part of the DFS.

5. REVIEW OF OPERATIONS

Metallurgy
Ore characterisation studies to date have largely been aimed at characterising the chemical and physical properties of lump/fines and fines only 'at shipment' products and the beneficiation potential of the ore. In summary, the ore has ultra-low phosphorus, carries acceptable levels of other potential impurities and responds favourably to beneficiation.

Preliminary beneficiation test work undertaken to evaluate ore response to potential upgrading has resulted in early success with wet-screening/de-sliming and gravity separation techniques. The work has indicated that there is good potential to upgrade the ore, including lower grade (50-54% Fe) ore.

Subsequently, a systematic programme of metallurgical test work was commenced to further assess this beneficiation potential. Based on physical attributes the ore can be classified as moderately strong in comparison to Pilbara hematite ores and will be amenable to conventional crushing and screening process technology.

Processing and Infrastructure
The study was based upon a process plant producing a single fines product at a nominal rate of 4 Mtpa. The plant would incorporate a primary sizing/crushing circuit, with two stage secondary and tertiary crushing, scalping screening, sampling and stockpiling of product fines by radial stacker. The ore will then be transported by road from site to the rail head before being transported by rail to port. The plant will have the flexibility to expand to incorporate beneficiation during Year 3 of operation.

There are two existing export port options at Esperance and Kwinana with both having potential for the export of iron ore mined at Parker Range. The preferred option is the port of Kwinana, due to both lower rail haulage distance and capital cost. Additionally, there are proposed a further two future port options located at James Point (Kwinana) and Southern Mid-West Port (North of Perth), however best case development for these is 2013.

Operations
The Company and its contractors anticipate employing up to 159 persons during the 4 Mtpa operations phase with up to 124 persons on-site at any one time. Furthermore, during construction a workforce of up to 250 people will be require to complete the project over a 12 month implementation program.

It is the intention of Cazaly to provide opportunities wherever possible to the local community in the area. Cazaly will continue to work closely with the Yilgarn Shire Council and community to provide these opportunities.

Pilbara Iron Ore Projects

Hamersley Project
A total of 9 drill holes were completed for 1,332m at the Winmar Deposit , located approximately 70km north of the township of Tom Price. The Winmar Deposit is a Channel Iron Deposit (CID) target buried by modern alluvial drainage. Drilling tested extensions to mineralisation discovered in late 2008 as well as infilling previous drilling to determine mineralisation continuity.

Numerous significant results were returned with a best result of 60m @ 55.6% Fe. Mineralisation has been intersected over a strike of 1km and is open in all directions. A small number of holes have also intersected bedrock mineralisation (BID) beneath the CID providing additional scope for resources.

The conclusion of recent drill programmes has enabled the Company to estimate the maiden Inferred Resource for the Winmar Deposit as follows;

5. REVIEW OF OPERATIONS

Winmar Deposit - Inferred Resource Estimate

	TOTAL							
Ore Type	**Cut Off Fe %**	**Tonnes t**	**Fe %**	**CaFe %**	**Al_2O_3 %**	**P %**	**SiO_2 %**	**LOI %**
Detrital Iron	40	36,090,000	45.81	47.05	5.68	0.03	25.12	2.65
Channel Iron	**52**	**92,260,000**	**54.92**	**58.44**	**4.20**	**0.04**	**10.56**	**6.02**
Bedded Iron	52	14,880,000	54.97	59.32	4.16	0.05	9.42	7.32
Channel & Bedded Iron	52	107,140,000	54.93	58.57	4.19	0.04	10.40	6.20
Total	**40 / 52**	**143,230,000**	**52.63**	**55.58**	**4.57**	**0.04**	**14.11**	**5.31**

NB: Calcined Fe (CaFe) calculated by the formula CaFe% = (Fe%)/(100-LOI1000))*100

Mineralisation occurs as three types; an Upper Detrital Zone, a Mid Level CID and a basement Bedded Iron zone. Of these the CID mineralisation is the most pervasive and important. The zone contains the bulk of the resource and has favourable chemical properties. A programme of metallurgical test work is underway to examine a range of potential beneficiation techniques including screening, scrubbing, heavy liquid separation and magnetic separation to further improve the chemical properties of the ore.

Importantly, much of the target at Winmar has yet to be explored. The resource has been estimated from over 1.5km of strike from a total target strike length of approximately 2.8km. The size of this initial resource is substantially more than what was expected and accordingly the exploration target for the deposit has now been revised upwards to **250 to 300mt @ 52-55% Fe (55-59% CaFe)** based upon the results to date and the geometric extent of the target. Note that the Company's exploration target includes potential quantity and grade and is conceptual in nature. There has been insufficient exploration to define these extended mineral resources and it is uncertain if further exploration will result in the determination of such further mineral resources.

Earaheedy Iron Ore Project

The Company has combined its tenement holdings in the Earaheedy Basin located in the central region of Western Australia to form a 50/50 joint venture with Vector Resources Limited (ASX:VEC) to principally explore for iron ore and manganese mineralisation. The project covers a very large area in excess of 2,300 km2 including a substantial strike extent of the iron ore prospective Frere Formation.Numerous targets have been identified and the company is currently negotiating access to the tenements with the traditional owners.

The Earaheedy Basin was first explored for iron ore during the 1970's, principally by BHP and AMAX Exploration, who defined extensive areas of haematite enrichment with surface grades of up to 66% Fe. Subsequent work was very limited and only minimal drilling was conducted before work was discontinued. Recent work however, by the Geological Survey of Western Australia and by other companies, has reinvigorated exploration and highlighted the potential of the region to host major iron ore deposits. The discovery of high grade manganese mineralisation by Zinc Co Australia within the Earaheedy has also recently highlighted the potential of the region.

Whilst the project is at an early stage of development, the extent of known iron formations within the host Frere Formation, the results from regional surface sampling and the results from other work in the region highlights the great potential of the project to host several large scale deposits of haematite, haematite-goethite and magnetite.

6. FINANCIAL POSITION

The net assets of the Economic Entity have increased by $6,6 million from 30 June 2009 to $20.5 million in 2010, due to increased capital which has predominately been expended on the Parker Range Project.

The Economic Entity has $3.4 million in cash assets as at 30 June 2010.

7. 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.

8. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Economic Entity occurred during the financial period:

In July 2009, the Company issued 2,983,236 ordinary shares at a price of 16.5 cents pursuant to the Non-Renounceable Entitlement Issue Prospectus dated 11 May 2009.

On 7 September 2009, the Company issued 2,377,040 ordinary shares at a deemed price of 27.5 cents pursuant to an agreement to acquire Gondwana Resources Limited's interest in the Parker Range Project.

On 8 September 2009, the Company issued 680,450 ordinary shares at a deemed price of 27.5 cents pursuant to an agreement to acquire William Robert Richmond's interest in the Parker Range Project.

On 25 November 2009, the Company issued 823,801 ordinary shares at a deemed price of 24.28 cents pursuant to an agreement to terminate the royalty arrangement between the Group and Carbine Resources Ltd.

On 30 December 2009, the Company announced a placement to raise up to $2,240,000 by way of placement of 4 million ordinary shares and 4 million 28 cent Options expiring 1 February 2010. The ordinary shares and Options were issued on 31 December 2009. On 29 January 2010, the Options were exercised and the Company issued 4 million ordinary shares.

On 7 April 2010, the Company issued 3 million ordinary shares by way of a Placement to a range of leading institutions and sophisticated investors.

During May 2010 and June 2010, the Company issued 5,454,545 ordinary shares by way of a Placement to a range of leading institutions and sophisticated investors.

During the financial period, the Company issued a total of 147,028 ordinary shares on exercise of 147,028 20 cent Listed Options expiring 28 February 2011.

On 17 June 2010, the Company announced that is had signed an agreement with Phoenix Gold Pty Ltd to sell it's West Kalgoorlie Gold assets, including the 100% owned subsidiary Hayes Mining Pty Ltd. The sale is conditional on Phoenix receiving approval form the ASX for admission of its securities to the official list and obtaining ministerial consents for tenement transfers to Phoeneix.

9. AFTER BALANCE DATE EVENTS

On 15 July, the Company issued 1,084 Shares following the exercise of 1,084 20 cent Options expiring 28 February 2011.

On 12 August, the Company issued 1,712 Shares following the exercise of 1,712 20 cent Options expiring 28 February 2011.

On 25 August, the Company issued 1,000,000 Shares to Nathan McMahon following the exercise of 1,000,000 30 cent Options expiring 1 July 2011.

On 7 September, the Company issued 678,803 Shares to Nathan McMahon and related parties of Nathan McMahon, following the exercise of 678,803 20 cent Options expiring 28 February 2011.

On 9 September, the Company issued 1,667 Shares following the exercise of 1,667 20 cent Options expiring 28 February 2011.

On 29 September 2010, the Company announced it had entered into a Bridging Facility with a range of Institutions, Sophisticated Investors and Directors to provide bridge loan amounts of a minimum of $2 million and maximum of $4 million. Lenders will be issued with 100,000 Cazaly Options for every $100,000 drawndown. The bridging facility has been arranged as a short-term finance for the purpose of allowing the completion of the Parker Range Bankable Feasibility Study and general working capital requirements. The Company has drawn down $1 million to date. The terms of the bridging facility, are at arms length and on commercial terms.

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

10. 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.

The directors have considered the recently enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Group for the current, or subsequent financial year. The directors will reassess this position as and when the need arises.

11. INFORMATION ON DIRECTORS

Nathan McMahon	Managing Director (Corporate and Administration)	
Qualifications	*B.Com*	
Experience	Mr McMahon has provided tenement management advice to the mining industry for approximately 15 years to in excess of 20 public listed mining companies. Mr McMahon has specialised in native title negotiations, joint venture negotiations and project acquisition due diligence. Mr McMahon is a Director of several listed companies. These include on the ASX; joint Managing Director of Cazaly Resources Ltd., a Director of Catalyst Metals Ltd, Hodges Resources Ltd and Bannerman Resources Ltd. He is also a Director of the AIM listed company Universal Coal PLC.	
Interest in Shares	Fully Paid Ordinary Shares	11,405,357

11. INFORMATION ON DIRECTORS (Cont'd)

Clive Jones	Managing Director (Technical)
Qualifications	*B.App.Sc(Geol), M.AusIMM.*
Experience	Mr Jones has been involved in mineral exploration for over 25 years and has worked on the exploration for a range of commodities including gold, base metals, mineral sands, uranium and iron ore. Mr Jones is a Director of several ASX listed companies. He is Chairman of Cortona Resources Ltd., joint Managing Director of Cazaly Resources Ltd and Chairman of Corazon Mining Ltd and a Director of Bannerman Resources Ltd.
Interest in Shares and Options	Fully Paid Ordinary Shares 7,566,802 $0.20 Options expiring on 28 February 2011 856,669 $0.30 Options expiring on 1 July 2011 1,000,000
Kent Hunter	Non-Executive Director
Qualifications	*B.Bus, CA.*
Experience	Mr Hunter is a Chartered Accountant with over 16 years' corporate and company secretarial experience. He has been involved in the listing of over 20 exploration companies on ASX in the past 9 years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Cazaly Resources Limited, Cauldron Energy Limited and Gryphon Minerals Limited and is company secretary of two other ASX Listed entities.
Interest in Shares and Options	Fully Paid Ordinary Shares 1,830,757 $0.20 Options expiring on 28 February 2011 221,346 $0.30 Options expiring on 1 July 2011 250,000

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	Hodges Resources Limited	Since May 2008
	Whinnen Resources Limited	Since December 2009
	Catalyst Metals Limited	From July 2008 to September 2009
	Universal Coal PLC	From May 2005 to December 2009
	Bannerman Resources Limited	From June 2007 to December 2008
Clive Jones	Corazon Mining Limited	Since February 2005
	Cortona Resources Limited	Since January 2006
	Bannerman Resources Limited	Since January 2007
Kent Hunter	Elixir Petroleum Limited	From March 2004 to November 2008
	Cauldron Energy Limited	Since November 2002
	Venture Minerals Limited	From May 2006 to July 2009
	Gryphon Minerals Limited	From January 2004 to February 2009
	Red Emperor Resources NL	From 2 April 2007

12. REMUNERATION REPORT

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

Remuneration Policy

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

The board's policy for determining the nature and amount of remuneration for board members is set out below.

The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed by the managing directors 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 directors 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.

12. REMUNERATION REPORT (Cont'd)

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 2010

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

	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Performance Related
	Cash, salary & commissions	**Cash profit share**	**Non-cash benefit**	**Other**	**Super-annuation**	**Other**	**Equity**	**Options** (i)		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Nathan McMahon – Managing Director (ii)										
2010	180,000	-	-	-	-	-	-	108,267	288,267	38%
2009	180,000	-	-	-	-	-	-	-	180,000	0%
Clive Jones – Managing Director (iii)										
2010	180,000	-	-	-	-	-	-	108,267	288,267	38%
2009	180,000	-	-	-	-	-	-	-	180,000	0%
Kent Hunter – Non Executive Director										
2010	27,250	-	-		-	-	-	27,067	54,317	50%
2009	26,312	-	-	5,976	937	-	-	-	33,225	0%
Lisa Wynne – Company Secretary (iv)										
2010	-	-	-	54,772	-	-	-	19,128	73,900	26%
2009	-	-	-	36,911	-	-	-	-	36,911	0%
Total Remuneration										
2010	387,250	-	-	54,772	-	-	-	262,729	704,751	37%
2009	386,312	-	-	42,887	937	-	-	-	430,136	0%

i) The fair value of the Options is calculated at the date of grant using a Black-Scholes model.
ii) An aggregate amount of $180,000 (2009:$ 180,000) was paid, or was due and payable to Kingsreef Pty Ltd, a company controlled by Mr Nathan McMahon, for the provision of corporate and tenement management services to the Company.
iii) An aggregate amount of $180,000 (2009:$ 180,000) was paid, or was due and payable to Widerange Corporation Pty Ltd, a company controlled by Mr Clive Jones, for the provision of geological services to the Company.
iv) An aggregate amount of $54,772 (2009: $36,911) was paid, or was due and payable to Sila Consulting Pty Ltd, a company of which Ms Wynne is a Director, for the provision of company secretarial services to the Company.

Options issued as part of remuneration for the year ended 30 June 2010

The following Options were issued to directors and executives as part of their remuneration for the year ended 30 June 2010. No cash consideration was paid by the recipients.

	Number Granted (i)	Number Vested	Grant Date	Expiry Date	Exercise Price	Fair Value at Grant Date
					$	$
N B McMahon	1,000,000	1,000,000	13.11.2009	01.07.2011	$0.30	0.108
C B Jones	1,000,000	1,000,000	13.11.2009	01.07.2011	$0.30	0.108
K M Hunter	250,000	250,000	13.11.2009	01.07.2011	$0.30	0.108
	2,250,000	2,250,000				

12. REMUNERATION REPORT (Cont'd)

(i) Options were awarded to Board members as part of the Remuneration Policy to provide a mechanism for them to participate in the future development of the Economic Entity and as an incentive for their future involvement with and commitment to the Economic Entity.

Employment Contracts of Directors and Senior Executives

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

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

Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

13. MEETINGS OF DIRECTORS

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

	Directors Meetings	
Director	**Number Eligible to Attend**	**Meetings Attended**
N McMahon	5	5
C Jones	5	5
K Hunter	5	5

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.

14. INDEMNIFYING OFFICERS OR DIRECTORS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every Officer, 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 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.

The Company has insurance policies in place for Directors and Officers insurance. The premium paid on this policy was $15,290.

15. 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 Under Option	Grant Date
5 October 2011	$0.8036	50,000	5 October 2006
19 June 2012	$0.8600	250,000	19 June 2007
14 September 2012	$0.39	75,000	14 September 2012
26 October 2012	$0.45	225,000	26 October 2007
22 May 2013	$0.30	100,000	22 May 2008
28 February 2011	$0.20	12,161,028	28 February 2009
1 July 2011	$0.30	2,250,000	13 November 2009
6 October 2011	$0.25	500,000	13 November 2009
6 July 2013	$0.30	750,000	13 November 2009
6 July 2016	$0.40	750,000	13 November 2009
11 January 2015	$0.33	925,000	12 January 2010
4 February 2015	$0.49	100,000	5 February 2010
11 February 2012	$0.40	500,000	11 February 2010

Option holders do no have any rights to participate in any issue of shares or other interests in the Company or any other entity.

There have been no unissued shares or interest under option of any controlled entity within the Economic Entity during or since the reporting date.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2010, the following ordinary shares of Cazaly Resources Ltd were issued on the exercise of options granted. A further 1,683,266 shares have been issued since year end. No amounts are unpaid on any of the shares.

	Grant Date	Exercise Price	Number of Shares Issued
Listed Options	17 June to 16 July 2009	$0.20	147,028
Listed Options	12 March 2009	$0.20	4,000,000

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

15. PROCEEDINGS ON BEHALF OF COMPANY

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

The Economic Entity was not a party to any such proceedings during the year.

16. AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 16 of the directors' report.

17. NON AUDIT SERVICES

The board of directors is satisfied that the provision of non-audit services performed during the year by the Group'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 2010.

This report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Nathan McMahon
Managing Director **29 September 2010**

Bentleys
Thinking ahead

Bentleys Audit
& Corporate (WA) Pty Ltd
ABN 33 121 222 802

Level 1
12 Kings Park Road
West Perth WA 6005

PO Box 44
West Perth WA 6872

T +61 8 9226 4500
F +61 8 9226 4300

www.bentleys.com.au

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 year ended 30 June 2010 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

Bentleys

BENTLEYS
Chartered Accountants

RANKO MATIC CA
Director

DATED at PERTH this 29th day of September 2010

CONSOLIDATED STATEMENT OF COMPREHNSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Revenue	**2**	**597,053**	**639,351**
Other Income	2	2,205,971	40,429
Employee benefits expense		(673,980)	(235,667)
Depreciation expense		(36,559)	(25,508)
Finance costs		(7,656)	(3,361)
Administrative expense		(550,007)	(405,221)
Legal Fees		(31,253)	(746,429)
Advertising and promotional expenses		(100,805)	(56,737)
Consultancy expenses		(250,213)	(272,767)
Compliance and Regulatory expenses		(151,595)	(126,269)
Occupancy expenses		(271,193)	(175,228)
Written-off exploration expenditure		(370,000)	(1,347,773)
Provision for diminution in value of shares		-	(3,055,420)
Loss on disposal of shares		(1,777,006)	(1,178,943)
Other expenses		(25,800)	(8,917)
Loss before income tax	**3**	**(1,443,043)**	**(6,958,460)**
Income tax benefit	6	72,880	1,668,164
Loss for the period		**(1,370,163)**	**(5,290,296)**
Other comprehensive income		-	-
Net Loss and Total comprehensive income for the period attributable to members		**(1,370,163)**	**(5,290,296)**
Basic loss per share (cents per share)	19	(1.53)	(8.47)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	7	3,390,602	3,816,351
Trade and other receivables	8	335,352	140,237
Prepayments		30,015	6,893
		3,755,969	3,963,481
Non current assets held for sale	9	5,066,305	-
TOTAL CURRENT ASSETS		8,822,274	3,963,481
NON CURRENT ASSETS			
Trade and other receivables	8	142,839	57,505
Financial assets	10	323,722	788,767
Property, plant and equipment	11	122,890	55,736
Exploration and evaluation assets	12	12,083,805	9,725,338
Deferred tax assets	6	5,085,658	2,903,684
TOTAL NON CURRENT ASSETS		17,758,914	13,531,030
TOTAL ASSETS		**26,581,188**	**17,494,511**
CURRENT LIABILITIES			
Trade and other payables	13	876,454	616,860
Short-term provision	14	70,869	46,164
TOTAL CURRENT LIABILITIES		947,323	663,024
NON CURRENT LIABILITIES			
Deferred tax liabilities	6	5,085,658	2,903,684
TOTAL NON CURRENT LIABILITIES		5,085,658	2,903,684
TOTAL LIABILITIES		**6,032,981**	**3,566,708**
NET ASSETS		**20,548,207**	**13,927,803**
EQUITY			
Issued capital	15	20,348,703	12,783,160
Reserves	16	613,744	7,421,043
Accumulated losses	17	(414,240)	(6,276,400)
TOTAL EQUITY		**20,548,207**	**13,927,803**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital $	Accumulated Losses $	Option Reserve $	Total $
Balance at 1 July 2008	**9,017,161**	**(986,104)**	**7,421,043**	**15,452,100**
Net loss and total comprehensive income for the period attributable to members	-	(5,290,296)	-	(5,290,296)
Shares issued during the year	3,794,859	-	-	3,794,859
Transaction costs	(32,501)	-	-	(32,501)
Option reserve	-	-	-	-
Deferred tax liability component	3,641	-	-	3,641
Balance at 30 June 2009	**12,783,160**	**(6,276,400)**	**7,421,043**	**13,927,803**
Net loss and total comprehensive income for the period attributable to members	-	(1,370,163)	-	(1,370,163)
Shares issued during the year	8,004,139	-	-	8,004,139
Transaction costs	(365,716)	-	-	(365,716)
Option reserve	-	-	425,024	425,024
Transfers to retained earnings	-	7,232,323	(7,232,323)	-
Deferred tax liability component	(72,880)	-	-	(72,880)
Balance at 30 June 2010	**20,348,703**	**(414,240)**	**613,744**	**20,548,207**

The accompanying notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED
30 JUNE 2010

	Note	2010 $	2009 $
Cash Flows from Operating Activities			
Payments to suppliers and employees		(1,667,251)	(2,102,803)
Interest received		103,317	64,844
Other revenue		413,670	420,745
Payments for exploration and evaluation		(6,449,860)	(2,884,984)
Net cash used in operating activities	20	(7,600,124)	(4,502,198)
Cash Flows From Investing Activities			
Proceeds from sale of exploration assets		709,320	1,327,702
Proceeds from sale of equity investments		609,596	580,555
Purchase of plant and equipment		(101,955)	(7,139)
Purchase of equity investments		(84,214)	(37,000)
Purchase of exploration assets		(297,980)	
Recoupment of exploration expenditure from Joint Venture operations		13,558	170,770
Proceeds for Joint Venture Management		-	178,710
Net cash provided by investing activities		848,325	2,213,598
Cash Flows from Financing Activities			
Proceeds from issue of securities		6,691,766	4,064,735
Payment for costs of issue of securities		(365,716)	(32,502)
Net cash provided by financing activities		6,326,050	4,032,233
Net increase in cash held		(425,749)	1,743,633
Cash and cash equivalents at beginning of the financial year		**3,816,351**	**2,072,718**
Cash and cash equivalents at end of the financial year	7	**3,390,602**	**3,816,351**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the Economic Entity of Cazaly Resources Limited ("the Company") and controlled entities ("the Economic Entity"). Cazaly Resources Limited is a listed public company, incorporated and domiciled in Australia.

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

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

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

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by the Company at the end of the reporting period. A controlled entity is any entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Economic Entity during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 22 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Economic Entity have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the Company.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interest in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations
Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

a) Principles of Consolidation (cont'd)

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination on of the combining entities must be indentified as the acquirer i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of an non-controlling interest to be recognised in the acquiree where less than 100% ownership inters is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting gfroma contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as a asset or a liability is remeasured each reporting period to faire value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

A transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(b) Plant and Equipment

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

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

(b) Plant and Equipment (cont'd)

Depreciation

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

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

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

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

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

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

(c) Exploration, Evaluation and Development Expenditure

Costs incurred during exploration and evaluation relating to an area of interest are accumulated. Costs are carried forward to the extent they 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.

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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been estimated of future costs, current legal requirements and technology on an undiscounted basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(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 by 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 straight-line basis over the shorter of their estimated useful lives or the lease term.

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

(e) Financial Instruments

Initial Recognition and Measurement

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

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

Derecognition

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

Classification and Subsequent Measurement

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

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

(*ii) Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(e) Financial Instruments (cont'd)

(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.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

(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-term borrowings in current liabilities on the Statement of Financial Position.

(g) Trade and Other Receivables

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

(h) Revenue and Other Income

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Statement of Financial Position 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 Statement of Financial Position.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(k) Taxation

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

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

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

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

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

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

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

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

Tax Consolidation

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(l) Foreign Currency

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

(m) Trade and Other Payables

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

(n) Provisions

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

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

(o) Share Based Payments

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

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

(q) Earnings Per Share

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

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

(r) Employee Benefits

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

(s) Joint Venture Entities

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

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

(u) Critical Accounting Estimates and Judgments

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

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

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

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

Key Judgment – Environmental Issues
Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the company's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

Key Estimate – Taxation
Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

(v) Adoption of new and revised Accounting Standards

During the financial period, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009. During the current period, certain accounting policies have changes as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009. The affected policies and standards are:

AASB 101: Presentation of Financial Statements
AASB 8: Operating Segments
AASB 3: Business Combinations
AASB 127: Consolidated and Separate Financial Statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(v) Adoption of new and revised Accounting Standards (cont'd)

Presentation of Financial Statements

The previous version of AASB 101 used the titles 'balance sheet' and 'cash flow statement'. The revised standard uses 'statement of financial position' and 'statement of cash flows' for those statements, although entities can use other statement titles. The previous version of AASB 101 required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity. It also labelled the statement of changes in equity comprising profit or loss, other items of income and expense and the effects of changes in accounting policies and correction of errors as 'statement of recognised income and expense'.

This Standard now requires:

- All changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity.

An entity is not permitted to present components of comprehensive income (i.e. nonowner changes in equity) in the statement of changes in equity. The purpose is to provide better information to users by requiring aggregation of items with shared characteristics and separation of items with different characteristics;

- Income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity;
- Components of other comprehensive income to be displayed in the statement of comprehensive income; and
- Total comprehensive income to be presented in the financial statements.

The revised standard requires an entity to disclose income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not include such a requirement. The revised standard also requires an entity to disclose reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in previous periods.

The previous version of AASB 101 permitted disclosure of the amount of dividends recognised as distributions to equity holders (now referred to as 'owners') and the related amount per share in the income statement, in the statement of changes in equity or in the notes. The revised standard requires dividends recognised as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes. The presentation of such disclosures in the statement of comprehensive income is not permitted.

Segment Reporting

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 and as a result some of the required operating segment disclosure have changed. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker has been identified as the Board of Cazaly Resources Ltd.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

(v) Adoption of new and revised Accounting Standards(Cont'd)

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Principles of Consolidation
AASB 127 (revised) required the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must be remeasured to fair value and a gain or loss is recognizes in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.
The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, any dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

Business Combinations
All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments included at their respective fair values. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition. Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial recognition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The financial report was authorised for issue on 29 September 2010 by the board of directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
2. REVENUE & OTHER INCOME		
Revenue		
- interest received	109,063	56,413
- option fees	50,000	100,000
- management fees	-	62,193
- recoupment of office costs on-charged	413,670	420,745
- other revenue	24,320	-
	597,053	639,351
Other Income		
- profit on sale of tenement	419,930	40,429
- profit on sale of fixed asset	1,758	-
- net gain on financial assets held for trading	1,784,283	-
	2,205,971	40,429

3. LOSS FOR THE YEAR

(i) Expenses

	2010 $	2009 $
Borrowing costs		
- other persons	7,656	3,361
Depreciation of non-current assets		
- plant and equipment	34,478	23,580
- motor vehicle	2,081	1,928
	36,559	25,508
Rental expense on operating leases		
- minimum lease payments	26,798	24,160
Fair value loss on other financial assets at fair value through profit or loss	-	3,055,420
Exploration expense written off	370,000	1,347,773
Employee benefits:		
- Superannuation benefits	12,415	12,226
- Employee equity settled benefits	425,024	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to key management personnel of the Company during the year are as follows:

	2010 $	2009 $
Short-term employee benefits	442,022	429,199
Post-employment benefits	-	937
Equity based payments	262,729	-
	704,751	430,136

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the Directors report under the heading Remuneration Report.

b) Shareholdings

Number of Shares held by Key Management Personnel:

2010

	Balance 1 July 2009	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2010
N McMahon	6,430,398	-	-	3,096,156	9,526,554
C Jones	6,853,338	-	-	713,464	7,566,802
K Hunter	1,770,757	-	-	60,000	1,830,757
	15,054,493	-	-	3,869,620	18,924,113

2009

	Balance 1 July 2008	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2009
N McMahon	5,222,796	-		1,207,602	6,430,398
C Jones	5,140,001	-		1,713,337	6,853,338
K Hunter	1,328,066	-		442,691	1,770,757
	11,690,863	-		3,363,630	15,054,493

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. KEY MANAGEMENT PERSONNEL COMPENSATION (Cont'd)

c) Option Holdings

Number of $0.20 Options expiring 28 February 2011, held by Directors and Executives:

	Balance 1 July 2009	Issued	Exercised	Lapsed	Balance 30 June 2010	Vested during the year	Vested and exercisable	Vested and unexercis-able
Nathan McMahon	678,803	-	-	-	678,803	-	678,803	-
Clive Jones	856,669	-	-	-	856,669	-	856,669	-
Kent Hunter	221,346	-	-	-	221,346	-	221,346	-
	1,756,818	-	-	-	1,756,818	-	1,756,818	-

Number of $0.30 Options expiring 1 July 2011, held by Directors and Executives:

	Balance 1 July 2009	Issued	Exercised	Lapsed	Balance 30 June 2010	Vested during the year	Vested and exercisable	Vested and unexercis-able
Nathan McMahon	-	1,000,000	-	-	1.000,000	1.000,000	1.000,000	-
Clive Jones	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
Kent Hunter	-	250,000	-	-	250,000	250,000	250,000	-
	-	2,250,000	-	-	2,250,000	2,250,000	2,250,000	-

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

	Balance 1 July 2009	Issued	Exercised	Lapsed	Balance 30 June 2010	Vested during the year	Vested and exercisable	Vested and unexercis-able
Nathan McMahon	1,000,000	-	-	1,000,000	-	-	-	-
Clive Jones	1,000,000	-	-	1,000,000	-	-	-	-
Kent Hunter	200,000	-	-	200,000	-	-	-	-
	2,200,000	-	-	2,200,000	-	-	-	-

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

	Balance 1 July 2009	Issued	Exercised	Lapsed	Balance 30 June 2010	Vested during the year	Vested and exercisabl e	Vested and unexercis-able
Nathan McMahon	1,000,000	-	-	1,000,000	-	-	-	-
Clive Jones	1,000,000	-	-	1,000,000	-	-	-	-
Kent Hunter	500,000	-	-	500,000	-	-	-	-
	2,500,000	-	-	2,500,000	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

4. KEY MANAGEMENT PERSONNEL COMPENSATION (Cont'd)

d) Compensation Options

2010

	Number Granted	Number Vested	Grant Date	Expiry Date	Exercise Price $	Fair Value at Grant Date $
N B McMahon	1,000,000	1,000,000	13.11.2009	01.07.2011	$0.30	0.108
C B Jones	1,000,000	1,000,000	13.11.2009	01.07.2011	$0.30	0.108
K M Hunter	250,000	250,000	13.11.2009	01.07.2011	$0.30	0.108
	2,250,000	2,250,000				

2009

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

(i) Key Management Personnel Option Valuation Calculation

	2010 30 cent Options expiring 1 July 2011	2009 75 cent Options expiring 30 November 2009
Grant date share price	$0.245	$0.375
Exercise price	$0.30	$0.75
Expected volatility	100%	135%
Option life	1.63 years	3 years
Dividend yield	-	-
Risk-free interest rate	4.25%	6.54%

e) Shares issued on exercise of compensation options

	Date of exercise of options		Number of ordinary shares issued on exercise of options during the year	
	2010	2009	2010	2009
N McMahon	-	4 October 2008	-	1,000,000
C Jones	-	18 July 2008	-	1,000,000
K Hunter	-	-	-	-

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
5. AUDITORS' REMUNERATION		
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	45,115	36,750
	45,115	36,750
6. INCOME TAX EXPENSE		
The components of the tax expense/(income) comprise:		
Current tax	-	-
Deferred tax	(72,880)	(1,668,164)
	(72,880)	(1,668,164)
(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:	(1,443,044)	(6,958,460)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2009: 30%)	(432,913)	(2,087,538)
Add:		
Tax effect of:		
Other non-allowable items	1,567	7,574
Less:		
Tax effect of:		
Tax benefit of deductible equity raising costs	(35,132)	(15,588)
Effect of tax losses derecognised	534,312	420,251
Over provision of prior year	(145,760)	7,137
Other	5,046	-
Income tax benefit attributable to entity	(72,880)	(1,668,164)
The applicable weighted average effective tax rates are as follows:	(3.2%)	(24.0%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

6. INCOME TAX EXPENSE (Cont'd)

	2010 $	2009 $
(b) Deferred tax assets at 30% (2009: 30%) comprise the following		
Carry forward revenue losses	3,559,123	1,384,109
Carry forward capital losses	910,854	377,549
Unrealised Fair Value Adjustment	215,730	751,015
Capital raising and future black hole deductions	267,293	264,460
Provisions and accruals	48,658	42,551
Other	84,000	84,000
	5,085,658	2,903,684
Deferred tax liabilities at 30% (2009: 30%) comprise the following		
Exploration expenditure	5,085,470	2,903,496
Investments	-	-
Other	188	188
	5,085,658	2,903,684
(c) Deferred tax recognised directly in equity:		
Relating to equity raising costs	(72,881)	(3,641)
Other		
	(72,881)	(3,641)

7. CASH AND CASH EQUIVALENTS

Cash at bank	182,109	58,483
Petty cash	495	495
Deposits at call (i)	3,207,998	3,757,373
	3,390,602	3,816,351

(i) The effective interest rate on short-term bank deposits was 5.06% (2009:7.56%); these deposits have an average maturity of 26 days.

8. TRADE AND OTHER RECEIVABLES

Current		
Trade receivables	51,323	46,434
Other debtors	284,029	93,803
	335,352	140,237
Non-Current		
Bonds (i)	142,839	57,505
	142,839	57,505

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

9. NON CURRENT ASSETS HELD FOR SALE

Current	**2010** $	**2009** $
Hayes Mining Pty Ltd assets held for sale(i):	151,500	-
Receivables	4,914,805	-
Exploration and evaluation assets *(ii)*	5,066,305	-

(i) On 18 June 2010, the Company announced that it had signed an agreement with Phoenix Gold Pty Ltd to sell its West Kalgoorlie Gold assets, including the 100% owned subsidiary Hayes Mining Pty Ltd. The sale is conditional on Phoenix receiving approval form the ASX for admission of its securities to the official list and obtaining ministerial consents for tenement transfers to Phoeneix.

(ii) The exploration and evaluation assets relate to costs to acquire tenements and capitalised exploration costs and are included in the segment assets of the Economic Entity's exploration operating segment as disclosed in Note 23.

10. FINANCIAL ASSETS

Current		
Financial assets, at fair value through profit or loss:		
Held-for-trading Australian listed shares	323,722	788,767
	323,722	788,767

11. PROPERTY, PLANT AND EQUIPMENT

Plant and Equipment		
At cost	173,225	149,671
Accumulated depreciation	(141,327)	(112,363)
	31,898	37,308
Office Furniture and Equipment		
At cost	45,511	28,444
Accumulated depreciation	(22,193)	(16,679)
	23,318	11,765
Motor Vehicle		
At cost	68,288	27,272
Accumulated depreciation	(614)	(20,609)
	67,674	6,663
Leasehold Improvement		
At cost	5,344	5,344
Accumulated amortisation	(5,344)	(5,344)
	-	-
	122,890	55,736

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

	2010 $			
	Plant and Equipment	Office Furniture	Motor Vehicles	Total
Balance at the beginning of the year	37,308	11,765	6,664	55,737
Additions	23,554	17,067	68,287	108,908
Disposals	-	-	(5,196)	(5,196)
Depreciation/expense	(28,964)	(5,514)	(2,081)	(36,559)
Carrying amount at the end of the year	31,898	23,318	67,674	122,890

	2009 $			
	Plant and Equipment	Office Furniture	Motor Vehicles	Total
Balance at the beginning of the year	51,564	13,949	8,592	74,105
Additions	6,460	680	-	7,140
Disposals	-	-	-	-
Depreciation/expense	(20,716)	(2,864)	(1,928)	(25,508)
Carrying amount at the end of the year	37,308	11,765	6,664	55,737

	2010 $	**2009 $**
12. EXPLORATION, EVALUATION AND DEVELOPMENT COSTS		
Non-Current		
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation phases at cost	12,036,805	9,678,338
Royalty assets	47,000	47,000
	12,083,805	9,725,338
Movement – exploration and evaluation		
Brought forward	9,678,338	8,441,493
Exploration expenditure capitalised during the year	7,846,718	2,755,388
Disposals	(236,888)	-
Recoupment of exploration expenditure from joint venture partners	(13,558)	(170,770)
Assets classified as non current assets held for sale	(4,867,805)	-
Exploration expenditure written off	(370,000)	(1,347,773)
	12,036,805	9,678,338

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

12. *EXPLORATION, EVALUATION AND DEVELOPMENT COSTS (Cont'd)*

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.

	2010 $	2009 $
13. *TRADE AND OTHER PAYABLES*		
Current		
Trade creditors	780,059	225,093
Other creditors and accrued expenses	96,395	391,767
	876,454	616,860

(i) Creditors are non-interest bearing and settled at 30 day terms.

14. *PROVISION*

	2010 $	2009 $
Current		
Provision for Annual Leave	70,869	46,164

15. *ISSUED CAPITAL*

	2010 $	2009 $
107,442,705 fully paid ordinary shares (2009: 83,976,604) with no par value	20,348,703	12,783,160
12,844,294 Listed Options, exercisable at 20 cents expiring 28 February 2011	-	-

(a) *Movements in Ordinary Shares*

	Notes	Number of shares	Issue price	$
Opening balance at 1 July 2009		83,976,604		12,783,160
Placement	(i)	2,983,237	$0.165	492,234
Issue	(ii)	2,377,040	$0.275	655,000
Issue	(iii)	680,450	$0.275	187,500
Issue	(iv)	823,801	$0.243	200,000
Placement	(v)	8,000,000	$0.28	2,240,000
Placement	(vi)	3,000,000	$0.40	1,200,000
Placement	(vii)	5,454,545	$0.55	3,000,000
Exercise of Listed Options	(viii)	147,028	$0.20	29,405
Transaction costs relating to share issues		-	-	(365,716)
Deferred tax liability component	(ix)	-	-	(72,880)
Closing balance at 30 June 2010		107,442,705		20,348,703

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

15. ISSUED CAPITAL (Cont'd)

(i) In July 2009, the Company issued 2,983,236 ordinary shares at a price of 16.5 cents pursuant to the Non-Renounceable Entitlement Issue Prospectus dated 11 May 2009.
(ii) On 7 September 2009, the Company issued 2,377,040 ordinary shares at a deemed price of 27.5 cents pursuant to an agreement to acquire Gondwana Resources Limited's interest in the Parker Range Project.
(iii) On 8 September 2009, the Company issued 680,450 ordinary shares at a deemed price of 27.5 cents pursuant to an agreement to acquire William Robert Richmond's interest in the Parker Range Project.
(iv) On 25 November 2009, the Company issued 823,801 ordinary shares at a deemed price of 24.28 cents pursuant to an agreement to terminate the royalty arrangement between the Group and Carbine Resources Ltd.
(v) On 30 December 2009, the Company announced a placement to raise up to $2,240,000 by way of placement of 4 million ordinary shares and 4 million 28 cent Options expiring 1 February 2010. The ordinary shares and Options were issued on 31 December 2009. On 29 January 2010, the Options were exercised and the Company issued 4 million ordinary shares.
(vi) On 7 April 2010, the Company issued 3 million ordinary shares by way of a Placement to a range of leading institutions and sophisticated investors.
(vii) During May 2010 and June 2010, the Company issued 5,454,545 ordinary shares by way of a Placement to a range of leading institutions and sophisticated investors.
(viii) During the financial period, the Company issued a total of 147,028 ordinary shares on exercise of 147,028 20 cent Listed Options expiring 28 February 2011.
(ix) Deferred tax recognised directly in equity relating to equity raising costs.

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

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

(b) Movements in Listed Options	**Notes**	**Number of Options**	**Issue price**	**$**
Opening balance at 1 July 2009		11,499,702		-
Placement	(i)	1,491,620	-	-
Exercise of Listed Options	(ii)	(147,028)	-	-
		-	-	
Closing balance at 30 June 2010		12,844,294		-

(i) In May 2009, the Company released a prospectus for a pro rata non-renounceable entitlement issue of ordinary shares on a 1 for 3 basis with a free attaching new option for every 2 new shares applied for. The options are exercisable at 20 cents on or before 28 February 2011 and are Listed on the ASX. During the financial period, the Company issued a total of 1,491,620 being the shortfall of the rights issue.
(ii) During the financial period, a total of 147,028 Options were exercised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

15. ISSUED CAPITAL (Cont'd)

(a) **Capital risk management**

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

The working capital position of the Economic Entity at 30 June 2010 and 30 June 2009 are as follows:

	2010 $	2009 $
Cash and cash equivalents	3,390,602	3,816,351
Trade and other receivables	335,352	140,237
Trade and other payables	(876,454)	(616,860)
Working capital position	2,849,500	3,339,728

	2010 $	2009 $
16. OPTION RESERVE	613,744	7,421,043

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

	2010 $	2009 $
17. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the financial period	(6,276,400)	(986,104)
Net loss attributable to members	(1,370,163)	(5,290,296)
Transfers from Option Reserve	7,232,323	-
Accumulated losses at the end of the financial period	(414,240)	(6,276,400)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL RISK MANAGEMENT

The Economic Entity's principal financial instruments comprise receivables, payables, held-for-trading investments, cash and short-term deposits.

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

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

Interest rate risks

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

Credit risk

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

Credit risk related to balances with banks and other financial institutions is managed by the board. The board's policy requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at lease AA-. All of the Economic Entity's surplus funds are invested with AA Rated financial institutions.

Liquidity risk

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

Market risk

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

18. FINANCIAL INSTRUMENTS (Cont'd)

Maturity profile of financial instruments

The following table details the Group's exposure to interest rate risk as at 30 June 2010:

2010	**Floating Interest Rate**	**Fixed Interest maturing in 1 year or less**	**Fixed Interest maturing over 1 to 5 years**	**Non-interest bearing**	**2010 Total**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	182,109	3,207,998	-	495	3,390,602
Trade and other receivables	-	294,339	-	335,352	629,691
Financial assets – held for trading	-	-	-	323,722	323,722
	182,109	3,502,337	-	659,569	4,344,015
Weighted average Interest rate	-	5.03%	-		
Financial Liabilities					
Trade and other payables	-	-	-	876,454	876,454
	-	-	-	876,454	876,454
Weighted average interest rate	-	-	-		

The following table details the Group's exposure to interest rate risk as at 30 June 2009:

2009	**Floating Interest Rate**	**Fixed Interest maturing in 1 year or less**	**Fixed Interest maturing over 1 to 5 years**	**Non-interest bearing**	**2009 Total**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	58,483	3,757,373	-	495	3,816,351
Trade and other receivables	-	-	57,505	140,237	197,742
Financial assets – held for trading	-	-	-	788,767	788,767
	58,483	3,757,373	57,505	929,499	4,802,860
Weighted average Interest rate	-	1.21%	-		
Financial Liabilities					
Trade and other payables	-	-	-	616,860	616,860
	-	-	-	616,860	616,860
Weighted average interest rate	-	-	-	-	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL INSTRUMENTS (Cont'd)

Net Fair Values

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

	2010		2009	
	Carrying Amount $	**Net fair Value $**	**Carrying Amount $**	**Net fair Value $**
On-balance sheet financial instruments				
Financial assets				
Cash and deposits	3,390,602	3,390,602	3,816,351	3,816,351
Receivables	629,691	629,691	197,742	197,742
Investment held for trading	323,722	323,722	788,767	788,767
	4,344,015	4,344,015	4,802,860	4,802,860
Financial liabilities				
Payables	876,454	876,454	616,860	616,860
	876,454	876,454	616,860	616,860

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. All financial instruments measured at fair value are level one, meaning fair value is determined from quoted prices in active markets for identical assets.

		2010	2009
19.	***EARNINGS PER SHARE***	***$***	***$***
(a)	Loss used in the calculation of basic EPS	(1,443,043)	(5,290,295)
		Number of Shares	***Number of Shares***
(b)	Weighted average number of ordinary shares outstanding during the period used in the calculation of basic loss per share:	94,462,769	62,431,184

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

		Economic Entity	
		2010	**2009**
		$	**$**
20.	***CASH FLOW INFORMATION***		
(i)	**Reconciliation of cash flows from operating activities with profit/(loss) after income tax**		
	Loss after income tax	(1,370,163)	(5,290,295)
	Non operating cash flows in loss for the year:		
	Depreciation	36,559	25,508
	Profit)/Loss on sale of shares	1,777,006	1,178,943
	(Profit)/Loss on sale of exploration assets	(1,758)	-
	Employee equity settled transactions	425,024	-
	Fair value adjustment to investments	1,784,283	3,055,420
	Profit on sale of tenements	(494,250)	(890,429)
	Exploration write-off	370,000	1,347,773
	Management fees received	-	(62,193)
	Changes in assets and liabilities:		
	Decrease/(increase) in trade receivables and prepayments	(483,137)	1,100,073
	Increase/(decrease) in trade payables, accruals and employee entitlements	529,471	(535,198)
	Increase/(decrease) in provisions	24,705	(8,244)
	Decrease/(increase) in exploration	(6,556,418)	(2,755,391)
	Decrease/(increase) in deferred tax assets	(2,181,974)	(1,871,672)
	(Decrease)/increase in deferred tax liabilities	2,181,974	203,507
	Cash outflow from operations	(7,600,124)	(4,502,198)
(ii)	**Non-cash financing and investing activities** ***Share based payments (note 26)***	425,024	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

21. 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 has negotiated an extension of the lease agreement with Giorgio Longo until 30 September 2010 for a rental fee of $60,000 per annum.

On 25 February 2010, the Economic Entity entered into a lease agreement with CB Richard Ellis (C) Pty Ltd for the premises at Level 2, 38 Richardson Street, West Perth, Western Australia. The initial term, is for three (3) years expiring on 1 April 2013 in consideration for a rental fee of $216,804 per annum.

In order to maintain rights of tenure to mining tenements, 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:

	2010	**2009**
	$	**$**
Not longer than one year	1,179,604	5,335,168
Longer than one year, but not longer than five years	3,124,023	597,676
Longer than five years	-	-
	4,303,627	5,932,844

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 Statement of Financial Position 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.

22. CONTROLLED ENTITIES

Parent Entity	**Country of Incorporation**	**Percentage Owned**	
		2010	**2009**
Cazaly Resources Limited	Australia		
Controlled Entities			
Hayes Mining Pty Ltd	Australia	100%	100%
Cazaly Iron Pty Ltd	Australia	100%	100%
Sammy Resources Pty Ltd	Australia	100%	100%
Cazroy Pty Ltd	Australia	100%	0%

On 28 July 2009 the parent entity acquired 100% of Cazroy Pty Ltd, for purchase consideration of $1.00.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

23. OPERATING SEGMENTS

The Group operates predominantly in one geographical segment, being Western Australia, and in one business segment, mineral mining and exploration and substantially all of the entity's resources are deployed for this purpose.

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of its exploration and corporate activities. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics

Types of reportable segments

Exploration

Segment assets, including acquisition cost of exploration licenses, all expenses related to the tenements and profit on sale of tenements are reported on in this segment.

Corporate

Corporate, including treasury, corporate and regulatory expenses arising from operating an ASX listed entity. Segment assets, including cash and cash equivalents, and investments in financial assets are reported in this segment.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

23. OPERATING SEGMENTS (Cont'd)

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

	Exploration	Corporate	Total
(i) Segment performance	**$**	**$**	**$**
30 June 2010:			
Total segment revenue	494,250	102,803	597,053
Reconciliation of segment revenue to total revenue:			
Inter-segment elimination			-
Unallocated revenue			-
Total Economic Entity revenue			597,053
Segment net profit/(loss) before tax	124,250	(1,982,722)	(1,858,472)
Reconciliation of segment result to company net (loss) before tax:			
Amounts not included in segment result but reviewed by the Board:			-
Un-allocated items:			
Other			415,429
Net loss before tax from continuing operations			(1,443,043)
30 June 2009:			
Total segment revenue	202,622	56,413	259,035
Reconciliation of segment revenue to total revenue:			
Inter-segment elimination			-
Unallocated revenue			380,316
Total Economic Entity revenue			639,351
Segment net profit/(loss) before tax	(1,145,151)	(6,234,055)	(7,379,206)
Reconciliation of segment result to company net (loss) before tax:			
Amounts not included in segment result but reviewed by the Board:			
Unallocated items:			
Other	-	-	(420,746)
Net loss before tax from continuing operations			(6,958,460)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

23. OPERATING SEGMENTS (Cont'd)	Exploration $	Corporate $	Total $
(ii) Segment assets			
30 June 2010:			
Segment assets	17,150,110	4,345,420	21,495,530
Segment asset increases for the period:			
Capital expenditure	7,880,160	-	7,880,160
Acquisitions	-	84,214	84,214
Interest received		109,063	109,063
Capital raising	-	8,004,139	8,004,139
	7,880,160	8,197,416	16,077,576
Reconciliation of segment assets to total assets:			
Inter-segment eliminations			-
Unallocated assets:			
Deferred tax assets			5,085,658
Other assets			-
Total assets from continuing operations			26,581,188
30 June 2009:			
Segment assets	9,782,843	4,605,748	14,388,591
Segment asset increases for the period:			
Capital expenditure	2,584,618	-	2,584,618
Acquisitions	-	37,000	37,000
Interest received	-	56,413	56,413
Capital raising	-	3,794,859	3,794,859
	2,584,618	3,888,272	6,472,890
Reconciliation of segment assets to total assets:			
Inter-segment eliminations			-
Unallocated assets:			
Deferred tax assets			2,903,684
Other assets			202,236
Total assets from continuing operations			17,494,511
(iii) Segment liabilities			
30 June 2010:			
Segment liabilities	-	-	-
Reconciliation of segment liabilities to liabilities:			
Inter-segment eliminations			-
Unallocated liabilities:			
Deferred tax liabilities			5,085,658
Other liabilities			947,323
Total liabilities from continuing operations			6,032,981

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

23. OPERATING SEGMENTS (Cont'd)

	Exploration	**Corporate**	**Total**
30 June 2009:	**$**	**$**	**$**
Segment liabilities	-	-	-
Reconciliation of segment liabilities to liabilities:			
Inter-segment eliminations			-
Unallocated liabilities:			
Deferred tax liabilities			2,903,684
Other liabilities			663,024
Total liabilities from continuing operations			3,566,708

24. EVENTS SUBSEQUENT TO REPORTING DATE

On 15 July, the Company issued 1,084 Shares following the exercise of 1,084 20 cent Options expiring 28 February 2011.

On 12 August, the Company issued 1,712 Shares following the exercise of 1,712 20 cent Options expiring 28 February 2011.

On 25 August, the Company issued 1,000,000 Shares to Nathan McMahon following the exercise of 1,000,000 30 cent Options expiring 1 July 2011.

On 7 September, the Company issued 678,803 Shares to Nathan McMahon and related parties of Nathan McMahon, following the exercise of 678,803 20 cent Options expiring 28 February 2011.

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

On 9 September, the Company issued 1,667 Shares following the exercise of 1,667 20 cent Options expiring 28 February 2011.

On 24 September, the Company announced it had entered into a Bridging Facility with a range of Institutions, Sophisticated Investors and Directors to provide bridge loan amounts of a minimum of A$2 million and maximum of A$4 million. Lenders will be issued with 100,000 Cazaly Options for every $100,000 drawndown. The bridging facility has been arranged as a short-term finance for the purpose of allowing the completion of the Parker Range Bankable Feasibility Study and general working capital requirements. The Company has drawn down A$1 million to date. The terms of the bridging facility, are at arms length and on commercial terms.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

25. RELATED PARTY INFORMATION

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

Transactions with related entities:

(i) Director related Entities

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

Mr McMahon was at any time during the financial year a director and shareholder of Catalyst Metals Limited ("Catalyst"), Hodges Resources Limited ("Hodges") and Whinnen Resources Limited ("Whinnen"). Catalyst, Hodges and Whinnen have an agreement based on normal commercial terms and conditions to reimburse Cazaly for office rental and administration and overheads.

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

Aggregate amounts of each of the above types of other transaction with related parties of Cazaly Resources Limited:

	2010	**2009**
	$	**$**
Sales		
Rent, administrative and office overheads:		
Catalyst Metals Limited	14,342	30,966
Hodges Resources Limited	62,489	42,584
Corazon Mining Limited	7,054	66,557
Cortona Resources Limited	37,660	23,445
Whinnen Resources Limited	34,108	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

26. SHARE BASED PAYMENTS

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

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

	2010		**2009**	
	Number of Options	**Weighted Average Exercise Price $**	**Number of Options**	**Weighted Average Exercise Price $**
At beginning of reporting period	5,675,000	1.20	8,575,000	0.94
Granted during the period				
- Employee & consultants options	3,525,000	0.34	-	-
- Director remuneration	2,250,000	0.30	-	-
Exercised during the period	-	-	-	-
Expired during the period	(4,975,000)	1.26	(2,900,000)	0.29
Balance the end of reporting period	6,475,000	0.35	5,675,000	1.20
Exercisable at end of reporting period	6,475,000		5,675,000	

(i) The compensation options outstanding at 30 June 2010 had a weighted average exercise price between $0.25 and $0.86 and a weighted average remaining life between 1 year and 6 years.
(ii) The respective weighted average fair values of options granted during 2010 were $0.3254.
(iii) Included under employee benefits expense in the Statement of Comprehensive Income is $425,024 (2009: Nil), and relates to equity-settled payment transactions.

27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are currently no other contingent liabilities or contingent assets outstanding at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

28. PARENT ENTITY DISCLOSURES

	2010 $	2009 $
(a) Financial Position		
Assets		
Current assets	3,755,968	3,963,481
Non-current assets	4,197,181	13,531,030
Total assets	7,953,149	17,494,511
Liabilities		
Current liabilities	947,324	663,024
Non-current liabilities	968,382	2,903,684
Total liabilities	1,915,706	3,566,708
Equity		
Issued capital	20,421,583	12,783,160
Reserves:		
Equity settled employee benefits	613,744	7,421,043
Retained profits	(14,997,884)	(6,276,400)
Total Equity	6,037,443	13,927,803
(b) Financial Performance		
Loss for the year	(10,133,899)	(5,290,296)
Other comprehensive income	-	-
Total comprehensive income	(10,133,899)	(5,290,296)
(c) Guarantees Entered into by the Parent Entity in Relation to the Debts of its Subsidiaries	-	-
(d) Contingent Liabilities of the Parent Entity	-	-
(e) Commitments for the Acquisition of Property, Plant and Equipment by the Parent Entity	-	-

(i) the Loss includes a forgiveness of a loan to wholly owned subsidiary, Hayes Mining Pty Ltd for $5,151,171.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

29. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
  - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
    a. the objective of the entity's business model for managing the financial assets; and
    b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

29. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (Cont'd)

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.
- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.
- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.
- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.
- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

29. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (Cont'd)

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).
  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

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

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 58, are in accordance with the Corporations Act 2001:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) are in accordance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and

   (c) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and Economic Entity; and

2. the Chief Executive Officer and Chief Financial Officer 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 Economic Entity will be able to pay its debts as and when they become due and payable.

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

Nathan McMahon
Managing Director

Perth,
29 September 2009

Bentleys
Thinking ahead

Independent Auditor's Report

To the Members of Cazaly Resources Limited

Bentleys Audit & Corporate (WA) Pty Ltd
ABN 33 121 222 802

Level 1
12 Kings Park Road
West Perth WA 6005

PO Box 44
West Perth WA 6872

T +61 8 9226 4500
F +61 8 9226 4300

www.bentleys.com.au

We have audited the accompanying financial report of Cazaly Resources Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

a. The financial report of Cazaly Resources Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Company and the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included within the report of the directors for the year ended 30 June 2010. The directors of Cazaly Resources Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Cazaly Resources Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Bentleys

BENTLEYS
Chartered Accountants

RANKO MATIC CA
Director

DATED at PERTH this 29th day of September 2010

ADDITIONAL SHAREHOLDER INFORMATION

Shareholding

The distribution of members and their holdings of equity securities in the company as at 22 September 2010 was as follows:

	Class of Equity Securities	
Number Held as at 22 September 2010	**Fully Paid Ordinary Shares**	**Listed Options ($0.20 expiring 28 February 2011)**
1-1,000	331	231
1,001 - 5,000	1,034	187
5,001 – 10,000	612	42
10,001 - 100,000	1,004	105
100,001 and over	144	23
TOTALS	3,125	588

Substantial Shareholders

Substantial shareholders in the Company are set out below

Shareholder	Number
Clive Jones	7,566,802
Nathan McMahon	11,405,357

Unquoted Securities

Class of Equity Security		Number	Number of Security Holders
5 October 2011 Options	$0.8036	50,000	1
19 June 2012 Options	$0.8600	250,000	2
14 September 2012 Options	$0.39	75,000	1
26 October 2012 Options	$0.45	225,000	2
22 May 2013 Options	$0.30	100,000	1
28 February 2011 Options	$0.20	12,161,028	588
1 July 2011 Options	$0.30	2,250,000	3
6 October 2011 Options	$0.25	500,000	1
6 July 2013 Options	$0.30	750,000	1
6 July 2016 Options	$0.40	750,000	1
11 January 2015 Options	$0.33	925,000	5
4 February 2015 Options	$0.49	100,000	1
11 February 2012 Options	$0.40	500,000	1

ADDITIONAL SHAREHOLDER INFORMATION (Cont'd)

Voting Rights

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

Ordinary Shares

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

Quoted and Unquoted Options

- These options have no voting rights.

Twenty Largest Shareholders

The names of the twenty largest ordinary fully paid shareholders as at 22 September 2010 are as follows:

Name	**Number of Ordinary Fully Paid Shares Held**	**% Held of Issued Ordinary Capital**
New Page Investments Limited	8,000,000	7.331
Mr Clive Bruce Jones	5,453,336	4.997
Kingsreef Pty Ltd <NB & DL Family A/C>	5,395,288	4.944
Nathan Bruce McMahon	4,425,004	4.055
gRANDLODGE Pty Ltd	3,005,417	2.754
HSBC Custody Nominees (Australia) Limited	1,796,429	1.646
Mrs Suzanne Dobinson	1,497,709	1.372
Citicorp Nominees Pty Limited	1,464,233	1.342
Clive Jones <The Alyse Investment A/C>	1,333,334	1.222
bt Portfolio Services Limited <Warrell Holdings S/F A/C>	1,300,000	1.191
Mr Kent Michael Hunter	1,165,646	1.068
Fusion Resources Ltd	1,000,000	0.916
Appolinax Inc	1,000,000	0.916
Mrs Karen Cameron Murie	945,471	0.866
UBS Wealth Management Australia Nominees Pty Ltd	765,000	0.701
Newton2 Pty Limited <Newton 2 Super Fund A/C>	655,000	0.600
Kouta Bay Pty Ltd	631,777	0.579
Widerange Corporation Pty Ltd	600,000	0.550
ANZ Nominees Limited <Cash Income A/C>	594,282	0.545
Red Emperor Resources NL	586,667	0.538
TOTAL	41,614,593	38.134

ADDITIONAL SHAREHOLDER INFORMATION (Cont.)

Twenty Largest Shareholders

The names of the twenty largest listed option shareholders as at 22 September 2010 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
BT Portfolio Services Limited <Warrell Holdings S/F A/C>	1,136,516	9.346
Queensway Investments Pty Ltd	775,000	6.373
Mr Clive Bruce Jones	681,668	5.605
Slade Technologies Pty Ltd	583,000	4.794
Dr Alastair Rowland Brown <Hipiki Staff Fund a/c>	316,515	2.603
UBS Wealth Management Australia Nominees Pty Ltd	300,000	2.467
Newton2 Pty Limited <Newton 2 Super Fund A/C>	287,084	2.361
Jeff Towler Building Pty Ltd	250,000	2.056
Mr Phil Miolin	223,863	1.841
Jeff Towler Building Pty Ltd	200,000	1.645
Mr Justin Anthony Virgin <J Virgin T/a Stockfeed a/c>	200,000	1.645
Mr David Ernest Oldfield	200,000	1.645
Mr Terry James Gardiner	198,500	1.632
Clive Jones <The Alyse Investment A/C>	166,667	1.371
Mervyn Ian Bassett & Shirley Ethel Bassett	150,000	1.233
A22 Pty Ltd	150,000	1.233
HSBC Custody Nominees (Australia) Limited	147,309	1.211
Mr Kent Michael Hunter	145,706	1.198
Mrs Amanda Hargreaves	145,000	1.192
Mr Terence Gray & Mrs Elizabeth Gray	144,039	1.184
TOTAL	6,400,867	52.634

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 Corporate Governance Principles and Recommendations, 2nd Edition*. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

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

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

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

Board Objectives

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

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

Principle 1: Lay solid foundations for management and oversight

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

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

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

Senior Executives evaluation

The Board consists of three (3) members, two of which hold executive roles as Joint Managing Directors. The board therefore undertakes ongoing self-assessment and review of performance of the Board, and individual directors annually. The Chairman of the Board is responsible for determining the process for evaluating Board performance.

To facilitate optimal performance, the Executives participate in professional development programs.

CORPORATE GOVERNANCE

Principle 2: Structure the board to add value

Composition

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

Clive Jones – Managing Director

Executive Director since August 2003

Term in office – 73 months

Nathan McMahon – Managing Director

Executive Director since June 2003

Term in office - 75 months

Kent Hunter

Independent Non-executive director since August 2003

Term in office – 73 months

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

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

Board Independence
The Board has accepted the ASX Corporate Governance Councils definition of an Independent Director contained in their report titled "*Corporate Governance Principles and Recommendations, 2nd Edition*.".

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

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

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

CORPORATE GOVERNANCE

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

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

Given the size of the company and the industry in which is operates, the current Board structure is considered to best serve the Company in meeting its objectives, given its small capitalisation, limited resources and existing operations. The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience.

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

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

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

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

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

Performance
During the reporting year the Company did not conduct a formal evaluation of Directors and Executives. The Board undertakes an annual review of its own performance with external advice as appropriate. To facilitate optimal performance, the Board participates in professional development programs.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

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

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

Diversity Policy
The Company does not have a Diversity policy in place at this stage. The Board will seek to develop a Diversity Policy in the future, which can then be sued as a guide to be used by the Company to identify new directors, senior executives and employees.

Gender proportions:
46% of the Company's employees are women and one of these women holds a senior executive position.

CORPORATE GOVERNANCE

Principle 4: Safeguard integrity of financial reporting

Audit Committee

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

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

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

Principle 5: Make timely and balanced disclosure

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

Principle 6: Respect the rights of shareholders

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

Principle 7: Recognise and manage risk

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

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

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

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- Board receives regular updates on key risks associated with the development of the Company's Parker Range Project and has commissioned a Pre-Feasibility on the Parker Range Project, which will also report on material risk for the project;
- Implementation of Board-approved annual operating budgets and plans, then monitoring the actual progress against those; and

The Board will seek to develop a more extensive Risk Management Policy over the coming year, which can then be used as a guide to be used throughout the company in identifying and communicating business risks.

CORPORATE GOVERNANCE

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

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

Principle 8: Remunerate fairly and responsibly

Remuneration Arrangements

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

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

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

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

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

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

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

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

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.
The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

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

CORPORATE GOVERNANCE

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

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

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

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

Explanation of departure from the ASX Corporate Governance Principles and Recommendations 2nd Edition

During the financial year Cazaly strived to comply with the 8 Essential Corporate Governance Principles and Recommendations where appropriate for the size and nature of the Company and Industry in which it operates. A summary of departure form the ASX Corporate Governance Principles and Recommendations is outlined below:

Best Practice Recommendation	**Notification of Departure**	**Explanation of Departure**
2.1-2.3 - Structure of the Board	The majority of the board are not independent directors, the Chair is does not meet the criteria for Independence and the role of the Chair and CEO are exercised by the same individual	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate form time to time, however the Board also recognises that complying the ASX Corporate Governance Principles and Recommendations 2.1, 2.2 and 2.3 is impractical given the size of the company and the industry in which it operates. The Board instead aims to assess the independence of the Company's non-executive Director on an ongoing basis requiring full disclosure where conflicts of interest arise. The Board (subject to members' voting rights in general meeting) is responsible for selection of new board members and succession planning, and has regard to a candidate's experience and competence in areas such as exploration, financial and administration. The wide commercial and technical experience of Messrs McMahon and Jones assists Cazaly in meeting its corporate objectives and plans.
2.4 The board should establish a nomination committee	The Company has not established a formal nomination committee	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate form time to time, however the Board also recognises that complying the ASX Corporate Governance Principles and Recommendation 2.4.is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members and therefore the Directors believe, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of the policy.	The Company does not have a Diversity Policy	Recommendation 3.2 was revised recently and the Company has not finalised its Diversity Policy at the time of this report. The Board will seek to develop a Diversity Policy over the coming year, which can then be sued as a guide to be sued throughout the Company in identifying new directors, senior executives and employees.
4.1-4.3 Safeguard integrity in financial reporting	The Company has not established a formal audit committee	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate form time to time, however the Board also recognises that complying the ASX Corporate Governance Principles and Recommendations 4.1-4.3 is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members and therefore the Directors believe, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to an audit committee.

CORPORATE GOVERNANCE

7.2 Risk Management System.	The board has not requested that management design and implement a risk management and internal control system and report to the board on whether those risks are being managed effectively.	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate form time to time, however the Board also recognises that complying the ASX Corporate Governance Council Recommendation 7.2.is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members, two of which are joint executive managing directors and therefore the Directors believe, it is sufficient for the full board to assume the responsibilities of ensuring that risks and opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with those risks and opportunities.
8.1 The board should establish a remuneration committee and 8.2 The remuneration committee structure	The Company has not established a formal remuneration committee	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate form time to time, however the Board also recognises that complying the ASX Corporate Governance Council Recommendation 8.1is impractical given the size of the company and the industry in which it operates. The board consists of three (3) members and therefore the Directors believe, it is sufficient for the full board to assume those responsibilities that are ordinarily assigned to a remuneration and nomination committee
8.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives	Non-executive directors received options	The Board continues to strive to meet the ASX Corporate Governance Principles and Recommendations or other such principles and guidance as the Board may consider appropriate from time to time, however during previous reporting periods, the Company has issued options to Non-Executive Directors. Non-Executive Directors typically do not participate in equity or option schemes, however the Board has determined that, consistent with the size of the Company and the activities focused nature of business and shareholding structure, the Company will seek shareholder approval for the issue of share options to Non-Executive Directors from time to time. The Board believes the options issued to Non-Executive Directors provide them with a mechanism to participate in the future development of the Company and act as an incentive for their future involvement with and commitment to the Company. The Directors believe that the success of the Company in the future will depend in large part upon the skills of the people engaged to manage the Company's operations. Accordingly, it is important that the Company is able to attract and retain people of the highest calibre. The Directors consider that the most appropriate means of achieving this is to provide Directors with an opportunity to participate in the Company's future growth and an incentive to contribute to that growth and thus to enhance overall shareholder wealth creation.

SCHEDULE OF MINERAL TENEMENTS AS AT 22 SEPTEMBER 2010

#NO	PROJECT	#NO	PROJECT
1 ELA	AU-7 MILE HILL	1 ELA	FE-YALLEEN
19 PL's	AU-BALAGUNDI	3 EL's	FORRESTANIA
1 EL	AU-BULONG	3 PL's	GOLDEN RIDGE
9 PL's	AU-CARDINIA BORE	1 EL	IOCG-LAKE MACKAY
3 EL's, 2 ELA's, 1 ML, 3 PL's	AU-CAROSUE	1 ELA	IOCG-POLLOCK HILL
PL 3	AU-CHADWIN	1 EL	IOCG-WEBB
1 ELA	AU-COOLGARDIE	2 EL's	JUTSON ROCKS
1 EL	AU-HIGGINSVILLE	1 ELA	KENNEDY HILL
2 EL, 1 ELA, 1 PL	AU-JILLEWARRA	5 PL 's	KINTORE
1 ELA	AU-MADOONIA DOWNS	1 ML	KUN-CASTLE HILL
3 PL's	AU-MENZIES	1 ML, 20 PL's	KUN-NORTHLANDER
2 PL's	AU-MT CLIFFORD	1 EL	LIME-LOONGANA
2 ELA's, 4 EL's	AU-MT WELD	4 PL's	MACPHERSONS
6 ELA's	AU-RANDALS	2 EL's, 3 PL's	MAGELLEN
1 ELA	AU-RUBY WELL	3 PL's	MENZIES
1 ELA, 1EL	AU-TEUTONIC BORE	1 EL	MT REMARKABLE
1 EL	BIG BEN	1 EL, 6 PL's	MT VETTERS
1 EL	BIG BEN-ALICE HILL	1 ELA	MULGA DOWNS
2 EL's	COSMO NEWBERRY	2 EL's	NEBO
1 ELA	FE-BONNEY DOWNS	1 EL	NT-ACACIA BORE
14 ELA, 8 EL's, 1 LA	FE-EARAHEADY	1 ELA	NT-DAVENPORT
1 ELA	FE-ETHEL CREEK	1 EL	NT-MT ISABEL
2 ELA's, 3 EL's, 2 PL's	FE-HAMERSLEY	1 EL	NT-QUARTZ HILL
1 ELA	FE-HIGH RANGE	1 ELA	NT-WAUCHOPE
1 ELA	FE-HILLSIDE	1 MLA, 8 PL's	QUARTZ CIRCLE
1 ELA	FE-JIMPERDING HILL	1 ELA	SCADDAN
2 ELA's	FE-KARRATHA	3 PL's	TEN MILE HILL
3 ELA's, 1 EL	FE-MARILLANA	1 EL	UR-HINKLER WELL
1 ELA	FE-MOORINE ROCKS	1 EL	UR-JAILOR BORE
1 ELA	FE-MT GOULD	1 ELA	UR-KINTYRE
1 ELA	FE-MT NICHOLSON	1 ELA	UR-LEOPOLD DOWNS
1 EL	FE-MT WILKINS	1 ELA	UR-PAROO
1 EL	FE-MT. STUART	1 EL	UR-PELLS RANGE
3 ELA's, 1 LA, 4 EL's, 3 ML's, 8PL's	FE-PARKER RANGE	1 EL	UR-QUARTZ HILL NT
1 EL	FE-PILBARA	1 ELA, 1 EL	UR-RAWLINSON RANGE
4 ELA's, 29 PLA's	FE-RHODES RIDGE	1 ELA	U-YEELIRRIE
3 ELA's	FE-ROCKLEA	1 EL	U-YEELIRRIE
1 EL	FE-STRAWBERRY ROCKS	2 ML's	VETTERSBURG
1 ELA	FE-SYLVANIA	PL 3	VETTERSBURG
1 EL	FE-WALLAREENYA	ML 1	WEK-GRANTS PATCH
1 MLA	FE-WINMAR	ELA 2	YEEDA

Notes: EL = Granted Elexploration Licence MLA = Mining Lease Application M = Granted Mining Lease
ELA= Exploration Licence Application P = Granted Prospecting Licence PLA =

The information that relates to exploration targets, exploration results and drilling data of Cazaly operated projects is based on information compiled by Mr Clive Jones and Mr Gregory Miles who are Members of The Australasian Institute of Mining and Metallurgy and The Australian Institute of Geoscientists respectively and are employees of the Company. The information that relates to the Mt Caudan Mineral Resource Estimate has been authorized by Mr Paul Payne who is a member of the Australasian Institute of Mining and Metallurgy and an employee of Runge Limited. The information that relates to the West Kalgoorlie Project Mineral Resources has been authorized by Mr Jones and Mr Miles. Both Mr Jones, Mr Miles and Mr Payne have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones, Mr Miles and Mr Payne consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.