

HAZELWOOD RESOURCES LIMITED

ABN 88 118 738 999

ANNUAL FINANCIAL REPORT

For the year ended 30 June 2008

CONTENTS

Corporate Information	1
Schedule of Mineral Tenements	2
Directors' Report	3
Corporate Governance	12
Auditors Independence Declaration	14
Auditors Report	15
Income Statement	17
Balance Sheet	18
Statement of Changes in Equity	19
Cash Flow Statement	20
Notes to Financial Statements	21
Directors' Declaration	45

Corporate Information

ABN 88 118 738 999

ASX Code: HAZ

Directors

Mr Mark McAuliffe (Executive Chairman)
Mr Terence Butler- Blaxell
Mr Ian Richer
Mr John Chegwidden

Company Secretaries

Mr John Chegwidden
Ms Carol New

Registered Office

Level 6, 189 St Georges Terrace,
Perth WA 6000
Telephone: (08) 9320 5220
Facsimile: (08) 9481 6343
Email: info@hazelwood.com.au

Solicitors

Steinepreis Paganin Lawyers and Consultants
Level 4 Next Building
16 Milligan Street
Perth WA 6000

Bankers

Westpac Banking
109 St George's Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building,
45, St George's Terrace,
Perth WA 6000
Telephone: (08) 9323 2000

Auditors

Bentleys
Level 1, 12 Kings Park Road
West Perth WA 6005
Telephone: (08) 9226 4500

Website

www.hazelwood.com.au

Schedule of Mineral Tenements

Project Name	Interest Held %
<u>Arthur River</u>	
E09/1066	100
E09/1067	100
P09/0449	100
<u>Cookes Creek</u>	
E45/2904	100
E45/3199 (Application)	100
E46/0521	100
E46/0560	100
E46/0692	100
E46/0693	100
E46/0740	100
E46/0762 (Application)	100
<u>Cookes Creek Joint Venture</u>	
E46/0562	rte 70
E46/0761 (Application)	70
E45/3177 (Application)	70
<u>Mangaroon</u>	
E09/1312	100
<u>Tardarina Hill</u>	
E47/1554	rte 100
E47/1706	rte 100
<u>Vickers Well</u>	
E37/0858	100

rte – right to earn

Directors' Report

The directors of Hazelwood Resources Limited submit herewith the annual financial report of the company and consolidated entity for the financial year ended 30 June 2008.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mark McAuliffe B.Juris, LLB, MAICD **Executive Chairman**

Mark McAuliffe is a solicitor with over 26 years' experience in acting for and advising mining companies, public listed companies and institutions on a wide range of legal issues. Mr McAuliffe holds a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia. His career includes advising and documenting a wide range of mining transactions from acquisitions, through joint ventures, initial public offerings and capital raisings. His mining experience extends beyond Australian jurisdictions and includes transactions in a number of countries in Africa and South East Asia. Mr McAuliffe commenced his career at Downing & Downing before establishing his own firm in 1989. Mr McAuliffe is presently a Legal Practitioner and director of McAuliffe Legal. He has sat on the board of a number of client companies and ASX listed companies, and is a member of the Institute of Company Directors.

Terence Butler-Blaxell BSc, GDipApFin, MBA, MAusIMM, FFin **Technical Director**

Mr Butler-Blaxell is a resources company specialist with over 15 years experience across a range of commodities including gold, industrial minerals, vanadium, base metals, nickel, tungsten and titanomagnetite. He has written investment research for AFSL licensees, and has experience in financial modelling and valuation. Over the past five years Mr Butler-Blaxell has been involved in the compilation of fund raising documents, project and company transactions, due diligence reviews, quantitative market event studies, and company promotion activities. He has been involved in the Exploration and Evaluation of several titanomagnetite and vanadium deposits, including specification of testwork programs and pilot plants. Mr Butler-Blaxell has a Bachelor of Science in physical-inorganic chemistry and geology from the University of Western Australia, a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia and a Master of Business Administration from Murdoch University. Memberships include Fellow of the Financial Services Institute of Australasia and a Member of the Australasian Institute of Mining and Metallurgy. He is also a director of ASX Listed Accent Resources NL.

Ian Richer Dip. Met. Min. M Aus IMM **Non-Executive Director**

Mr Richer is an Engineer with more than 30 years experience in operations, project management and construction on a range of significant mining projects. He played a role in the Goldsworthy iron ore projects, laterite nickel projects in Indonesia and Queensland, mineral sands projects in New South Wales, titano-magnetite mining and processing in New Zealand and various domestic and offshore aluminium and copper - uranium projects. His technical and commercial expertise was gained in organisations including Consolidated Goldfields, INCO, Fluor International, Dravo Corporation and Minproc. Specific nickel sulphide experience was gained through active involvement at Widgiemooltha. Mr Richer has served more than 10 years as a director in banking and corporate finance, with Chase, Societe Generale and as a consultant to the World Bank. He is also a non-executive director of ASX Listed Accent Resources NL, North Australian Diamonds Ltd and Top End Uranium Limited.

Directors' Report Continued

John Chegwidden CA

Non-Executive Director & Joint Company Secretary

Mr Chegwidden has over 20 years experience as an accountant, including managing his own chartered accounting practice, providing advice in management, accounting and taxation, and consulting to manufacturing, mining, primary production and earthmoving operations. Mr Chegwidden has a strong knowledge of the mining and resources sector in Australia, with key competencies in exploration, materials processing, marketing and financial management in relation to junior mining companies. More recently he has consulted to a number of listed companies and negotiated with capital financiers for junior exploration companies. He is also a director of ASX listed 3D Resources Limited, and has sat on several ASX listed and unlisted public company boards.

Company Secretaries

John Chegwidden – refer above.

Carol New

Joint Company Secretary

Carol has over 28 years experience working in national retail and WA mineral exploration companies that involved company secretarial, accounting and administration roles with companies such as Coles Myer, Barrack House Group, Central Kalgoorlie Gold Mines NL, and Crescent Gold Limited. In late December 2006, Carol was invited to consult to Hazelwood Resources Ltd in the capacity of Chief Financial Officer and was appointed as Joint Company Secretary on 16 February 2007. Carol is currently undertaking university studies and is an Affiliate Member of the Chartered Secretaries of Australia.

Interests in shares and options of the Company

As at the date of this report, the interests of the directors, either directly or indirectly, in the shares of Hazelwood Resources Limited were;

	Ordinary Shares	Options ¹
Mr Mark McAuliffe	1,060,001	2,500,000
Mr Terence Butler-Blaxell	2,510,001	2,500,000
Mr Ian Richer	1,500,001	1,000,000
Mr John Chegwidden	1,105,001	1,000,000
Mr Terence Butler-Blaxell & Mr Ian Richer ²	1,000,000	-

Note:

1. The options were granted upon listing, 3 October 2006.
2. Terence Butler-Blaxell & Ian Richer both have a beneficial interest in 1,000,000 ordinary shares held by Siren Mining Limited

Directors Meetings

The number of Directors meetings of held and the number of meetings attended by each director during the period were as follows:

	Directors Meetings	
	Number of meetings eligible to attend	Number of meetings attended
Mr Mark McAuliffe	7	7
Mr Terence Butler-Blaxell	7	6
Mr Ian Richer	7	7
Mr John Chegwidden	7	7

Directors' Report Continued

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
M McAuliffe	Swick Mining Services Ltd	2007 - 2007
	Vital Metals Limited	2004 - 2007
T Butler-Blaxell	Accent Resources NL	2007 - current
I Richer	North Australian Diamonds Ltd	2006 - current
	Accent Resources NL	2007 - current
	Top End Uranium Limited	2007 - current
J Chegwidde	Aurox Resources Limited	2004 - 2006
	Australian Waterwise Solutions Limited	2007 - 2007
	3D Resources Limited	2006 - current

Principal Activities

The principal activities of the Company during the year were mineral exploration, identification of potential mining assets for acquisition and development, and raising capital to fund those opportunities.

There were no significant changes in the nature of the Company's principal activities during the year.

Review and Results of Operations

The operating loss after tax for the year ended 30 June 2008 for the Consolidated Entity was \$1,725,486, and for the Company \$940,312 (Consolidated 2007: \$1,160,967 and Company 2007: \$1,159,262).

Changes in the State of Affairs

During the period there were no changes in the state of affairs of the Company other than those referred to elsewhere in this report of the financial statements or notes thereto.

Subsequent Events

On 3 July 2008, the Company released a short form prospectus for the issue of 20,000,000 shares at \$0.15 cents each to raise \$3,000,000.

On 8 August 2008, the Company issued 7,500,000 shares and 3,000,000 unlisted options, details of which were contained in the Notice of General Meeting of Shareholder held on 8 August 2008.

On 15 August 2008, the Company issued 300,000 shares and 1,000,000 unlisted options, details of which were contained in the Notice of General Meeting of Shareholder held on 8 August 2008.

On 1 September 2008, the closing date of the short form prospectus was extended to 30 September 2008.

Environmental Regulation

The Company is subject to and compliant with all aspects of environmental regulation of its exploration activities. The Directors are not aware of any environmental law that is not being complied with.

Likely Developments

Information on the likely developments in the operation of the Company and the expected results of those operations have not been included in this Report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

Directors' Report Continued

Share Options

Unissued shares

As at year end the Company had on issue the following options to acquire ordinary fully paid shares:

Description	Number	Exercise Price	Expiry Date
Director Options	4,000,000	\$0.20	31/08/2009
Consultant Options	500,000	\$0.20	31/08/2009
Director Options	1,000,000	\$0.25	31/08/2009
Director Options	2,000,000	\$0.30	31/08/2009
Consultant Options	250,000	\$0.30	31/08/2009
BHR Options	3,000,000	\$0.20	24/09/2010
Total	10,750,000		

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company nor any entitlement to vote at a meeting of shareholders. No options were exercised during the year.

Dividends

No dividend has been paid since the end of the financial period and no dividend is recommended for the current year.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Remuneration Report

This report outlines the remuneration arrangements in place for Hazelwood Resources Limited's directors and its senior management for the financial year ended 30 June 2008. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and senior management details
- Remuneration policy
- Relationship between the remuneration policy and company performance
- Remuneration of directors and senior management
- Key terms of executive service agreements or consultancy agreements

Director and senior management details

The following persons acted as directors of the company during or since the end of the financial year:

Mr M McAuliffe (Executive Chairman)
Mr T Butler-Blaxell (Executive Director)
Mr J Chegwidden (Non-executive Director & Joint Company Secretary)
Mr I Richer (Non-executive Director)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Ms C New (Joint Company Secretary)
Mr M McQuade (Project Manager)

Directors' Report Continued

Company performance, shareholder wealth and directors' and senior management's remuneration

The Company's remuneration policy has been designed to align director and executive objectives with shareholder and business objectives by providing remuneration packages comprising of a fixed remuneration component and an options component. The Board believes the remuneration policy for its directors and senior management to be appropriate and effective to attract and retain people with the necessary qualifications, skills and experience to assist the company in achieving its desired results. Due to the size of the company a remuneration committee has not been formed.

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the three years to 30 June 2008:

Consolidated	30 June 2008	30 June 2007	30 June 2006
Revenue	217,070	121,717	283
Net profit before tax	(1,725,487)	(1,160,967)	(155,062)
Net profit after tax	(1,725,487)	(1,160,967)	(155,062)
Share price at start of year	\$0.30	\$0.10	\$1.00
Share price at end of year	\$0.22	\$0.30	\$0.10
Interim dividend	-	-	-
Final dividend	-	-	-
Basic earnings per share	(2.44)	(2.29)	(28.26)

Relationship between the remuneration policy and company performance

Remuneration is reviewed on an annual basis, taking into consideration a number of performance indicators. While no performance based remuneration component has been built into director and senior management remuneration packages it is envisaged that as the Company further progresses, consideration will be given to this component of remuneration.

Remuneration of Directors and Senior Management

The directors (both executive and non executive) and senior management of the company received remuneration during the period commencing 1 July 2007 and ending 30 June 2008 based on the following agreements.

Remuneration of Executive Directors

Executive Services Agreement with Mr Mark McAuliffe

The Company entered into an Executive Services Agreement with Mark McAuliffe on the 24 July 2006, as varied by Deed of Variation dated 30 April 2008, in relation to his appointment as Executive Chairman.

The terms of this agreement are:

- Term – 3 years from date of Deed of Variation
- Remuneration - \$180,000pa plus superannuation
- Reimbursements – Vehicle costs to \$10,000pa, parking, mobile and email costs.
- Options – 1,500,000 Options exercisable at 20 cents per Option;
500,000 Options exercisable at 25 cents per Option; and
500,000 Options exercisable at 30 cents per Option
- Termination – The Company may terminate this agreement by giving notice and through payment of an amount equal to the balance of Mr McAuliffe's agreement. Mr McAuliffe can terminate the Services Agreement by giving 3 months notice to the Company.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

Directors' Report Continued

Remuneration of Executive Directors continued

Executive Services Agreement with Mr Terence Butler-Blaxell

The Company entered into an Executive Services Agreement with Terence Butler-Blaxell on the 24 July 2006, as varied by Deed of Variation dated 30 April 2008, in relation to his appointment as an Executive Director.

The terms of this agreement are:

- Term – 3 years from date of Deed of Variation
- Remuneration - \$165,000pa plus superannuation
- Reimbursements – Vehicle costs to \$10,000pa, parking, mobile and email costs.
- Options – 1,500,000 Options exercisable at 20 cents per Option;
500,000 Options exercisable at 25 cents per Option; and
500,000 Options exercisable at 30 cents per Option
- Termination – The Company may terminate this agreement by giving notice and through payment of an amount equal to the balance of Mr Butler-Blaxell's agreement. Mr Butler-Blaxell can terminate the Services Agreement by giving 3 months notice to the Company.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

Remuneration of Non-executive Directors

The total amount paid to non-executive directors is determined by the board from time to time for presentation to and resolution by shareholders at the Annual General Meeting. The current maximum aggregate remuneration paid to non-executive directors is fixed at \$150,000.

The non-executive directors are paid a set amount per year. The non executive directors may receive consultant's fees through related entities for services rendered on a commercial basis.

Remuneration of Senior Management

Ms Carol New

The Company has an agreement with Ms New whereby fees are paid through a related entity for services rendered on a commercial basis.

Mr Martin McQuade

The Company entered into an Executive Services Agreement with Martin McQuade on the 21 September 2007 in relation to his appointment as Project Manager.

The terms of this agreement are:

- Term – ongoing
- Remuneration - \$180,000pa plus superannuation
- Reimbursements – Vehicle costs to \$10,000pa, parking, mobile and email costs.
- Options – 3,000,000 Options in BigHill Resources Limited exercisable at 20 cents per Option;
- Termination – The Company may terminate this agreement by giving notice and through payment of an amount equal to the balance of Mr McQuade's agreement. Mr McQuade can terminate the Services Agreement by giving 3 months notice to the Company.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

The terms of Mr McQuade's Executive Services Agreement are currently under re-negotiation. Shareholder approval was gained at a General Meeting held on 18 August 2008 to replace the BigHill Resources Limited options with Hazelwood Resources Ltd options. The Hazelwood options will be issued upon signing of a Deed of Variation to Mr McQuade's Executive Services Agreement.

Directors' Report Continued

Key management personnel compensation disclosures

Directors and key management personnel are remunerated under the terms of executive services agreements or consultancy agreements.

2008

Key Management Person	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Total Remuneration Represented by Options	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity ¹	Options			
	\$		\$	\$	\$	\$	\$	\$			
M McAuliffe	236,938	-	-	48,000	16,200	-	-	-	301,138	-	-
I Richer	76,800	-	-	-	-	-	137,750	-	214,550	-	-
J Chegwidan	72,000	-	-	-	-	-	-	-	72,000	-	-
T Butler-Blaxell	165,000	-	-	-	14,850	-	137,750	-	317,600	-	-
C New	56,700	-	-	-	-	-	-	-	56,700	-	-
M McQuade	192,708	-	-	-	17,344	-	-	303,865	513,917	59.1	-
	800,146	-	-	48,000	48,394	-	275,500	303,865	1,475,905		

Note: 1. Equity relates to the issue of 950,000 ordinary shares to Siren Mining Limited, a company in which both Terence Butler-Blaxell & Ian Richer have a beneficial interest.

2007

Key Management Person	Short-term Benefits				Post-employment Benefits	Other Long-term Benefits	Share based Payment		Total	Total Remuneration Represented by Options	Performance Related
	Cash, salary & commissions	Cash profit share	Non-cash benefit	Other	Super-annuation	Other	Equity ¹	Options			
	\$		\$	\$	\$	\$	\$	\$			
M McAuliffe	283,473	-	-	54,392	12,487	-	-	65,700	416,052	15.8	-
I Richer	94,220	-	-	-	-	-	-	24,500	118,720	20.6	-
J Chegwidan	144,040	-	-	-	-	-	-	24,500	168,540	14.5	-
T Butler-Blaxell	194,150	-	-	27,500	11,137	-	-	65,700	298,487	22.0	-
C New	39,283	-	-	-	-	-	-	-	39,283	-	-
	755,166	-	-	81,892	23,624	-	-	180,400	1,041,082		

Directors' Report Continued

Key management equity holdings

Options

Options held by key management personnel at balance date are:

30 June 2008	Balance at beginning of period	Granted as remuneration	Exercised	Net change	Balance at end of period	Options vested at 30 June 2008
M McAuliffe	2,500,000	-	-	-	2,500,000	2,500,000
I Richer	1,000,000	-	-	-	1,000,000	1,000,000
J Chegwidde	1,000,000	-	-	-	1,000,000	1,000,000
T Butler-Blaxell	2,500,000	-	-	-	2,500,000	2,500,000
M McQuade	-	3,000,000	-	-	3,000,000	3,000,000

30 June 2007	Balance at beginning of period	Granted as remuneration	Exercised	Net change	Balance at end of period	Options vested at 30 June 2007
M McAuliffe	2,500,000	-	-	-	2,500,000	2,500,000
I Richer	1,000,000	-	-	-	1,000,000	1,000,000
J Chegwidde	1,000,000	-	-	-	1,000,000	1,000,000
T Butler-Blaxell	2,500,000	-	-	-	2,500,000	2,500,000

All share options issued to key management personnel were issued under the terms of their respective agreements. Further details of the options issued in the current financial year are:

Options series	Number	Grant date	Expiry date	Exercise price\$	Fair value at grant date \$
BHR	3,000,000	18/09/2007	24/09/2010	0.20	0.101

These options vested on date of issue and were priced using a Black and Scholes' option pricing model and applying the following inputs:

Inputs into the model	BHR Options
Grant date share price	\$0.20
Exercise price	\$0.20
Expected volatility	66.98%
Option life years	3.19
Dividend yield	0.00%
Risk-free interest rate	6.53%

Historical volatility of Hazelwood securities has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Shareholdings

Shares held by key management personnel at balance date are:

	Balance 30 June 2007	Received as Remuneration	Options Exercised	Net Change Other ¹	Balance 30 June 2008
Directors					
Mr M McAuliffe	1,035,001	-	-	25,000	1,060,001
Mr T Butler-Blaxell	2,510,001	-	-	-	2,510,001
Mr I Richer	1,500,001	-	-	-	1,500,001
Mr J Chegwidde	1,105,001	-	-	-	1,105,001
Mr T Butler-Blaxell & Mr I Richer ²	50,000	-	-	950,000	1,000,000
Senior Management					
Mr M McQuade	70,000	-	-	-	70,000

(1) Net change other refers to Shares that have been purchased or sold, or received as vendors during the financial year.

(2) Terence Butler-Blaxell & Ian Richer both have a beneficial interest in 1,000,000 ordinary shares held by Siren Mining Limited.

Directors' Report Continued

Officers' Indemnities and Insurance

During the year the Company entered into an insurance premium to insure certain officers of the Company. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors' and Officers' Liability Insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the premium paid is subject to a confidentiality clause under the insurance policy.

The Company has entered into an agreement with the Directors and certain officers to indemnify these individuals against any claims and related expenses which arise as a result of work completed in their respective capabilities.

Neither the Company nor any of its related bodies corporate have provided any insurance for any auditor of the Company or a related body corporate.

Non-Audit Services

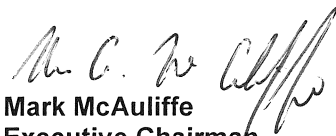
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

No non audit services were provided by Bentleys during the period.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

Signed in accordance with a resolution of the Directors



Mark McAuliffe
Executive Chairman

Perth, 30 September 2008

Corporate Governance

Hazelwood has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable the Company has adopted the Ten Essential Corporate Governance Principles and Best Practice Recommendations ("**Recommendations**") as published by ASX Corporate Governance Council.

Further information about the Company's corporate governance practices is set out on the Company's website at www.hazelwood.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the board and its sub-committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Principle 1 Recommendation 1.2

During the Reporting Period there was no performance evaluation of the Board, its committees and individual directors.

The current Board has only been in place since 9 March 2006 and did not conduct a performance evaluation during the Reporting Period. It is proposed the Chairman will conduct a review in the 2009 financial year.

Principle 2 Recommendation 2.2

The Chairman does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations Independence ("**Independence Test**").

Whilst the Board recognises the importance of independence in decision making, it does not comply with best practice recommendation 2.2 as Mark McAuliffe, the current Chairman, does not satisfy paragraphs 2 and 3 of the Independence Test, that is he has an executive role in the Company and he is a principal of a material professional advisor. The Board believes that Mark McAuliffe is the most appropriate person for the position as Chairman because of his industry experience and pivotal role in preparing the Company for listing. The Board has appointed Ian Richer to act as a lead independent director, and the board believes this will enable the board to act independently in the event any conflict arises which would make it inappropriate for Mark McAuliffe to act in the capacity of Chairman.

Principle 2 Recommendation 2.3

The roles of Chairman and Managing Director are exercised by Mark McAuliffe, which is not in compliance with best practice recommendation 2.3.

While the Board recognises the importance of the need for the division of responsibilities between the Chairman and the Managing Director, it considers the existing structure provides unified leadership important to a newly incorporated company with early stage exploration projects. Mr McAuliffe's dual role makes him responsible (along with the whole board) for determining strategic direction of the Company as well as having primary responsibility for day to day management. At present this dual role assists the Company to run in a cost effective and efficient manner.

The Board intends to re-consider the duality of Mark McAuliffe's role and the merits of appointing a new Managing Director as the Company evolves and increases its operations.

Corporate Governance Continued

Principle 2 Recommendation 2.4

There is no nomination committee.

The Board considers those matters and issues arising that would usually fall to a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee.

Principle 8 Recommendation 8.1

There is no separate remuneration committee.

Due to the small size and structure of the Board, a separate remuneration committee is not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. The Board considers that it is more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. When considering matters of remuneration, the Board functions in accordance with the Remuneration Committee Charter which was adopted on 17 July 2006.

In addition, all matters of remuneration will continue to be determined in accordance with Corporations Act requirements, especially in respect of related party transactions. That is, no directors participate in any deliberations regarding his or her own remuneration or related issues.

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 Hazelwood Resources Limited and Controlled Entities for the year ended 30 June 2008 and in accordance with the provisions of the Corporations Act 2001.

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

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the 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
Chartered Accountants



CHRIS WATTS
Director

DATED at PERTH this 30th day of September 2008

Independent Audit Report

To the Members of Hazelwood Resources Limited

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

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 6 to 10 of the directors' report and not in the financial report.

Directors Responsibility for the Financial Report

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

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

Auditor's Responsibility

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

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

RLF Bentleys
Audit & Corporate 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

Independent Auditor's Report

To the Members of Hazelwood Resources Limited (Continued)

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 Hazelwood Resources Limited and Hazelwood Resources Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1
- c. the remuneration disclosures that are contained in pages 6 to 10 of the directors' report comply with Accounting Standard AASB 124.

BENTLEYS
Chartered Accountants

CHRIS WATTS
Director

DATED at PERTH this 30th day of September 2008

Income Statement for Year Ended 30 June 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	2	<u>217,070</u>	<u>121,717</u>	<u>209,277</u>	<u>121,717</u>
Administration expenses		(323,623)	(260,153)	(245,151)	(258,043)
Consulting expenses		(231,695)	(192,187)	(212,465)	(194,607)
Director fees and salaries		(252,000)	(185,750)	(252,000)	(185,750)
Financing costs		(6,236)	(823)	(6,236)	(823)
Legal and professional expenses		(179,267)	(106,919)	(95,896)	(104,904)
Depreciation		(97,087)	(33,845)	(97,087)	(33,845)
Marketing expenses		(89,651)	(97,241)	(72,276)	(97,241)
Occupancy expenses		(93,780)	(145,344)	(81,780)	(145,344)
Employment expenses		(221,241)	(57,593)	(86,079)	(57,593)
Share based payments	26	(303,865)	(199,975)	-	(199,975)
Prospectus costs written off		(143,492)	-	-	-
Exploration written off		(619)	(2,854)	(619)	(2,854)
Loss before income tax		(1,725,486)	(1,160,967)	(940,312)	(1,159,262)
Income tax expense	3	-	-	-	-
Loss attributable to members of the parent entity		<u>(1,725,486)</u>	<u>(1,160,967)</u>	<u>(940,312)</u>	<u>(1,159,262)</u>
Earnings per share (cents per share)					
Basic loss per share	17	(2.44)	(2.29)		

The above income statement should be read in conjunction with the attached notes.

Balance Sheet as at 30 June 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
Current assets					
Cash and cash equivalents	4	1,121,666	4,092,301	1,091,004	4,092,301
Trade and other receivables	5	98,730	99,147	95,323	99,147
Total current assets		1,220,396	4,191,448	1,186,327	4,191,448
Non-current assets					
Other non-current assets	6	15,000	70,000	15,000	70,000
Property, plant and equipment	7	355,202	179,960	355,202	179,960
Financial assets	8	-	-	3,500,000	2,500,000
Trade and other receivables	5	-	-	1,095,945	1,602,470
Exploration and evaluation	9	7,661,499	5,513,249	3,536,833	1,411,484
Total non-current assets		8,031,701	5,763,209	8,502,980	5,763,914
TOTAL ASSETS		9,252,097	9,954,657	9,689,307	9,955,362
LIABILITIES					
Current liabilities					
Trade and other payables	10	350,546	463,264	304,742	462,264
Financial liabilities	13	27,137	13,750	27,137	13,750
Unissued share subscriptions	11	-	2,100,300	-	2,100,300
Provisions	12	53,804	20,975	53,804	20,975
Total current liabilities		431,487	2,598,289	385,683	2,597,289
Non-current liabilities					
Financial liabilities	13	53,097	38,958	53,097	38,958
Total non-current liabilities		53,097	38,958	53,097	38,958
TOTAL LIABILITIES		484,584	2,637,247	438,780	2,636,247
Net assets		8,767,513	7,317,410	9,250,527	7,319,115
Equity					
Issued capital	14	11,305,188	8,433,464	11,305,188	8,433,464
Reserves	15	503,840	199,975	199,975	199,975
Accumulated losses		(3,041,515)	(1,316,029)	(2,254,636)	(1,314,324)
Total equity		8,767,513	7,317,410	9,250,527	7,319,115

The above balance sheet should be read in conjunction with the attached notes.

Statement of Changes in Equity for Year Ended 30 June 2008

Consolidated

	Attributable to equity holders of the entity			Total Equity
	Issued Capital	Reserves	Accumulated Losses	
	\$	\$	\$	\$
Balance at 1 July 2006	437,054		(155,062)	281,992
Issues of shares	8,844,783	-	-	8,844,783
Cost of share issues	(848,373)	-	-	(848,373)
Share based payments	-	199,975	-	199,975
Loss for the period	-	-	(1,160,967)	(1,160,967)
Balance at 30 June 2007	8,433,464	199,975	(1,316,029)	7,317,410
Balance at 1 July 2007	8,433,464	199,975	(1,316,029)	7,317,410
Issues of shares	2,874,264	-	-	2,874,264
Cost of share issues	(2,540)	-	-	(2,540)
Share based payments	-	303,865	-	303,865
Loss for the period	-	-	(1,725,486)	(1,725,486)
Balance at 30 June 2008	11,305,188	503,840	(3,041,515)	8,767,513

Company

	Attributable to equity holders of the entity			Total Equity
	Issued Capital	Reserves	Accumulated Losses	
	\$	\$	\$	\$
Balance at 1 July 2006	437,054		(155,062)	281,992
Issues of shares	8,844,783	-	-	8,844,783
Cost of share issues	(848,373)	-	-	(848,373)
Share based payments	-	199,975	-	199,975
Loss for the period	-	-	(1,159,262)	(1,159,262)
Balance at 30 June 2007	8,433,464	199,975	(1,314,324)	7,319,115
Balance at 1 July 2007	8,433,464	199,975	(1,314,324)	7,319,115
Issues of shares	2,874,264	-	-	2,874,264
Cost of share issues	(2,540)	-	-	(2,540)
Share based payments	-	-	-	-
Loss for the period	-	-	(940,312)	(940,312)
Balance at 30 June 2008	11,305,188	199,975	(2,254,636)	9,250,527

The above statement of changes in equity should be read in conjunction with the attached notes.

Cash flow Statement for Year Ended 30 June 2008

	Notes	Consolidated		Company	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Payments to suppliers and employees		(1,622,998)	(691,683)	(1,609,318)	(706,494)
Interest received		217,070	121,717	209,277	121,717
Payments for exploration expenses		(1,268,270)	(1,781,657)	(1,304,819)	(1,766,846)
Net cash used in operating activities	21(c)	<u>(2,674,198)</u>	<u>(2,351,623)</u>	<u>(2,704,860)</u>	<u>(2,351,623)</u>
Cash flows from investing activities					
Exploration and evaluation expenditure		(51,634)	(10,383)	(51,634)	(10,383)
Property, plant and equipment		(244,803)	(161,097)	(244,803)	(161,097)
Investments in subsidiary		-	(900,000)	-	(900,000)
Net cash used in investing activities		<u>(296,437)</u>	<u>(1,071,480)</u>	<u>(296,437)</u>	<u>(1,071,480)</u>
Cash flows from financing activities					
Proceeds from issue of shares		-	5,357,957	-	5,357,957
Unissued subscriptions		-	2,100,300	-	2,100,300
Net cash from financing activities		<u>-</u>	<u>7,458,257</u>	<u>-</u>	<u>7,458,257</u>
Net increase in cash and cash equivalents		(2,970,635)	4,035,154	(3,001,297)	4,035,154
Cash and cash equivalents at beginning of period		4,092,301	57,147	4,092,301	57,147
Cash and cash equivalents at end of period	21(a)	<u>1,121,666</u>	<u>4,092,301</u>	<u>1,091,004</u>	<u>\$4,092,301</u>

The above cash flow statement should be read in conjunction with the attached notes.

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies

The financial report includes the consolidated financial statements and notes of Hazelwood Resources Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Hazelwood Resources Limited as an individual parent entity ('Parent Entity'). Hazelwood Resources Limited is a company limited by shares, domiciled and incorporated in Australia.

The financial statements were authorised for issue by the directors on 30 September 2008.

Basis of preparation

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

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 may 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.

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution or distribution to equity participants by the transacting entities.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(c) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

(d) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are the differences between the tax base of an asset or liability and their carrying amounts in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is possible that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(d) Income tax continued

Deferred tax continued

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

As at 30 June 2008, deferred tax assets were re-assessed and have not been recognised as it has not yet become probable that they will be recovered and utilised.

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.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and its 100% owned controlled entities formed a tax consolidated group with effect from 1 October 2006. The head entity within the tax consolidated group is Hazelwood Resources Ltd with the only other member at 30 June 2008 being BigHill Resources Limited. 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.

(e) Joint venture arrangements

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the Consolidated Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories

(f) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are charges directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising from operating leases are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(g) Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

(h) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Freehold land and buildings carried at fair value

On 11 March 2008, the Company acquired a house at Nullagine for a total cost of \$27,911. The carrying value of this asset is at cost and will be tested for impairment on an annual basis as required by AASB 116.

Plant and equipment

Plant and equipment are measured on the cost basis.

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.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	4 years
Office furniture and equipment	5 years
Computer equipment	3 years
Motor vehicles	5 years

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

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

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

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(i) Provisions

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

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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

(j) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset's net carrying value.

(k) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. 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. Further details of how the fair value of equity-settled share-based transactions has been determined can be found in note 26.

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 consolidated entity's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005.

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.

(l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivable and payable are stated with the amount of GST included.

The amount of GST recoverable from the taxation authority is included as part of the receivables in the Balance Sheet. The amount of GST payable to the taxation authority is included as part of the payables in the Balance Sheet.

Cash flows are included in the Cash Flows Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(m) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment loss. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment loss is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(n) Exploration and evaluation expenditure

Exploration and evaluation expenditure, including the costs of acquiring the licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.
- (iii) Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (o)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.
- (iv) Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.
- (v) When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(o) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(r) Critical Accounting Estimates and Judgments

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

Key Judgements – Deferred exploration and evaluation expenditure

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

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 external valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 26.

(s) Financial instruments

Recognition and initial measurement

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

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

Derecognition

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

Notes to the Financial Statements for the Year Ended 30 June 2008

1. Significant accounting policies continued

(t) Financial instruments continued

Classification and subsequent measurement

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Notes to the Financial Statements for the Year Ended 30 June 2008

2. Revenue

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest received	217,070	121,717	209,277	121,717

3. Income Tax Expense

Major components of income tax expense for the years ended 30 June 2008 and 30 June 2007 are:

Income statement	Consolidated		Company	
	2008	2007	2008	2007
				\$
<i>Current income</i>				
Current income tax charge	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax expense (benefit) reported in income statement	-	-	-	-

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the years ended 30 June 2008 and 30 June 2007 is as follows:

Accounting profit (loss) before income tax	(1,725,487)	(1,160,967)	(940,312)	(1,159,262)
At the statutory income tax rate of 30% (2007: 30%)	(517,646)	(348,290)	(282,094)	(347,779)
Add:				
Non-deductible expenses	19,550	61,484	(57,508)	61,484
Temporary differences and tax losses not brought to account as a deferred tax asset	498,096	286,806	339,602	286,295
At effective income tax rate of 0%(2007: 0%)	-	-	-	-
Income tax expense reported in income statement	-	-	-	-

Tax consolidation

The company and its 100% owned controlled entities formed a tax consolidated group with effect from 1 October 2006. The head entity within the tax consolidated group is Hazelwood Resources Ltd with the only other member at 30 June 2008 being BigHill Resources Limited.

Notes to the Financial Statements for the Year Ended 30 June 2008

3. Income Tax Expense continued

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

CONSOLIDATED	Assets		Liabilities		Net	
	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07
	\$	\$	\$	\$	\$	\$
Accrued Liabilities	(33,222)	(6,600)	-	-	(33,222)	(6,600)
Accrued Income	-	-	384	-	384	-
Capital Raising Costs	(81,623)	(77,079)	-	-	(81,623)	(77,079)
Employee Entitlements	(16,141)	(6,293)	-	-	(16,141)	(6,293)
Exploration Expenditure	-	-	1,539,518	906,544	1,539,518	906,544
Property Plant and Equipment	-	-	2,424	-	2,424	-
Tax Losses	(1,411,340)	(816,572)	-	-	(1,411,340)	(816,572)
<i>Tax (assets) liabilities</i>	(1,542,326)	(906,544)	1,542,326	906,544	-	-
Set off of tax	1,542,326	906,544	(1,542,326)	(906,544)	-	-
<i>Net tax (assets) liabilities</i>	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2006	Recognised in Income	Recognised in Equity	Balance 30 June 07
Accrued Liabilities	(1,500)	(5,100)	-	(6,600)
Capital Raising Costs	(269)	(76,810)	-	(77,079)
Employee Entitlements	-	(6,292)	-	(6,292)
Exploration Expenditure	69,730	836,814	-	906,544
Tax Losses	(67,961)	(748,612)	-	(816,573)
	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2007	Recognised in Income	Recognised in Equity	Balance 30 June 08
Accrued Liabilities	(6,600)	(26,622)	-	(33,222)
Accrued Income	-	384	-	384
Capital Raising Costs	(77,079)	(4,544)	-	(81,623)
Employee Entitlements	(6,292)	(9,848)	-	(16,141)
Exploration Expenditure	906,544	632,974	-	1,539,518
Property Plant and Equipment	-	2,424	-	2,424
Tax Losses	(816,573)	(594,768)	-	(1,411,341)
	-	-	-	-

Unrecognised deferred tax assets

	CONSOLIDATED	
	30-Jun-08	30-Jun-07
	\$	\$
Deferred tax assets have not been recognised in respect of the following items		
Capital Raising Costs	201,233	201,233
Tax Losses	1,619,265	386,604
	1,820,498	587,837

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the company can utilise these benefits.

Notes to the Financial Statements for the Year Ended 30 June 2008

3. Income Tax Expense continued

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

PARENT	Assets		Liabilities		Net	
	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07	30-Jun-08	30-Jun-07
	\$	\$	\$	\$	\$	\$
Accrued Liabilities	(30,522)	(6,600)	-	-	(30,522)	(6,600)
Accrued Income	-	-	384	-	384	-
Capital Raising Costs	(27,176)	(77,079)	-	-	(27,176)	(77,079)
Employee Entitlements	(16,141)	(6,293)	-	-	(16,141)	(6,293)
Exploration Expenditure	-	-	1,061,614	423,446	1,061,614	423,446
Tax Losses	(988,159)	(333,474)	-	-	(988,159)	(333,474)
<i>Tax (assets) liabilities</i>	(1,061,998)	(423,446)	1,061,998	423,446	-	-
Set off of tax	1,061,998	423,446	(1,061,998)	(423,446)	-	-
<i>Net tax (assets) liabilities</i>	-	-	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2006	Recognised in Income	Recognised in Equity	Balance 30 June 07
Accrued Liabilities	(1,500)	(5,100)	-	(6,600)
Capital Raising Costs	(269)	(76,810)	-	(77,079)
Employee Entitlements	-	(6,293)	-	(6,293)
Exploration Expenditure	69,730	353,716	-	423,446
Tax Losses	(67,961)	(265,513)	-	(333,474)
	-	-	-	-

Movement in temporary differences during the year	Balance 1 July 2007	Recognised in Income	Recognised in Equity	Balance 30 June 08
Accrued Liabilities	(6,600)	(23,922)	-	(30,522)
Accrued Income	-	384	-	384
Capital Raising Costs	(77,079)	49,903	-	(27,176)
Employee Entitlements	(6,293)	(9,848)	-	(16,141)
Exploration Expenditure	423,446	638,168	-	1,061,614
Tax Losses	(333,474)	(654,685)	-	(988,159)
	-	-	-	-

Unrecognised deferred tax assets

	PARENT	
	30-Jun-08	30-Jun-07
Deferred tax assets have not been recognised in respect of the following items	\$	\$
Capital Raising Costs	201,233	201,233
Tax Losses	2,042,446	386,092
	<u>2,243,679</u>	<u>587,325</u>

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the company can utilise these benefits.

Notes to the Financial Statements for the Year Ended 30 June 2008

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
4. Cash and cash equivalents				
Cash at bank and on hand	1,121,666	4,092,301	1,091,004	4,092,301

The weighted average interest rate for the year was 6.6%.

5. Trade and other receivables				
<u>Current</u>				
Trade debtors	60,085	24,136	60,085	24,136
Other receivables	38,645	75,011	35,238	75,011
	<u>98,730</u>	<u>99,147</u>	<u>95,323</u>	<u>99,147</u>
<u>Non-current</u>				
Loan to BigHill Resources P/L	-	-	1,095,945	1,602,470
	<u>15,000</u>	<u>70,000</u>	<u>15,000</u>	<u>70,000</u>
6. Other non-current assets				
Options over exploration tenements	15,000	70,000	15,000	70,000

7. Property plant and equipment

CONSOLIDATED AND COMPANY	Office Furniture & Equipment \$	Computer Equipment \$	Plant \$	Vehicles	Buildings	TOTAL \$
Gross Carrying Amount						
Balance at 1 July 2006	-	-	-	-	-	-
Additions	62,347	115,730	35,728	-	-	213,805
Balance at 30 June 2007	62,347	115,730	35,728	-	-	213,805
Additions	109,988	44,786	25,682	63,962	27,911	272,329
Balance at 30 June 2008	172,335	160,516	61,410	63,962	27,911	486,134
Accumulated Depreciation						
Balance at 1 July 2006	-	-	-	-	-	-
Depreciation expense	2,791	25,932	5,122	-	-	33,845
Balance at 30 June 2007	2,791	25,932	5,122	-	-	33,845
Depreciation expense	27,016	47,036	10,242	12,793	-	97,087
Balance at 30 June 2008	29,807	72,968	15,364	12,793	-	130,932
Net Book Value						
As at 30 June 2007	59,556	89,798	30,606	-	-	179,960
As at 30 June 2008	142,528	87,548	46,046	51,169	27,911	355,202

Notes to the Financial Statements for the Year Ended 30 June 2008

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
8. Financial assets				
<u>Held-to-maturity financial assets:</u>				
Investment in BigHill Resources P/L		-	3,500,000	2,500,000

9. Exploration and evaluation				
Exploration and evaluation phase	7,661,499	5,513,249	3,536,833	1,411,484
Expenditure capitalised				

The value of the Consolidated Entity's interest in exploration expenditure is dependent upon the:

- continuance of the Consolidated Entity's right 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 Consolidated Entity's 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 exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, of the quantum of such claims. It should be noted that the areas around BigHill and McLeods have already been the subject of an anthropological heritage review and were cleared for the current exploration programs.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
10. Trade and other payables				
<u>Unsecured:</u>				
Trade and other payables	350,546	463,264	304,742	462,264
11. Unissued share subscriptions				
Unissued share subscriptions	-	2,100,300	-	2,100,300
12. Provisions				
Provision for annual leave	53,804	20,975	53,804	20,975

The provision for annual leave represents annual leave entitlements as 30 June 2008.

13. Financial liabilities				
<u>Secured:</u>				
Current lease liabilities	27,137	13,750	27,137	13,750
<u>Secured:</u>				
Long term lease liabilities	53,097	38,958	53,097	38,958
Total financial liabilities	80,234	52,708	80,234	52,708

The carrying amounts of assets that are financed under these leases are pledged as security for these leases are:

• Photocopiers	\$42,167
• Vehicle	\$51,169
Total	\$93,336

Notes to the Financial Statements for the Year Ended 30 June 2008

14. Issued capital

72,017,328 fully paid ordinary shares
(2007: 61,798,918)

11,305,188 8,433,464 11,305,188 8,433,464

The company has issued capital amounting to 72,017,328 with no par value.

Fully paid ordinary shares

	Consolidated and Company			
	2008		2007	
	No.	\$	No.	\$
Balance at beginning of financial year	61,798,918	8,433,464	17,200,004	437,054
Issued 11 July 2006	-	-	50,000	10,000
Issued 18 July 2006	-	-	100,000	20,000
Issued 30 July 2006	-	-	1,400,000	165,000
Issued 26 September 2006	-	-	30,000,000	6,000,000
Issued 27 September 2006	-	-	8,000,000	1,600,000
Issued 23 November 2006	-	-	4,000,000	840,000
Issued 7 May 2007	-	-	1,048,914	209,783
Issued 3 July 2007	7,001,000	2,100,300	-	-
Issued 16 November 2007	950,000	275,500	-	-
Issued 5 December 2007	<u>2,267,320</u>	<u>498,464</u>	-	-
	72,017,328	11,307,728	61,798,918	9,281,837
Less cost of capital	-	(2,540)	-	(848,373)
Balance at end of financial year	<u>72,017,328</u>	<u>11,305,188</u>	<u>61,798,918</u>	<u>8,433,464</u>

On 3 July 2007, the Company issued 7,001,000 shares to sophisticated investors.

Shares were issued on 16 November 2007 under the terms of an agreement to acquire tenements at Cookes Creek.

750,000 of the shares issued on 5 December 2007 were in accordance with the terms of an agreement to acquire the Arthur River tenements with the balance issued for drilling services under the terms of a drilling services agreement. Each of these agreements was disclosed in the Company's prospectus dated 28 July 2006.

Ordinary shares have the right to receive dividends as declared by the board and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle the holder to one vote either in person or by proxy at a meeting of the company.

Notes to the Financial Statements for the Year Ended 30 June 2008

14. Issued capital continued

Options on Issue

The following reconciles the outstanding share options at the beginning and end of the financial year:

Consolidated Description	2008 No.	2007 No.
Balance at the beginning of the financial year	7,750,000	7,750,000
Granted during the financial year	3,000,000	-
Forfeited during the financial year	-	-
Exercised during the financial year	-	-
Expired during the financial year	-	-
	<hr/>	<hr/>
Balance at the end of financial year	10,750,000	7,750,000
Exercisable at the end of the financial year	10,750,000	7,750,000
Company Description	2008 No.	2007 No.
Balance at the beginning of the financial year	7,750,000	7,750,000
Granted during the financial year	-	-
Forfeited during the financial year	-	-
Exercised during the financial year	-	-
Expired during the financial year	-	-
	<hr/>	<hr/>
Balance at the end of financial year	7,750,000	7,750,000
Exercisable at the end of the financial year	7,750,000	7,750,000

Each option entitles the holder to one fully paid ordinary share in the Company.

The terms of the options on issue are:

- 4,500,000 exercisable at \$0.20 on or before 31 August 2009
- 1,000,000 exercisable at \$0.25 on or before 31 August 2009
- 2,250,000 exercisable at \$0.30 on or before 31 August 2009
- 3,000,000 exercisable at \$0.20 on or before 30 September 2010

The underlying shares for each of the options expiring on 31 August 2009 are subject to a 24 month ASX imposed escrow period from 3 October 2006.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
15. Reserves	503,840	199,975	199,975	199,975

Reserves comprise share based payment made to directors, consultants and key management personnel refer Note 26.

Notes to the Financial Statements for the Year Ended 30 June 2008

16. Capital management

The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Company's activities, being mineral exploration, the Company does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Company's capital risk management is the current working capital position against the requirements of the Company to meet exploration programmes and corporate overheads. The Company's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Company and the parent entity at 30 June 2008 and 30 June 2007 are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	1,121,666	4,092,301	1,091,004	4,092,301
Trade and other receivables	98,730	99,147	95,323	99,147
Trade and other payables	(350,546)	(463,264)	(304,742)	(462,264)
Working capital position	869,850	3,728,184	881,585	3,729,184

17. Earnings per share

	2008 Cents per share	2007 Cents per share
Basic (loss) per share	(2.44)	(2.29)

Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Consolidated	
	2008 \$	2007 \$
Loss used in the calculation of basic EPS as per income statement	(1,725,486)	(1,160,967)
Weighted average number of ordinary shares for the purposes of basic earnings per share	70,644,440	50,840,114

Notes to the Financial Statements for the Year Ended 30 June 2008

18. Commitments for expenditure	Consolidated		Company	
	2008	2007	2008	2007
Exploration and evaluation	\$	\$	\$	\$
Not longer than 1 year	369,500	276,167	369,500	254,500
Longer than 1 year and not longer than 5 years	851,000	935,562	851,000	855,562
Longer than 5 years	-	-	-	-
	<u>1,220,500</u>	<u>1,211,729</u>	<u>1,220,500</u>	<u>1,110,062</u>

19. Contingent liabilities

The Company has a signed agreement where it has the option to purchase a tenement located at Tardarina Hill. The consideration payable upon exercise of this option comprises \$20,000 in cash and the allotment to the vendors of 600,000 fully paid ordinary shares in the Company. The value of these shares at 30 June 2008 was \$132,000.

20. Leases

Finance leases

Leasing arrangements

Finance leases relate to office equipment with a lease for a 5 year term which at the end of the term will be owned by the Company.

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Finance lease liabilities</u>								
Not longer than 1 year	33,302	17,021	33,302	17,021	27,137	13,750	27,137	13,750
Longer than 1 year and not longer than 5 years	65,125	48,225	65,125	48,225	53,097	38,958	53,097	38,958
Longer than 5 years	-	-	-	-	-	-	-	-
Minimum future lease Payments	98,427	65,246	98,427	65,246	80,234	52,708	80,234	52,708
Less future finance charges	(18,193)	(12,537)	(18,193)	(12,537)	-	-	-	-
	<u>80,234</u>	<u>52,709</u>	<u>80,234</u>	<u>52,709</u>	<u>80,234</u>	<u>52,708</u>	<u>80,234</u>	<u>52,708</u>

Included in the financial statements as Note 13

Current lease liabilities	27,137	13,750	27,137	13,750
Long-term lease liabilities	<u>53,097</u>	<u>38,958</u>	<u>53,097</u>	<u>38,958</u>
	<u>80,234</u>	<u>52,708</u>	<u>80,234</u>	<u>52,708</u>

Operating leases

Leasing arrangements

Operating leases relate to office premises with lease terms of 1.5 years, with an option to extend for a further 5 years. Rental is subject to an annual increment of 4%. And a rented house at Nullagine. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

Notes to the Financial Statements for the Year Ended 30 June 2008

20. Leases continued

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating leases continued				
<u>Operating lease liabilities</u>				
Not longer than 1 year	102,981	92,155	102,981	92,155
Longer than 1 year and not longer than 5 years	48,860	144,701	48,860	144,701
Longer than 5 years	-	-	-	-
	151,841	236,856	151,841	236,856

21. Notes to the cash flow statement

a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	1,121,666	4,092,301	1,091,004	4,092,301

b) Non-cash financing and investing activities

During the current financial year, the Company acquired a vehicle to the value of \$58,142 under a finance lease. This acquisition and office equipment to the value of \$55,000 acquired in the previous year will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

During the current financial year 1,517,320 shares were issued under the terms of the drilling agreement, and 1,700,000 shares were issued for the acquisition of tenements at Cookes Creek and Arthur River.

c) Reconciliation of loss for the period to net cash flows from operating activities

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss for the period	(1,725,487)	(1,160,967)	(940,312)	(1,159,262)
Non-cash items				
Depreciation	97,087	33,845	97,087	33,845
Share based payments	303,865	199,975	-	199,975
Changes in net assets and liabilities, net of effects from acquisition of business:				
(Increase)/decrease in assets:				
Trade and other receivables	(115,258)	(94,289)	(594,088)	(101,301)
Increase in exploration	(1,267,651)	(1,778,803)	(1,304,200)	(1,763,992)
Increase/(decrease) in liabilities				
Trade and other payables	417	427,641	3,824	418,137
Provisions	32,829	20,975	32,829	20,975
	(2,674,198)	(2,351,623)	(2,704,860)	(2,351,623)

Notes to the Financial Statements for the Year Ended 30 June 2008

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$

22. Auditor's Remuneration

Amounts received or due and received by Bentleys (formerly trading as Rix Levy Fowler) for:

An audit or review of the financial report of the Consolidated Entity	36,300	16,500	22,000	16,500
---	--------	--------	--------	--------

23. Subsequent Events

On 3 July 2008, the Company released a short form prospectus for the issue of 20,000,000 shares at \$0.15 cents each to raise \$3,000,000.

On 8 August 2008, the Company issued 7,500,000 shares and 3,000,000 unlisted options, details of which were contained in the Notice of General Meeting of Shareholder held on 8 August 2008.

On 15 August 2008, the Company issued 300,000 shares and 1,000,000 unlisted options, details of which were contained in the Notice of General Meeting of Shareholder held on 8 August 2008.

On 1 September 2008, the closing date of the short form prospectus was extended to 30 September 2008.

24. Segment Reporting

The Consolidated Entity operates in one business and geographical segment being mineral exploration and prospecting for minerals in Australia.

25. Financial Instruments

(a) Financial Risk Management

The Consolidated Entity's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The main purpose of non-derivative financial instruments is to raise finance for the Consolidated Entity's operations.

Derivatives are not currently used by the Consolidated Entity for hedging purposes. The Consolidated Entity does not speculate in the trading of derivative instruments.

(i) Treasury Risk Management

The board meets on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Notes to the Financial Statements for the Year Ended 30 June 2008

25. Financial Instruments continued

(ii) Financial Risks

The main risks the Consolidated Entity's is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

The Consolidated Entity's exposure to market risk for changes in interest rates relates primarily to the Consolidated Entity's cash on deposit.

Sensitivity analysis

At 30 June 2008, if interest rates had changed by +/- 75 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the Consolidated Entity and the Company would have been \$8,412 lower/higher (2007 - \$30,692 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

Liquidity risk

The Consolidated Entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The Consolidated Entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

(b) Fair Value Estimation

The fair value of the financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Consolidated Entity and the parent entity at the balance date are recorded amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Financial Statements for the Year Ended 30 June 2008

25. Financial Instruments continued

(c) Interest Rate Risk

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

Consolidated and Company

	Weighted average interest rate %	Variable interest rate \$	Non- interest bearing \$	Total \$
2008				
Financial Assets				
Cash and cash equivalents	6.6	1,121,666	-	1,121,666
Trade and other receivables		-	98,730	98,730
		1,121,666	98,730	1,220,396
Financial Liabilities				
Trade and other payables		-	350,546	350,546
Finance leases	10.0	80,234	-	80,234
		80,234	350,546	430,780

Consolidated and Company

	Weighted average interest rate %	Variable interest rate \$	Non- interest bearing \$	Total \$
2007				
Financial Assets				
Cash and cash equivalents	4	4,092,301	-	4,092,301
Trade and other receivables		-	99,147	99,147
		4,092,301	99,147	4,191,448
Financial Liabilities				
Trade and other payables		-	463,264	463,264
Finance leases	5.5	52,709	-	52,709
		52,709	463,264	515,973

All financial assets and trade and other payables are expected to be settled within 12 months. Finance leases are expected to be settled within 24 months. The carrying amount of all financial assets and financial liabilities approximate their fair values.

Notes to the Financial Statements for the Year Ended 30 June 2008

26. Share-based payments

On 18 September 2007 the following share options were granted to Mr Martin McQuade under the terms of his Executive Services Agreement. Each share option is exercisable into 1 fully paid ordinary share in the BigHill Resources Limited upon payment of the exercise price on or before the expiry date of the share option. The options hold no voting or dividend rights, and are not transferable.

The terms of Mr McQuade's Executive Services Agreement are currently under re-negotiation. Shareholder approval was gained at a General Meeting held on 18 August 2008 to replace the BigHill Resources Limited options with Hazelwood Resources Ltd options. At balance date no share options had been exercised.

Options series	Number	Grant date	Expiry date	Exercise price\$	Fair value at grant date \$
BHR	3,000,000	18/09/2007	24/09/2010	0.20	0.101

All of the above share-based payments vested on date of issue. At balance date the weighted average exercise price of the options was \$0.20 and the average remaining contractual life of 27 months. No share based payments were made to Mr McQuade in the previous year.

The weighted average fair value of the share options granted during the period is \$0.101. Options were priced using a binomial option pricing model and applying the following inputs:

Inputs into the model	Options series BHR
Grant date share price	\$0.20
Exercise price	\$0.20
Expected volatility	66.98%
Option life years	3.19
Dividend yield	0.00%
Risk-free interest rate	6.53%

Historical volatility of Hazelwood securities has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Share based payments are shown in the Statement of Changes in Equity under the Reserves heading and as a separate expense line in the Income Statement.

27. Controlled Entities

Hazelwood Resources Limited controls 100% of the ordinary shares of BigHill Resources Limited (formerly Kiora Holdings Pty Ltd).

Name of Subsidiary	Country of Incorporation	Percentage Owned (%)	
		2008	2007
BigHill Resources Limited	Australia	100%	100%

Notes to the Financial Statements for the Year Ended 30 June 2008

28. Related party transactions continued

Loan to subsidiary

At the date of this report the loan to the subsidiary company had a balance of \$1,095,945. Interest is calculated on this loan at commercial rates. As the tungsten asset is held by the subsidiary company it is intended that this loan be repaid upon the development of this asset in the future.

Contracts for services

Consultancy agreements on commercial terms are entered into for non-executive directors and other non-salaried key personnel via companies in which each key management person has a controlling interest. The companies that each non-executive director or key management person has a controlling interest are:

Company	Interest held by	Amount \$	Description of payment
McAuliffe Legal	Mr M McAuliffe	75,832	Legal services
McAuliffe Administration Trust	Mr M McAuliffe	48,400	Equipment rental
Siren Pty Ltd	Mr I Richer		Option to purchase fee
	Mr T Butler-Blaxell	275,500	exploration tenements
Ausnom Pty Ltd	Mr J Chegvidden	79,200	Consulting fees, directors fees and expense reimbursements
Anycall Pty Ltd	Mr I Richer	76,800	Consulting fees, directors fees and expense reimbursements

29. Key management personnel compensation

(a) Names and positions of key management personnel

The names and positions of the consolidated and parent entity key management personnel in the financial office at any time during the financial year are:

Key Management Person	Position
Mr M McAuliffe	Executive Chairman
Mr T Butler-Blaxell	Executive Director
Mr J Chegvidden	Non-executive Director
Mr I Richer	Non-executive Director
Ms C New	Company Secretary
Mr M McQuade	Project Manager

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

(b) Options Holdings - The number of options held by key management personnel are:

30 June 2008	Balance at beginning of period	Granted as remuneration	Exercised	Net change other	Balance at end of period	Options vested and exercisable at 30 June 2008
M McAuliffe	2,500,000	-	-	-	2,500,000	2,500,000
I Richer	1,000,000	-	-	-	1,000,000	1,000,000
J Chegvidden	1,000,000	-	-	-	1,000,000	1,000,000
T Butler-Blaxell	2,500,000	-	-	-	2,500,000	2,500,000
M McQuade	-	3,000,000	-	-	3,000,000	3,000,000

(c) Shareholdings - The Number of shares held by key management personnel are:

	Balance 30 June 2007	Received as Remuneration	Options Exercised	Net Change Other ¹	Balance 30 June 2008
Mr M McAuliffe	1,035,001	-	-	25,000	1,060,001
Mr T Butler-Blaxell	2,510,001	-	-	-	2,510,001
Mr I Richer	1,500,001	-	-	-	1,500,001
Mr J Chegvidden	1,105,001	-	-	-	1,105,001
Mr T Butler-Blaxell & Mr I Richer ²	50,000	-	-	950,000	1,000,000
Mr M McQuade	70,000	-	-	-	70,000

(1) Net change other refers to Shares that have been purchased or sold, or received as vendors during the financial year.

(2) Terence Butler-Blaxell & Ian Richer both have a beneficial interest in 1,000,000 ordinary shares held by Siren Mining Limited.

Notes to the Financial Statements for the Year Ended 30 June 2008

30. Change in Accounting Policy

- (a) The consolidated group changed its accounting policy for the financial year ending 30 June 2008 by reclassifying goodwill to exploration. Goodwill relates to the acquisition of the wholly owned subsidiary BigHill Resources Limited which holds the tenements that host the tungsten asset. The tungsten asset is one of the consolidated group's main exploration assets therefore reclassifying goodwill to exploration provides a better representation of the asset. This reclassification has no effect on the Income Statement or Balance Sheet.
- (b) The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

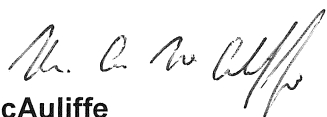
AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 6 Exploration for and Evaluation of Minerals	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1/01/2009	1/07/2009
	AASB 107 Cash Flow Statements			
	AASB 199 Employee Benefits			
	AASB 127 Consolidated and Separate Financial Statements			
	AASB 134 Interim Financial Reporting			
	AASB 136 Impairment of Assets			
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above.	1/01/2009	1/07/2009
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1/01/2009	1/07/2009
	AASB 107 Cash Flow Statements			
	AASB 116 Property, Plant and Equipment			
	AASB 138 Intangible Assets			
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above.	1/01/2009	1/07/2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1/01/2009	1/07/2009
AASB 101	AASB 101 Presentation of Financial Statements	As above.	1/01/2009	1/07/2009

Directors' Declaration

The directors of the company declare that:

- 1) the financial statement and notes, as set out on pages 17 to 44, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and consolidated group;
- 2) the Chief Executive Officer and Chief Finance 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 company will be able to pay its debts as and when they become due and payable.

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



Mark McAuliffe
Executive Chairman

Perth, Western Australia
30 September 2008

Additional Stock Exchange Information As at 25 September 2008

The Company's ordinary shares are quoted by the Australian Stock Exchange Limited. The Home Exchange is Perth and the ASX code is HAZ. Options over ordinary shares in the Company are not quoted on the ASX.

Holders of classes of equity securities

<u>Class</u>	<u>Number on issue</u>	<u>Exercise price</u>	<u>Expiry date</u>	<u>Number of holders</u>
Shares				
Ordinary*	79,817,238	-	-	660

* Of this amount 10,195,000 ordinary shares held by 23 holders are subject to an ASX imposed escrow period of 24 months effective from 3 October 2006.

Options*

HAZAU	4,500,000	\$0.20	31/08/2009	11
HAZAW	1,000,000	\$0.25	31/08/2009	2
HAZAY	2,250,000	\$0.30	31/08/2009	5

* The underlying ordinary shares for the above options are subject to an ASX imposed escrow period of 24 months effective from 3 October 2006.

Distribution of holders of equity securities

Ordinary shares

<u>Range</u>	<u>Number of shares</u>	<u>Number of holders</u>
1 - 1,000	3,499	26
1,001 – 5,000	261,496	85
5,001 – 10,000	1,143,657	124
10,001 – 100,000	13,282,616	320
100,001 and over	65,125,970	105
	79,817,238	660

Unmarketable parcels

The Company has 65 shareholdings which are less than a marketable parcel.

Additional Stock Exchange Information As at 25 September 2008

Top 20 holders

No.	Shareholder	Number of shares	% of issued shares
1	Creekwood Nominees Pty Ltd	7,999,715	10.02
2	Giralia Resources Limited	4,000,000	5.01
3	Jemaya Pty Ltd <The Featherby Family A/C>	3,750,000	4.70
4	Jemaya Pty Ltd <JH Featherby Super Fund A/C>	3,750,000	4.70
5	Colby Corporation Pty Ltd <The Colby Unit A/C>	2,566,234	3.22
6	Mr Terence Hugh Butler-Blaxell	2,510,001	3.14
7	Mr Anjia Hong	2,080,000	2.61
8	Academic Growth Institute Fund Pty Ltd	1,718,333	2.15
9	Anycall Pty Ltd	1,500,000	1.88
10	Win All Industrial Limited	1,207,664	1.51
11	Winko Investment Pty Ltd <Winko Super Fund A/C>	1,206,921	1.51
12	Rockdale Capital Pty Ltd	1,194,088	1.50
13	Mr Vicenco Alac	1,157,000	1.45
14	Crandell Pty Ltd <Berpaid Pty Ltd S/F No 2 A/C>	1,150,000	1.44
15	Mr Bruce Lawrence Hodges	1,075,000	1.35
16	Mr William Henry Hernstadt	1,062,163	1.33
17	Chegs Assets Pty Ltd	1,000,000	1.25
18	McAuliffe Administration Pty Ltd	1,000,000	1.25
19	Siren Mining Ltd	1,000,000	1.25
20	Topspeed Pty Ltd <Skinner No 1 Super A/C>	1,000,000	1.25
		41,927,119	52.52

Voting rights

Voting rights of members are set out in Article 2.1 of the Company's Constitution.

Only holders of ordinary shares are entitled to vote, either in person or by proxy, attorney or corporate representative:

- on a show of hands, to one vote, and
- on a poll, to one vote for each share held.

Holders of options do not have a right to vote.

Substantial shareholders

The following substantial shareholdings have been notified to the Company.

Name of shareholder	No. of shares held
Creekwood Nominees Pty Ltd	7,999,715
Giralia Resources Limited	4,000,000
11,999,715	