# Alloy

## Resources Limited

ABN 20 109 361 195

Annual Report 2008

Alloy
RESOURCES LIMITED
ABN 20 109 361 195



# CORPORATE DIRECTORY

## Directors

| | |
|---|---|
| Mr Peter Harold | Non-Executive Chairman |
| Mr Peter Hepburn-Brown | Managing Director |
| Dr Jayson Meyers | Non-Executive Director |
| Mr Kevin Hart | Non-Executive Director |

## Company Secretary

Mr Kevin Hart

## Principal and Registered Office

Suite 6, 7 The Esplanade
Mt Pleasant, Western Australia 6153
Telephone: (08) 9316 9100
Facsimile: (08) 9315 5475
Website: www.alloyres.com

## Auditor

KPMG
Level 31, Central Park
152-158 St George's Terrace
Perth, Western Australia 6000

## Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross, Western Australia 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

## Stock Exchange Listing

The Company's shares are quoted on the Australian Securities Exchange. The Home Exchange is Perth, Western Australia.

## ASX Code

AYR – Ordinary shares
AYRO – Options expiring 6 April 2009

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# Chairman's Letter to Shareholders



Dear Shareholders,

This year can best be described as a watershed year in the Company's short history. On one hand we successfully divested the Comet/Kurrajong assets for $1.575 million in cash, which was a timely sale while on the other hand we are still waiting for the Laos application to be granted. At 30 June the Company had cash and receivables totalling $2.5 million which is a good position to be in given the current turmoil in world financial markets.

The delay in the grant of the Foreign Investment Licence over the project in Laos has been particularly frustrating as the project was set become the Company's main exploration focus. The project is in a geological setting that is very prospective for base and precious metals and for discoveries of large, epithermal mineral deposits, and contains several exciting prospects. While no timetable has been given by the Laos authorities as to when the application might be granted we remain optimistic that the application will be granted.

The decision to divest the Comet/Kurrajong gold project came after we completed a pre-feasibility study on constructing a mill and associated infrastructure at site to treat up to 250,000 tonnes of ore per annum. The pre-feasibility study showed that increased costs for mining and processing at site had adversely impacted on the estimated cash flow required to pay back the development costs and generate acceptable returns in a short time frame. We then looked at the various options for the project including holding, joint venturing and/or selling. We were delighted to receive a number of cash offers for the assets and subsequently decided to sell the assets to Silver Lake Resources for $1.575 million in cash which has given our cash balance a welcome boost in these challenging times.

The Company still has the Horse Well Gold Project, 85 kms north-east of Wiluna, which contains approximately 80,000 oz of gold in resource and is located on the northern end of the Archaean Yandal Greenstone Belt that hosts some major gold mines including Jundee/Nimray, Bronzewing and Darlot. Drilling during 2008 identified several new mineralised gold trends that warrant follow up drilling. In the coming year we will focus our exploration activities on continuing to drill high priority targets previously identified and to generate new targets.

Going into 2009 we find ourselves in a relatively strong financial position with approximately $2.5 million in cash which gives us sufficient funding for our exploration activities at Horse Well while providing us with funds to purchase quality mineral assets that we are looking to identify. In light of the scaling down of our Australian exploration activities we have down sized our staffing and corporate office in order conserve funds.

I would like to take this opportunity to thank Jayson, Peter and Kevin or their efforts this year and trust that the coming year will be a more rewarding one for our shareholders.

Peter Harold
Chairman

# Review of Operations



## Highlights

- Sale of the Comet and Kurrajong projects near Cue in WA to Silver Lake Resources Limited for $1.575 million in cash.
- New zones of gold mineralisation identified at Horse Well.
- A Special Prospecting Licence ('SPL') of 16 sq km has been applied for in the Tha Tako district of the Nakhon Sawan province to explore for gold in the Company's joint venture company, Nam Thong Mining Co (Thailand).
- Alloy is still actively progressing its Foreign Investment Licence application in Laos, but no firm timeline has been given by the Lao Government authorities on when the application will be approved.
- Alloy withdrew from the joint venture earn-in on the 88 Creek Project in the North Kimberley region of WA.

## Project Review

### *Sale of Comet Gold and Kurrajong Nickel Projects*

The Comet-Webb's Patch and Kurrajong projects are located 600 kms to the north-west of Perth, WA and is 20 kms to the south-west of the historic gold mining town of Cue.

The geology is comprised of folded and faulted Achaean basalts and sediments that host mesothermal gold deposits.

The Comet deposit was previously mined before the 1980s by underground methods, then open pit mining during the 1990s.

By letter agreement dated 21 March 2008 Alloy Resources Limited ('Alloy') agreed to sell its Comet gold project and Kurrajong nickel tenements to Silver Lake Resources Ltd together with all geological data and related project information for an amount of $1,575,000 cash. The sale included the assumption by the purchaser of unconditional performance bonds amounting to $141,000.

The sale and purchase was subject to a number of conditions, which were all met prior to year-end. The Company announced settlement of the transaction on 2 July 2008.

Completion of a pre-feasibility study in October 2007 showed the Comet project to be marginal, at then current gold prices for mining and processing on site. The pre-feasibility study had focused on construction of a modular treatment plant and associated infrastructure on site at Comet. The Company also investigated toll treatment options in the Murchison district within a 180 km radius of the project. Industry cost pressures resulted in two treatment plants within trucking distance of the Comet project being closed during the year and increasing fuel costs made trucking ore to a third alternative unattractive.

## Horse Well Gold Project

### *Location and Geology*

The Horse Well Gold project is located in the Warburton Mineral Field of Western Australian and is approximately 85 kms north-east of the township of Wiluna.

The Company owns 100% of the tenement through its subsidiary Eskay Resources Pty Ltd.

The Horse Well project area is at the northern part of the Archaean Yandal Greenstone Belt that hosts the Jundee/Nimary, Bronzewing, Darlot-Centenary and Gourdis mines.

The project area is dominated by the Lockeridge Fault which follows a north-northwesterly trend. Along this fault, the greenstone and granitoid rocks are mylonitised and exhibit a foliation fabic and quartz veining parallel to the fault

To the north, outside Alloy's tenements, along the Lockeridge Fault, a number of carbonated hosted base metal mineralised zones are located.

### *Horse Well Gold Resource*

The current Horse Well gold resource is as follows:

| Prospect | JORC Category | Tonnes | Grade (g/t) | Ounces |
|---|---|---|---|---|
| Palomino | Indicated | 607,000 | 2.6 | 53,000 |
| Bronco | Indicated | 22,078 | 2.72 | 1,930 |
| Filly | Indicated | 151,199 | 1.86 | 9,043 |
| Filly SW | Indicated | 62,487 | 7.07 | 14,205 |
| **Total** | | **842,764** | **2.80** | **78,178** |

Note (1)

### *Exploration Activities*

A GIS study of all open file exploration data, combined with an aeromagnetic interpretation carried out by the Company and a geophysical consulting group had identified several high priority structural targets in the northern and eastern parts of the greenstone belt (see attached map). These targets have high potential for hosting gold mineralisation, and occur along flexures of major shear zones associated with gold anomalies in soils and major N-NE trending cross faults.

The target areas at Horse Well sit under transported regolith cover were tested by a systematic drilling program in May 2008 using rotary air blast air core drilling.

The drilling program identified several new, large gold mineralised trends and gold exploration targets at its Horse Well Gold project. The priority target area is a new zone of gold mineralisation identified by a hole AHWA112 with 1.475 ppm gold peak over 4 metres from a reconnaissance air-core drill hole.

Reconnaissance air-core (AC) and rotary air blast (RAB) drilling was completed to test targets in the central portion of the greenstone belt within the Company's tenement (Figure 1). A total of 171 holes were drilled for 10,995 metres, with 18 holes drilled in the new areas returning gold assays in excess of 0.1 ppm over 4 m composite sample intervals (Table 1). Two drill holes containing maximum gold values of 1 ppm or more are listed in Table 1. Many of the other drill holes contained maximum gold values greater than 10 ppb, indicating elevated gold background for the district (Figure 1). The drilling also demonstrated that many parts of the greenstone belt that were interpreted to be felsic volcanic rocks are actually mafic volcanic rocks, predominantly tholiitic basalt.

The drilling results identified several gold anomaly trends that follow the interpreted geological layers along NW-SW trends. The widths of these trends vary from 400 m to open ended, and are usually in excess of 1 km long, with the longest of these trends being 5.8 km long (Figure 1).

These results are south of the Pony prospect and follow up 0.6 ppm over 15 m from 99 m previously drilled at the Pony deposit.

Hole AHWA170 was drilled near hole AHWARC051 in the Palomino Deposit to collect ore samples for metallurgy test work. This work will test for ore recoveries and possible heap leaching of the Horse Well Deposit. This metallurgical test work will commence during October 2008.

A drilling program to test the target area extending beyond hole AHWA112 and other identified gold trends is being planned.

**Table 1:** Drill hole intercepts in excess of 0.1 ppm from reconnaissance holes drilled at Horse Well.

| Hole ID | Easting (MGA51) | Northing (MGA51) | From (m) | To (m) | Au (ppm) |
|---|---|---|---|---|---|
| AHWA170 (i) | 271534 | 7130721 | 12 | 15 | 0.16 |
| AHWA170 | 271534 | 7130721 | 15 | 18 | 0.686 |
| AHWA170 | 271534 | 7130721 | 21 | 24 | 0.333 |
| AHWA170 | 271534 | 7130721 | 24 | 27 | 0.13 |
| AHWA170 | 271534 | 7130721 | 27 | 30 | 0.271 |
| AHWA170 | 271534 | 7130721 | 30 | 33 | 0.249 |
| AHWA170 | 271534 | 7130721 | 33 | 36 | 0.289 |
| AHWA170 | 271534 | 7130721 | 36 | 39 | 0.449 |
| AHWA170 | 271534 | 7130721 | 39 | 42 | 1.005 |
| AHWA170 | 271534 | 7130721 | 42 | 45 | 1.86 |
| AHWA170 | 271534 | 7130721 | 45 | 48 | 1.505 |
| AHWA170 | 271534 | 7130721 | 48 | 51 | 1.615 |
| AHWA170 | 271534 | 7130721 | 51 | 54 | 5.83 |
| AHWA170 | 271534 | 7130721 | 54 | 57 | 1.075 |
| AHWA170 | 271534 | 7130721 | 57 | 60 | 2.54 |
| AHWA170 | 271534 | 7130721 | 60 | 63 | 0.681 |
| AHWA170 | 271534 | 7130721 | 63 | 64 | 5.24 |
| AHWA169 | 271621 | 7130996 | 8 | 12 | 0.116 |
| AHWA157 | 271802 | 7130734 | 24 | 28 | 0.414 |
| AHWA156 | 271880 | 7130753 | 16 | 20 | 0.125 |
| AHWA155 | 271808 | 7130618 | 48 | 52 | 0.954 |
| AHWA127 | 273396 | 7132868 | 16 | 20 | 0.183 |
| AHWA121 | 272253 | 7132500 | 60 | 64 | 0.311 |
| AHWA115 | 272857 | 7133916 | 24 | 28 | 0.696 |
| AHWA115 | 272857 | 7133916 | 20 | 24 | 0.138 |
| AHWA112 | 272502 | 7133794 | 92 | 96 | 1.475 |
| AHWA112 | 272502 | 7133794 | 108 | 112 | 0.154 |
| AHWA110 | 272123 | 7133675 | 68 | 71 | 0.104 |
| AHWA103 | 272131 | 7134093 | 108 | 112 | 0.36 |
| AHWA103 | 272131 | 7134093 | 112 | 116 | 0.135 |
| AHWA103 | 272131 | 7134093 | 116 | 120 | 0.102 |
| AHWA099 | 271396 | 7133861 | 52 | 56 | 0.184 |
| AHWA056 | 271658 | 7136886 | 48 | 52 | 0.144 |
| AHWA053 | 272225 | 7137055 | 32 | 36 | 0.144 |
| AHWA033 | 271450 | 7135560 | 64 | 68 | 0.244 |
| AHWA033 | 271450 | 7135560 | 68 | 72 | 0.232 |
| AHWA030 | 272025 | 7135740 | 72 | 76 | 0.17 |
| AHWA030 | 272025 | 7135740 | 72 | 76 | 0.139 |
| AHWA026 | 271575 | 7135179 | 76 | 80 | 0.202 |
| AHWA026 | 271575 | 7135179 | 96 | 101 | 0.102 |
| AHWA015 | 271888 | 7134856 | 56 | 60 | 0.101 |

*(i) Drilled in Palomino deposit for metallurgy testing.*

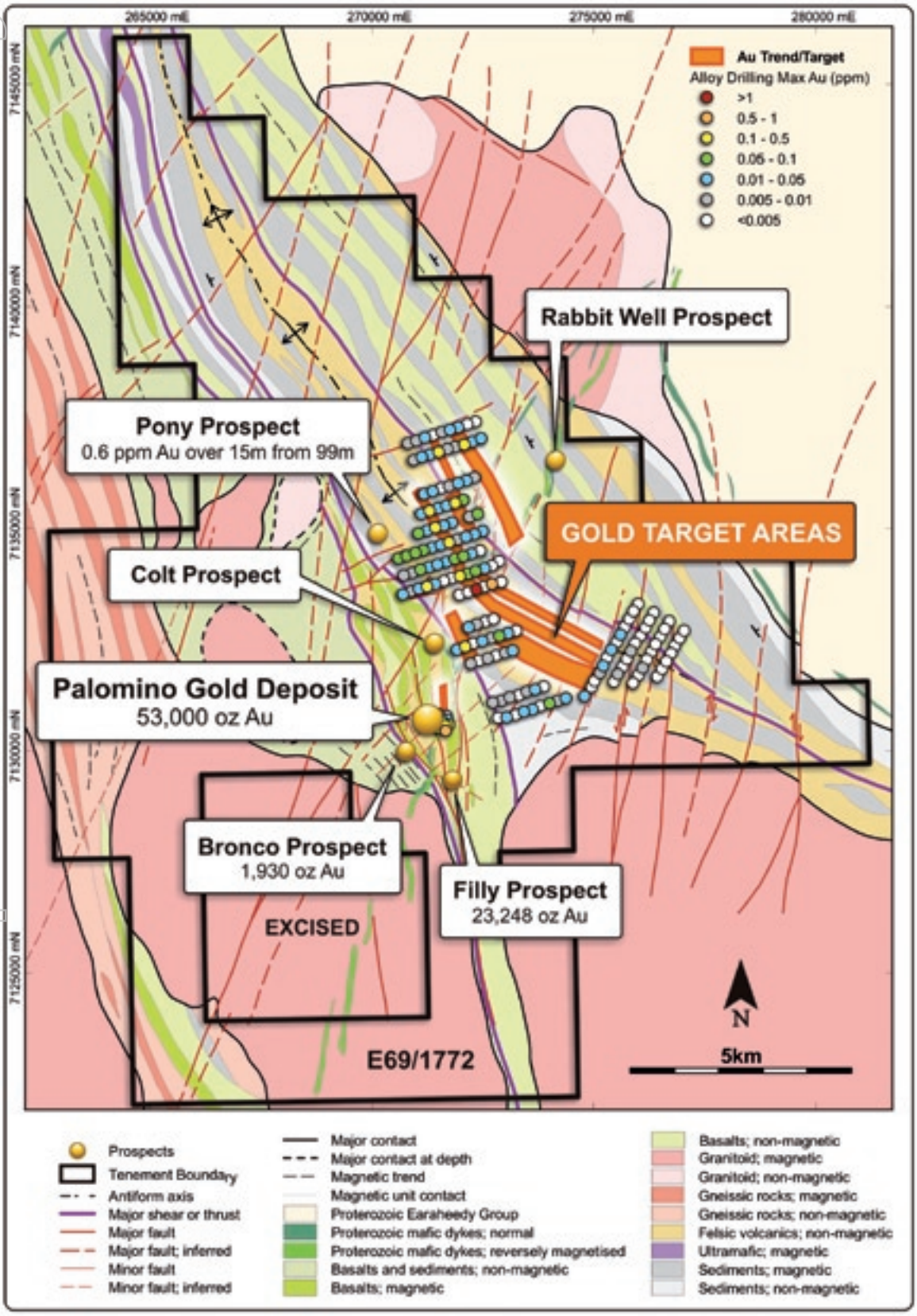
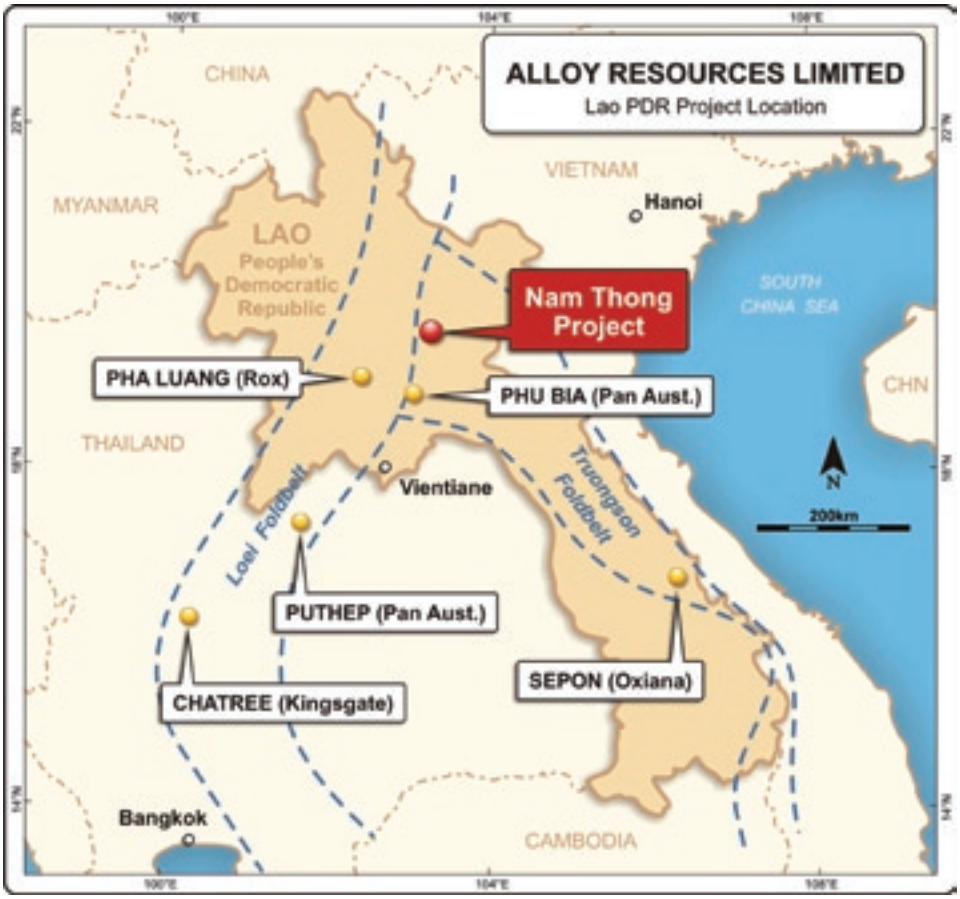



**Figure 1:** Location of recent drill holes with maximum gold values in ppm and new gold anomaly trends overlying the interpreted bedrock geology at Horse Well.




## Laos Joint Venture Project

In September 2007, a joint venture agreement was signed with a Lao company, Nilandon Mining Development Limited ('Nilandon'), whereby Alloy can obtain majority interest in a mineral exploration concession under application in Laos. The concession area is in the Xiang Khouang province and is adjacent to Pan Australian Resources Limited's Phu Bia concession area.

The concession application area is considered to have high potential for hosting large scale base metal and gold deposits with an advanced prospect, Nam Thong, ready for drilling.

Alloy is still actively progressing its Foreign Investment Licence application in Laos. Recent information from the government and advisory sources indicate that the government is granting a limited number of licences and it is expected that Alloy's Foreign Investment Licence applications will be processed but no firm timeline has been given by the Lao Government authorities.

During the year the Company obtained Government approval to establish a representative office in Laos, which allowed the Company to operate within the country to evaluate mineral projects and process applications for foreign business licences and concession areas.

## Thailand Joint Venture Project

A Special Prospecting Licence ('SPL') application of 16 sq km in the Tha Tako district of Thailand, in the name of the Company's joint venture company, Nam Thong Mining Co. (Thailand), is still under review by the Thailand Government.

The SPL application sits 80 kms to the south of the Chatree Gold Mine and is in the same volcanic belt. Low order gold anomalies have previously been identified in soils within the SPL application area.

# Review of Operations



## 88 Creek Project

The 88 Creek project is located in the north-eastern part of the Kimberley region some 160 kms north-west of the township of Kununurra. Owing to rough terrain, much of the area is only accessible by air and all requirements for exploration must be brought in to the project area.

Alloy reviewed the potential of the 88 Creek Joint Venture and decided to withdraw from the project during the year.

## Doyles Dam Project

The Doyle's Dam project is located in the Coolgardie mineral field of Western Australia, and comprises of ten exploration licences. The project area covers approximately 19 sq kms and covers the faulted contact between the Dunnsville Granodiorite and the Doyle's Dam Granodiorite both of Archaean age. The project is near the previously mined open pits of Newminster and Newhaven.

Based on a review of results received the project has been relinquished subsequent to financial year end.

*The information in this Annual Report which relates to Exploration Results is based on information compiled by Dr. Jayson Meyers, a Director of Alloy Resources Limited and who is a Member of the Australian Institute of Geoscientists. Dr. Meyers has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves." Dr. Meyers consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.*

*Note 1: The resources in this report are based on work carried out By Dr. S. Carras FAusIMM of Carras Mining Pty Ltd. Dr. Carras has 30 years of experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code of reporting of Exploration results, Mineral resources and Ore reserves" and consents to the inclusion in this report of the information in the form and context in which it appears.*

# Schedule of Tenements

| Project | Tenement | Alloy Equity |
|---|---|---|
| (All tenements registered to Alloy Resources Limited except where noted below) | | |
| **Horse Well** | | |
| Eskay Resources Pty Ltd 100% (Eskay Resources Pty Ltd is a wholly owned subsidiary of Alloy Resources Limited) | E69/1772 | 100% |
| **Laos** | | |
| Nam Thong Project | Concession application | |
| Alloy Earning interest | | Earning up to 80% |
| **Thailand** | | |
| Nam Thong Mining Co. Ltd. 100% | SPL 2/2550 | 49.75% |

# Corporate Governance Statement



The Directors of Alloy Resources Limited ("Alloy") or the ("Company") support the establishment and ongoing development of good corporate governance for the Company and the consolidated entity.

Alloy has adopted systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures are summarised below. The Board of the Company is committed to administering the policies and procedures with openness and integrity, commensurate with the Company's needs.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the revised Eight Essential Corporate Governance Principles and each of the Best Practice Recommendations as published by ASX Corporate Governance Council ("ASX Principles and Recommendations").

Further information about the Company's corporate governance practices is set out on the Company's website at *www.alloyres.com*. In accordance with the recommendations of the ASX, information published on the Company's website includes:

- Board Charter
- Code of Conduct for Directors and Key Executives
- Code of Ethics and Conduct
- Share Trading Policy
- Shareholder Communication Strategy
- Continuous Disclosure Policy

This Statement sets out the corporate governance practices in place during the financial year and as at the date of this report which comply with the principles of the Corporate Governance Council unless otherwise stated.

## Corporate Governance Council Principle 1

### *Role of the Board of Directors*

The role of the Board is to build long term sustainable value for its security holders whilst respecting the interests of its stakeholders.

In order to fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, setting remuneration and monitoring the performance of Directors. The Board approves and monitors expenditure, ensure the integrity of internal controls and monitors and approve financial and other reporting.

The Board has adopted a Board Charter which clarifies the respective roles of the Board and assists in decision making processes.

### *Performance review*

The Board has not undertaken a formal review of its performance for the year ended 30 June 2008.

The Board believes that the competitive environment in which the Company operates will effectively provide a measure of the performance of Directors. The Chairman assesses the performance of the Board and individual directors on an informal basis. Due to the early stage of development of the Company, it is difficult for quantitative measures of performance to be established. As the Company progresses its current projects, the Board intends to establish appropriate evaluation procedures.

## Corporate Governance Council Principle 2

### *Board Composition*

The Constitution of the Company provides that the number of Directors shall not be less than three. There is no requirement for any share holding qualification.

## Corporate Governance Council Principle 2 continued

*Board Composition continued*

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the scope of activities of the Company, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the Board and are subject to re-election by shareholders at the next general meeting. In any event one third of the Directors are subject to re-election by shareholders at each general meeting.

The Board is presently comprised of four members, three non-executive and one executive.

The Board has assessed the independence of its non executive directors according to the definition contained within the ASX Corporate Governance Guidelines and has concluded that the current non-executive Chairman, Mr Peter Harold is the only director that meets the recommended independence criteria.

The Board does not have a majority of independent directors as set out in the best practice recommendations. However, the Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

*Independent professional advice and access to information*

Each Director has the right to access all relevant information in respect to the Company at the expense of the Company and to make appropriate enquiries of senior management.

The skills, experience and expertise of all Directors is set out in the Directors' details section of the Directors' Report. All executives and Directors are encouraged to attend professional education courses relevant to their roles.

The Board does not have a separate Nomination Committee as the selection and appointment process for Directors is carried out by the full Board. The Company is not of a sufficient size to warrant a separate committee.

## Corporate Governance Council Principle 3

*Ethical and Responsible Decision Making*

The Board actively promotes ethical and responsible decision making.

*Code of Conduct*

The Board has adopted a Code of Conduct that applies to Directors and key Executives of the Company. This Code addresses expectations for conduct in accordance with legal requirements and agreed ethical standards.

In addition the Board has adopted an Ethics and Conduct Policy which applies to all employees, consultants and Directors.

The Ethics and Conduct Policy addresses the following:

- Confidential Information;
- Rights of Security holders;
- Privacy;
- Security Trading;
- Communications;
- Conflicts of Interest;
- Responsibility to Suppliers and Customers;
- Laws and Regulations;
- Employment; and
- Adherence to Policies and Procedures.

*Security Trading Policy*

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information. It also provides that notification of intended trading should be given to the Chairman prior to trading.

The law prohibits insider trading and the Corporations Act and the ASX Listing Rules require disclosure of any trading undertaken by directors or their related entities in the Company's securities.

## Corporate Governance Council Principle 4

*Integrity in Financial Reporting*

*Managing Director and Company Secretary*

The Board requires the Managing Director and the Company Secretary to provide a written statement that the financial statements of Company present a true and fair view, in all material aspects, of the financial position and operational results. In addition, confirmation is provided that all relevant accounting standards have been appropriately applied.

*Audit Committee*

The Company does not have a separately constituted audit committee. The Company is not of a size nor are the affairs of a complexity sufficient to warrant the existence of a separate audit committee. All matters which could be delegated to such a committee are dealt with by the full Board.

External audit recommendations, internal control matters and any other matters arising from the half-year audit review and the annual statutory audit are discussed directly between the Board and the audit engagement partner.

*External Auditors*

The Company's policy is to appoint external Auditors who clearly demonstrate quality and independence. Performance of the external auditor is reviewed annually by the Board. Audit Partner rotation is as required by the Corporations Act 2001.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report

*Financial reporting*

The Board relies on senior executives to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by the Managing Director who reports to the Board at the scheduled Board Meetings.

## Corporate Governance Council Principle 5

*Timely and Balanced Disclosure*

The Board is committed to the promotion of investor confidence by providing full and timely information to all security holders and market participants about the Company's activities and to comply with the continuous disclosure requirements contained in the Corporations Act 2001 and the Australian Stock Exchange Listing Rules. The Company has adopted a Continuous Disclosure Policy designed to ensure compliance with the ASX Listing Rule Requirements.

Continuous disclosure is discussed at all regular Board meetings and on an ongoing basis the Board ensures that all activities are reviewed with a view to the necessity for disclosure to security holders.

In accordance with ASX Listing Rules the Company Secretary has been appointed as the Company's disclosure officer.

## Corporate Governance Council Principle 6

*Rights of security holders*

*Communications*

The Board supports practices that provide effective and clear communications with security holders and allow security holder participation at general meetings. A formal Shareholder Communications Policy has been adopted.

In addition to electronic communication via the ASX web site, the Company publishes all significant announcements together with all quarterly reports. These documents are available on the company's website.

## Corporate Governance Council Principle 7

*Recognise and Manage Risk*

*Risk management*

The identification and development of strategies to mitigate risks associated with the consolidated entity's operation is the responsibility of the Board. The Board recognises that as the Company progresses through exploration to evaluation, there are new issues and risks that need to be prudently addressed. If necessary, the Board draws on the expertise of external consultants to assist in dealing with and mitigating risk.

The company is not currently considered to be of a size, nor its affairs of such complexity to justify the implementation of a formal system for identifying, assessing, monitoring and managing risk in the organisation.

The Company does not have an internal audit function.

The Managing Director and Company Secretary are required to provide a statement to the Board on the Company's risk management and internal compliance and control systems.

## Corporate Governance Council Principle 8

*Remunerate Fairly and Responsibly*

The executive Directors and senior executives receive salary packages which may include performance based components designed to reward and motivate. Non executive Directors receive fees agreed on an annual basis by the Board.

*Remuneration Committee*

The full Board determines all compensation arrangements for Directors. It is also responsible for setting performance criteria, performance monitors, share option schemes, incentive performance schemes, superannuation entitlements, retirement and termination entitlements and professional indemnity and liability insurance cover.

The Board has not created a separate Remuneration Committee. The Board considers that the Company is not currently of a size, nor is its affairs of such complexity to justify a separate Remuneration Committee.

The Board ensures that all matters of remuneration will continue to be in accordance with Corporations Act requirements, by ensuring that none of the Directors participates in any deliberations regarding their own remuneration or related issues.

# Directors' Report



The Directors present their report on Alloy Resources Limited and the entities it controlled at the end of, or during the year ended 30 June 2008.

## Directors

The names and details of the Directors of Alloy Resources Limited during the financial year and until the date of this report are:

### Peter Harold – Non-Executive Chairman, age 45

*Appointed Chairman on 15 September 2005.*

Peter Harold holds a Bachelor of Applied Science (Chemistry) from the University of Melbourne and is currently the Managing Director of Panoramic Resources Limited, the ASX listed Western Australian nickel producer. He is also a Non-Executive director of Uranium Resources PLC (AIM listed) and Territory Uranium Company Limited (appointed 1 March 2007). Peter is a process engineer with over 18 years corporate experience in the minerals industry. Peter started his career with Shell Australia in the commercial division before moving to Perth to work for Australian Consolidated Minerals Ltd in metals marketing. Since then he has worked for a number of gold and base metal miners in various senior management roles specialising in operations, marketing, treasury and finance, business and project development and corporate management. He has developed a strong network in the mining industry and has excellent contacts within the resource banking and stockbroking fraternity in Australia, Asia, Europe and North America.

### Dr Jayson Meyers – Non-Executive Director, age 44

*Appointed a Director on 2 June 2004.*

Jayson holds a PhD in Geophysics, MSc Geochemistry, BSc in Geology, is a member of the AIG and ASEG, is a Director and Principal Consultant with Resource Potentials Pty Ltd, a geological and geophysical consulting group, and is part time at Curtin University as an Associate Professor in the Department of Exploration Geophysics. He has over 17 years of resource industry experience with various exploration and mining companies, including Great Central Mines Limited.

### Peter Hepburn-Brown – Managing Director, age 51

*Appointed a Director on 2 June 2004.*

Peter holds a BSc in Mining Engineering, Grad Dip in Human Resources, is a member of the Institute of Engineers Aust, is a Non-Executive Director of Kasbah Resources Limited and Gleneagle Gold Limited (resigned 1 May 2007). Peter is a mining engineer holding First Class Mining Tickets for Western Australia, Victoria and Queensland. He works as a consultant mining engineer and operations advisor, and formerly held senior executive positions with Siberia Mining Corporation, as Director Operations for Harmony Gold (Australia), General Manager for Great Central Mines Limited, and worked on mining operations for Niugini Mining and Western Mining Corporation. Peter has over 25 years of mining industry experience.

### Kevin Hart – Non-Executive Director and Company Secretary, age 46

*Appointed a Director on 2 June 2004.*

Kevin holds a Bachelor of Commerce Degree and is a Chartered Accountant. He is a Partner at Endeavour Corporate Pty Ltd, an advisory firm that specialises in the provision of Company Secretarial services to ASX listed entities. Kevin has over 25 years of professional experience with various public companies, mostly in the exploration and mining industry. Kevin is also a director of Eleckra Mines Limited.

## Directors' Interests

As at the date of this report the Directors' interests in shares and options of the Company are as follows:

| Director | Directors' Interests in Ordinary Shares | Directors' Interests in Listed Options (Vested) | Directors' Interests in Unlisted Options (Not vested) |
|---|---|---|---|
| Peter Harold | 500,000 | – | 1,000,000 |
| Jayson Meyers | 4,000,000 | 200,000 | 1,000,000 |
| Peter Hepburn-Brown | 4,053,119 | 125,000 | 1,000,000 |
| Kevin Hart | 1,025,000 | 25,000 | 1,000,000 |

The listed options are exercisable by payment of 20 cents each on or before 6 April 2009.

The unlisted options are exercisable by payment of 25 cents each on or before 30 November 2012.

## Directors' Meetings

The number of meetings of the Company's Directors held during the year ended 30 June 2008 and the number of meetings attended by each Director were:

| Director | Board of Directors' Meetings | |
|---|---|---|
| | Held | Attended |
| Peter Harold | 5 | 5 |
| Jayson Meyers | 5 | 5 |
| Peter Hepburn-Brown | 5 | 5 |
| Kevin Hart | 5 | 5 |

## Principal Activities

The principal activities of the consolidated entity during the financial year consisted of mineral exploration and investment.

There were no significant changes in these activities during the financial year.

## Results of Operations

The consolidated net loss after income tax for the financial year is $4,975,402 (2007: $770,917). Included in the loss is an amount of $4,160,076 (2007: $368,719) being exploration costs written off in respect of the Comet Gold project and Kurranjong Nickel project to realisable value, amounting to $2,847,939 and a write off of $1,082,125 associated with the Lao Project. Given the delays and uncertainty of the timing associated with obtaining Lao government approvals in respect of the Company's foreign investment licence application and mining concession grant it was considered prudent to write down the projects' carrying value. The remaining exploration costs written off relates to other tenement costs and consultant fees.

## Dividends

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

## Review of Activities

*Exploration*

A detailed review of the consolidated entity's activities during the financial year is set out in the section titled "Review of Operations" accompanying the Financial Statements.

*Financial Position*

At the end of the financial year the consolidated entity had $827,099 (2007: $2,436,529) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure was $1,010,618 (2007: $5,439,915).

Expenditure on exploration and acquisition of tenements during the year was $1,435,274 (2007: $2,562,460).

*Impact of Legislation and other External Requirements*

There has been no impact on the consolidated entity of new legislation or other external requirements.

## Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year other than on 18 September 2007 the Company announced the conversion of Convertible Notes and interest accrued thereon amounting to $439,658 into 4,396,580 ordinary fully paid shares at an issue price of 10 cents each.

## Options Over Unissued Capital

During the financial year the Company issued unlisted options to employees and directors of the Company. No ordinary fully paid shares were issued on the exercise of options.

Since the end of the financial year no options have been exercised or granted.

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

| Number of Options Granted | Exercise Price | Expiry Date |
|---|---|---|
| 35,000,000 Listed | 20 cents | 6 April 2009 |
| 200,000 (i) | 30 cents | 30 June 2009 |
| 250,000 (ii) | 20 cents | 25 July 2011 |
| 4,000,000 (iii) | 25 cents | 30 November 2012 |

(i) The unlisted employee options have a 12 month vesting period upon grant whereby option exercise can occur after 30 June 2007.

(ii) The unlisted employee options have a 12 month vesting period upon grant whereby option exercise can occur after 25 July 2008.

(iii) The unlisted director options have a 12 month vesting period upon grant whereby option exercise can occur after 12 December 2008.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate. The holders of options are not entitled to any voting rights until the options are exercised into ordinary shares.

## Matters Subsequent to the End of the Financial Year

On 2 July 2008, the Company announced the completion of the Comet Gold and Kurrajong Nickel prospects to Silver Lake Resource Limited. The settled amount was $1,425,000 and the assumption of unconditional performance funds amounting to $141,000.

Other than the above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

## Likely Developments and Expected Results of Operations

Likely developments in the operations of the consolidated entity are included elsewhere in this Annual Report. Disclosure of any further information has not been included in this report because, in the reasonable opinion of the Directors to do so would be likely to prejudice the business activities of the consolidated entity and is dependent upon the results of the future exploration and evaluation.

## Environmental Regulation and Performance

The consolidated entity holds various exploration licences to regulate its exploration activities in Australia. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities.

As far as the Directors are aware, all exploration activities have been undertaken in compliance with all relevant environmental regulations.

## Remuneration Report (audited)

### *Remuneration Policy*

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include fixed remuneration with bonuses or equity based remuneration entirely at the discretion of the Board based on the performance of the consolidated entity.

At the date of this report the Company has not entered into any agreements with Directors or Senior Executives which include performance based components, nor is there any provision for issuing securities to Directors or Senior Executives.

Directors' fees not exceeding an aggregate of $150,000 per annum has been approved by the shareholders at the Annual General Meeting held on 27 November 2007.

Refer also to the Corporate Governance Statement for more detail on the Board's policy in this area.

### *Service Agreements*

The Company has entered into service agreements with the Directors. Under these agreements, no director is on a fixed salary, other than the Director's Fees listed above. The Directors' service agreements set out a daily rate at which a director may charge consulting fees for technical or corporate services provided beyond the Director's duties covered by the Directors' fees listed above.

The maximum daily rate that each Director may charge excluding superannuation entitlements and exclusive of GST is as follows:

The daily rates are subject to annual review.

| | |
|---|---|
| Peter Harold | $1,000 per day on an as needed basis |
| Peter Hepburn-Brown | $ 950 per day, guaranteed to 100 days per year |
| Jayson Meyers | $ 900 per day, guaranteed to 150 days per year |
| Kevin Hart | $1,000 per day on an as needed basis |

Effective from 1 July 2008, with the appointment of Mr Peter Hepburn-Brown as Managing Director, Mr Hepburn-Brown will not be paid directors' fees as noted above and the guaranteed minimum days for Mr Peter Hepburn-Brown and Dr Jason Meyers have been cancelled.

Service contracts for the Executive Directors, Mr Hepburn-Brown and Dr Meyers, are for a term of 3 years commencing on 6 April 2006 and are terminable by the Company prior to expiry of the term in certain specified circumstances. The contractual arrangements contain certain provisions typically found in contracts of this nature. Payment of termination benefit by the Company, other than, amongst other things, for gross misconduct is equal to a payment maximum of 18 months reducing to 6 months pay depending on the service period completed under the contract at the time of termination.

*Details of Remuneration for Directors*

During the year there were no Senior Executives which were employed by the Company for whom disclosure is required.

Details of the remuneration of each Director of the consolidated entity are as follows:

| 2008 | Short-term | | Post Employment | Share-based payment | Total | Performance Related |
|---|---|---|---|---|---|---|
| Directors | Base Emolument $ | Other Benefits $ | Superannuation Contributions $ | Options $ | $ | % |
| Peter Harold | 30,000 | – | – | 37,551 | 67,551 | 56 |
| Jayson Meyers | 35,000 | 237,150 | 21,344 | 37,551 | 331,045 | 11 |
| Peter Hepburn-Brown | 35,000 | 156,913 | 14,000 | 37,551 | 243,464 | 15 |
| Kevin Hart | 30,000 | – | – | 37,551 | 67,551 | 56 |
| TOTAL | 130,000 | 394,063 | 35,344 | 150,204 | 709,611 | |

| 2007 | Short-term | | Post Employment | Share-based payment | Total | Performance Related |
|---|---|---|---|---|---|---|
| Directors | Base Emolument $ | Other Benefits $ | Superannuation Contributions $ | Options $ | $ | % |
| Peter Harold | 30,000 | – | – | – | 30,000 | – |
| Jayson Meyers | 35,000 | 211,950 | 19,057 | – | 266,025 | – |
| Peter Hepburn-Brown | 35,000 | 130,744 | – | – | 165,744 | – |
| Kevin Hart | 30,000 | – | – | – | 30,000 | – |
| TOTAL | 130,000 | 342,694 | 19,057 | – | 491,769 | – |

*Notes in relation to the table of directors' remuneration*

The fair value of the options is calculated at the date of grant using a Black-Scholes option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. Market conditions have been taken into account within the valuation model.

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

| Grant Date | Option life | Fair value per option | Exercise price | Price of shares on grant date | Expected volatility | Risk free interest rate | Dividend yield |
|---|---|---|---|---|---|---|---|
| 4,000,000 Unlisted Options | | | | | | | |
| 27 November 2007 | 5 years | $0.06 | $0.25 | $0.12 | 78.38% | 6.17% | 0% |

*Compensation options: Granted and vested during the year*

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for- one basis under the DEOP (Directors and Employees Option Plan). Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are as follows:

| | Number of options granted during 2008 | Grant date | Fair value per option at grant date ($) | Exercise price per option ($) | Expiry date | Number of options vested during 2008 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Peter Harold | 1,000,000 | 27 Nov 2007 | 0.064 | 0.25 | 30 Nov 2012 | – |
| Peter Hepburn-Brown | 1,000,000 | 27 Nov 2007 | 0.064 | 0.25 | 30 Nov 2012 | – |
| Jayson Meyers | 1,000,000 | 27 Nov 2007 | 0.064 | 0.25 | 30 Nov 2012 | – |
| Kevin Hart | 1,000,000 | 27 Nov 2007 | 0.064 | 0.25 | 30 Nov 2012 | – |

There were no options issued during the 2007 financial year. No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

*Exercise of options granted as compensation*

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

*Analysis of options and rights over equity instruments granted as compensation*

Details of vesting profile of the options granted as remuneration to each key management person of the Group are detailed below.

| | Options granted | | | | |
|---|---|---|---|---|---|
| Directors | Number | Date | % vested in year | % forfeited in year | Financial years in which grant vests |
| Peter Harold | 1,000,000 | 27 Nov 2007 | – | – | 2009 |
| Peter Hepburn-Brown | 1,000,000 | 27 Nov 2007 | – | – | 2009 |
| Jayson Meyers | 1,000,000 | 27 Nov 2007 | – | – | 2009 |
| Kevin Hart | 1,000,000 | 27 Nov 2007 | – | – | 2009 |

*Analysis of movements in options*

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person, detailed below.

| | Granted in year $ (A) | Value of Options Exercised in year $ | Lapsed in year $ |
|---|---|---|---|
| Peter Harold | 64,374 | – | – |
| Peter Hepburn-Brown | 64,374 | – | – |
| Jayson Meyers | 64,374 | – | – |
| Kevin Hart | 64,374 | – | – |
| | 257,496 | – | – |

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes option-pricing model. The total value of the options granted is included in the table above.This amount is allocated to remuneration over the vesting period (i.e. in years 27 November 2007 to 27 November 2008).

## Officer's Indemnities and Insurance

During the year the Company paid 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. 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 amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance for an auditor of the Company.

## Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the annual report.

## Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is set out on page 20 and forms part of the director's report for the financial year ended 30 June 2008.

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

DATED at Perth this 26th day of September 2008.

Peter Hepburn-Brown
**Managing Director**

# Auditor's Independence Declaration



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

To: the directors of Alloy Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

D P McComish
*Partner*

Perth
26 September 2008

# Income Statements

For the financial year ended 30 June 2008



| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| Other income from continuing operations | 4 | 110,474 | 243,279 | 110,474 | 243,276 |
| Directors Fees | | (130,000) | (130,000) | (130,000) | (130,000) |
| Depreciation and amortisation | | (39,853) | (35,499) | (39,807) | (35,499) |
| Marketing and promotion expenses | | (21,816) | (42,652) | (21,816) | (42,652) |
| Occupancy expenses | | (41,855) | (39,222) | (41,855) | (39,222) |
| Accounting and administrative expenses | | (198,693) | (180,675) | (198,693) | (180,675) |
| Employee expenses | | (781,385) | (597,096) | (781,385) | (597,096) |
| Employee expenses recharged To Exploration | | 493,555 | 474,118 | 493,555 | 474,118 |
| Insurances | | (27,319) | (36,674) | (27,319) | (36,674) |
| Finance costs | | (7,838) | (35,211) | (7,838) | (35,211) |
| Other expenses | | (41,101) | (22,566) | (26,039) | (13,742) |
| Loss on sale of Comet Project | | (129,495) | – | (129,495) | – |
| Impairment loss on investment | 10 | – | – | (25,221) | – |
| Exploration costs written off and expensed | 12 | (4,160,076) | (368,719) | (4,160,076) | (368,719) |
| Net loss before income tax | | (4,975,402) | (770,917) | (4,985,516) | (762,096) |
| Income tax expense | 6 | – | – | – | – |
| Loss attributable to members of the parent for the year | 17 | (4,975,402) | (770,917) | (4,985,516) | (762,096) |
| Earnings per share for loss attributable to the ordinary equity holders of the company. | | cents | cents | | |
| Basic earnings/(loss) per share | 28 | (6.84) | (1.13) | | |
| Diluted earnings/(loss) per share | 28 | (6.84) | (1.13) | | |

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

# Balance Sheets

As at 30 June 2008

| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 7 | 827,099 | 2,436,529 | 825,473 | 2,413,308 |
| Trade and other receivables | 8(a) | 1,603,024 | 65,972 | 1,603,024 | 64,331 |
| Other current assets | 9 | 18,179 | 18,070 | 18,179 | 18,070 |
| **Total current assets** | | 2,448,302 | 2,520,571 | 2,446,676 | 2,495,709 |
| **Non-current assets** | | | | | |
| Investment | 10 | – | – | 359,628 | 384,849 |
| Trade and other receivables | 8(b) | 7,709 | 141,000 | 660,628 | 466,934 |
| Property, plant and equipment | 11 | 70,201 | 107,462 | 69,878 | 105,690 |
| Capitalised mineral exploration and evaluation expenditure | 12 | 1,010,618 | 5,439,915 | – | 4,763,990 |
| **Total non-current assets** | | 1,088,528 | 5,688,377 | 1,090,134 | 5,721,463 |
| **Total assets** | | 3,536,830 | 8,208,948 | 3,536,810 | 8,217,172 |
| **Current liabilities** | | | | | |
| Trade and other payables | 13 | 270,335 | 148,325 | 270,315 | 147,728 |
| Borrowings | 14 | – | 432,178 | – | 432,178 |
| **Total current liabilities** | | 270,335 | 580,503 | 270,315 | 579,906 |
| **Total liabilities** | | 270,335 | 580,503 | 270,315 | 579,906 |
| **Net assets** | | 3,266,495 | 7,628,445 | 3,266,495 | 7,637,266 |
| **Equity** | | | | | |
| Contributed equity | 15 | 9,168,515 | 8,728,857 | 9,168,515 | 8,728,857 |
| Reserves | 15 | 173,794 | – | 175,087 | – |
| Accumulated losses | 17 | (6,075,814) | (1,100,412) | (6,077,107) | (1,091,591) |
| **Total equity** | | 3,266,495 | 7,628,445 | 3,266,495 | 7,637,266 |

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

# Statements of Changes in Equity

For the financial year ended 30 June 2008



| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| **Total equity at the beginning of the financial year** | | **7,628,445** | 8,399,362 | **7,637,266** | 8,399,362 |
| Recognised income and expense: | | | | | |
| Loss for the year | 17 | **(4,975,402)** | (770,917) | **(4,985,516)** | (762,096) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Convertible note conversion | | **439,658** | – | **439,658** | – |
| Share based payments | | **175,087** | – | **175,087** | – |
| Foreign currency translation reserve | | **(1,293)** | – | **–** | – |
| **Total equity at the end of the financial year** | 15 | **3,266,495** | 7,628,445 | **3,266,495** | 7,637,266 |

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

# Cash Flow Statements

For the financial year ended 30 June 2008

| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Interest received | | 110,474 | 243,276 | 110,474 | 243,276 |
| Payments to suppliers and employees | | (573,547) | (574,630) | (558,040) | (568,047) |
| Exploration expenditure | | (924,386) | (2,275,534) | (582,967) | (2,070,387) |
| **Net cash used in operating activities** | 27 | (1,387,459) | (2,606,888) | (1,030,533) | (2,395,158) |
| **Cash flows from investing activities** | | | | | |
| Part proceeds from sale of Comet Project | | 150,000 | – | 150,000 | – |
| Proceeds from sale of property, plant and equipment | | 410 | – | – | – |
| Payments for controlled entity | | – | – | – | (34,849) |
| Payments for property, plant and equipment | | (3,995) | (7,477) | (3,995) | (5,705) |
| Payments to acquire tenements | | (368,386) | (356,100) | (368,386) | (356,100) |
| **Net cash used in investing activities** | | (221,971) | (363,577) | (222,381) | (396,654) |
| **Cash flows from financing activities** | | | | | |
| Loans advanced | | – | (8,929) | – | (8,929) |
| Loan to controlled entity | | – | – | (334,921) | (201,874) |
| **Net cash (used in) financing activities** | | – | (8,929) | (334,921) | (210,803) |
| **Net increase/(decrease) in cash held** | | (1,609,430) | (2,979,394) | (1,587,835) | (3,002,615) |
| **Cash and cash equivalents at 1 July** | | 2,436,529 | 5,415,923 | 2,413, 308 | 5,415,923 |
| **Cash and cash equivalents at 30 June** | 7(a) | 827,099 | 2,436, 529 | 825,473 | 2,413, 308 |

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

## Note 1 Summary of significant accounting policies

Alloy Resources Ltd is domiciled in Australia. The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Alloy Resources Limited as an individual entity and the consolidated entity consisting of Alloy Resources Limited and its subsidiaries ("Group").

The financial report was authorised for issue by the directors on 26 September 2008.

### (a) Basis of preparation

*Statement of Compliance*
The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

*Early adoption of standards*
The group has not elected to adopt any standards early. Standards available for early adoption are not expected to have any impact on the financial results of the company and consolidated entity.

The following standards, amendments to standards and interpretations have been identified as those which may impact the group in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this report:

| | |
|---|---|
| AASB 8 | *Operating Segments.* |
| AASB 2007-3 | *Amendments to Australian Accounting Standards arising from AASB 8.* |
| Interpretation 10 | *Interim Financial Reporting and Impairment.* |
| Interpretation 11 AASB 2 | *Share Based Payment – Group and Treasury Share Transactions.* |
| AASB 2007-1 | *Amendments to Australian Accounting Standards arising from AASB Interpretation 11.* |
| Interpretation 12 | *Service Concession Arrangements.* |
| Interpretation 129 | *Service Concession Arrangements: Disclosures.* |
| AASB 2007-2 | *Amendments to Australian Accounting Standards arising from AASB Interpretation 12.* |
| AASB 101 | *Presentation of Financial Statements (1 January 2009).* |
| AASB 2007-4 | *Amendments to Australian Accounting Standards arising from ED151 and other amendments (1 July 2007).* |
| AASB 2007-7 | *Amendments to Australian Accounting Standards (1 July 2007).* |
| AASB 2007-8 | *Amendments to Australian Accounting Standards arising from AASB 101 (1 January 2009).* |
| AASB 2008-1 | *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2].* |

*Historical cost convention*
These financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and financial assets and liabilities (including derivative instruments) being measured at fair value through profit and loss.

*Functional and presentation currency*
These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

## Note 1 Summary of significant accounting policies (continued)

*Critical accounting estimates*
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### (b) Principles of consolidation

*Subsidiary companies*
The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Alloy Resources Limited.

*Transactions Eliminated on Consolidation*
Inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

### (d) Revenue recognition and receivables

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances and amounts collectable on behalf of third parties.

*Interest income*
Interest income is recognised on a time proportion basis and is recognised as it accrues.

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary timing differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to those timing differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## Note 1 Summary of significant accounting policies (continued)

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (f) Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax assets (see accounting policy (e), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as follows:

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (g) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

### (h) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

### (i) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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 of property, plant and equipment is calculated using the straight line and written down value methods to allocate their cost, net of residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Office equipment and fittings | 12.5-33% written down value |
| Motor vehicles | 25% written down value |
| Site equipment | 25% written down value |

## Note 1 Summary of significant accounting policies (continued)

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

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 (note 1(f)).

### (j) Mineral exploration and evaluation expenditure

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest are continuing.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

### (k) Trade and other payables

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

### (l) Employee benefits

*Wages, salaries and annual leave*
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Share based payments*
Share based compensation payments are made available to directors and employees.

The fair value at grant date is independently determined using a Black and Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date expected price volatility of the underlying share and the risk free rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

*Defined contribution plans*
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

## Note 1 Summary of significant accounting policies (continued)

### (m) Contributed equity

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.

### (n) Earnings per share

*(i) Basic earnings per share*
Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (o) Goods and service tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as a part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flow.

### (p) Trade and other receivables

Trade and other receivables are recognised and carried at original invoice amount less any allowance for any uncollectible amounts. An allowance for a doubtful debt is made when there is objective evidence that the company will not be able to collect the debt. Bad debts are written off when identified.

### (q) Investments and other financial assets

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

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

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

## Note 1 Summary of significant accounting policies (continued)

### (q) Investments and other financial assets (continued)

*(ii) Held-to-maturity investments*

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

*(iii) Available-for-sale investments*

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

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

### (r) Convertible Notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that related to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

### (s) Foreign Currency

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognised directly in equity.

## Note 1 Summary of significant accounting policies (continued)

### (s) Foreign Currency (continued)

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at exchange rates at the dates of the transactions.

The income and expenses of foreign operations in hyperinflationary economies are translated to Australian dollars at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve (FCTR) is transferred to profit or loss. Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

### (t) Jointly controlled operations and assets

The interest of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

## Note 2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

*Accounting for capitalised exploration and evaluation expenditure*
The Group's accounting policy is stated at 1(j). There is some subjectivity involved in the carrying forward as capitalised or writing off to the income statement exploration and evaluation expenditure, however management give due consideration to areas of interest on a regular basis and are confident that decisions to either write off or carry forward such expenditure reflect fairly the prevailing situation.

*Measurement of share-based payments*
The Group's accounting policy is stated at 1(l).

## Note 3 Segment information

*Business segments*
The consolidated entity is involved in the mineral exploration and resource development sector.

*Geographical segments*
The consolidated entity is organised on a national basis with exploration and development interests within Australia.

## Note 4 Other income

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| *Other income* | | | | |
| Interest received | 110,474 | 243,279 | 110,474 | 243,276 |
| | 110,474 | 243,279 | 110,474 | 243,276 |

## Note 5 Loss for the year

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| *Loss before income tax includes the following specific expenses:* | | | | |
| Depreciation: | | | | |
| Computer Software | 7,295 | 7,275 | 7,295 | 7,275 |
| Office Equipment | 4,856 | 3,845 | 4,810 | 3,845 |
| Site Equipment | 561 | 404 | 561 | 404 |
| Motor vehicles | 27,141 | 23,975 | 27,141 | 23,975 |
| Rental expenses on operating leases | 35,579 | 33,244 | 35,579 | 33,244 |

## Note 6 Income tax

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| (a) Reconciliation of income tax expense to prima facie tax payable | | | | |
| Loss from continuing operations before income tax expense | (4,975,402) | (770,917) | (4,985,516) | (762,096) |
| Tax at the Australian rate of 30% (2007: 30%) | (1,492,621) | (231,275) | (1,495,655) | (228,629) |
| *Tax effect of permanent differences:* | | | | |
| Non-deductible expenses | – | – | – | – |
| Net future income tax benefit not brought to account | 1,492,621 | 231,275 | 1,495,655 | 228,629 |
| | – | – | – | – |

## Note 6 Income tax (continued)

| | Note | Consolidated 2008 $ | Consolidated 2007 $ | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| **(b) Deferred tax – Balance Sheet** | | | | | |
| *Liabilities* | | | | | |
| Prepayments | | (5,454) | (5,421) | (5,454) | (5,421) |
| Capitalised Exploration and Evaluation expenditure | | (303,185) | (1,631,975) | – | (1,429,197) |
| | | (308,639) | (1,637,396) | (5,454) | (1,434,618) |
| *Less: Assets* | | | | | |
| Accrued expenses | | 2,942 | 3,000 | 2,942 | 3,000 |
| Employee leave provisions | | 6,224 | 2,685 | 6,224 | 2,685 |
| Deductible equity raising costs | | 136,127 | 204,191 | 136,127 | 204,191 |
| Tax losses available to offset against future taxable income | (a) | 163,346 | 1,427,520 | – | 1,224,742 |
| Other deferred tax assets available to offset against future taxable income | (b) | – | – | (139,839) | – |
| | | 308,639 | 1,637,396 | 5,454 | 1,434,618 |
| | | – | – | – | – |

*(a) Tax losses*
The balance of potential deferred tax assets attributable to tax losses carried forward of $2,477,604 (2007: $665,040) in respect of the consolidated entity and $2,835,804 (2007: $770,339) in respect of the company have not been brought to account because directors do not believe it is appropriate to regard realisation of the future tax benefit as probable.

*(b) Unrecognised temporary differences*
As at 30 June 2008, the Company has temporary differences of $139,839 (2007: Nil) for which no tax asset has been recognised.

All unused tax losses were incurred by Australian entities.

## Note 7 Cash and cash equivalents

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| Cash at bank and in hand | 122,445 | 56,010 | 120,819 | 32,789 |
| Deposits at call | 704,654 | 2,380,519 | 704,654 | 2,380,519 |
| | 827,099 | 2,436,529 | 825,473 | 2,413,308 |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

| | | | | |
|---|---|---|---|---|
| Balances as above and per Cash flow statement | 827,099 | 2,436,529 | 825,473 | 2,413,308 |

### (b) Cash at bank and on hand

These attract interest at 5.90% (2007: 4.75%).

### (c) Deposits at call

The deposits are bearing floating interest rates between 6.29% and 7.33% (2007: 5.84% and 6.32%). These deposits have an average maturity of 90 days (2007: 90 days).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 18.

## Note 8 Trade and other receivables

| | Note | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| *a) Current* | | | | | |
| GST recoverable | | 37,024 | 34,198 | 37,024 | 34,198 |
| Other receivables | 26 | 1,566,000 | 31,774 | 1,566,000 | 30,133 |
| | | 1,603,024 | 65,972 | 1,603,024 | 64,331 |
| *b) Non-current* | | | | | |
| Security Deposit | | – | 141,000 | – | 141,000 |
| Licences | | 7,709 | – | – | – |
| Loan to controlled entity | | – | – | 660,628 | 325,934 |
| | | 7,709 | 141,000 | 660,628 | 466,934 |

The loan to the controlled entity is interest free, unsecured and is repayable on demand. The loan is in respect of exploration expenditure incurred by the holding company on the controlled entity's mining tenements.

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in note 18.

## Note 9 Other current assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Prepayments | 18,179 | 18,070 | 18,179 | 18,070 |

## Note 10 Investment

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Interest in controlled entity – at cost: | | | | |
| Eskay Pty Ltd | – | – | 350,000 | 350,000 |
| Nam Thong Mining Co Ltd | – | – | 34,849 | 34,849 |
| Less: Impairment provision – | | | | |
| Nam Thong Mining Co Ltd | – | – | (25,221) | – |
| | – | – | 359,628 | 384,849 |

The investment of 49.75% of the share capital of Nam Thong Mining Co Ltd was acquired on 30 June 2007.

Details of acquisition of Nam Thong Mining Co Ltd:

The fair value of assets acquired on investment were as follows:

| | Fair value of assets and liabilities $ |
|---|---|
| Cash assets | 23,210 |
| Fixed assets | 1,771 |
| Exploration assets | 43,870 |
| Other assets | 1,641 |
| | 70,492 |
| Share of net assets acquired | 34,849 |
| Consideration paid on acquisition | 34,849 |

## Note 11 Property, plant and equipment

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| *Computer Software* | | | | |
| At cost | 21,937 | 21,937 | 21,937 | 21,937 |
| Accumulated depreciation | (16,307) | (9,011) | (16,307) | (9,011) |
| | 5,630 | 12,925 | 5,630 | 12,925 |
| *Office equipment and fittings* | | | | |
| At cost | 20,213 | 17,621 | 19,845 | 15,850 |
| Accumulated depreciation | (10,120) | (5,264) | (10,075) | (5,264) |
| | 10,093 | 12,357 | 9,770 | 10,585 |
| *Motor vehicles* | | | | |
| At cost | 108,564 | 108,564 | 108,564 | 108,564 |
| Accumulated depreciation | (55,339) | (28,198) | (55,339) | (28,198) |
| | 53,225 | 80,366 | 53,225 | 80,366 |
| *Exploration equipment* | | | | |
| At cost | 2,241 | 2,241 | 2,241 | 2,241 |
| Accumulated depreciation | (988) | (427) | (988) | (427) |
| | 1,253 | 1,814 | 1,253 | 1,814 |
| | 70,201 | 107,462 | 69,878 | 105,690 |
| Reconciliation | | | | |
| *Computer Software* | | | | |
| Net book value at 01/07/07 | 12,925 | 19,399 | 12,925 | 19,399 |
| Additions | – | 800 | – | 800 |
| Depreciation | (7,295) | (7,274) | (7,295) | (7,274) |
| Net book value at 30/06/08 | 5,630 | 12,925 | 5,630 | 12,925 |
| *Office equipment and fittings* | | | | |
| Net book value at 01/07/07 | 12,357 | 9,389 | 10,585 | 9,389 |
| Additions | 3,995 | 6,813 | 3,995 | 5,042 |
| Disposal | (1,403) | – | – | – |
| Depreciation | (4,856) | (3,845) | (4,810) | (3,845) |
| Net book value at 30/06/08 | 10,093 | 12,357 | 9,770 | 10,585 |
| *Motor vehicles* | | | | |
| Net book value at 01/07/07 | 80,366 | 104,340 | 80,366 | 104,340 |
| Depreciation | (27,141) | (23,975) | (27,141) | (23,975) |
| Net book value at 30/06/08 | 53,225 | 80,366 | 53,225 | 80,366 |
| *Site equipment* | | | | |
| Net book value at 01/07/07 | 1,814 | 585 | 1,814 | 585 |
| Additions | – | 1,634 | – | 1,634 |
| Depreciation | (561) | (405) | (561) | (405) |
| Net book value at 30/06/08 | 1,253 | 1,814 | 1,253 | 1,814 |

No items of property, plant and equipment have been pledged as security by the consolidated entity.

## Note 12 Capitalised mineral exploration and evaluation expenditure

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| *In the exploration and evaluation phase* | | | | |
| Cost brought forward | 5,439,915 | 3,246,174 | 4,763,990 | 2,772,114 |
| Exploration expenditure incurred during the year | 1,066,888 | 2,182,158 | 732,195 | 1,980,294 |
| Exploration expenditure acquired during the year | 368,386 | 380,302 | 368,386 | 380,302 |
| Exploration expenditure sold during the year (Comet Project) | (1,704,495) | – | (1,704,495) | – |
| Exploration expenditure written off (i) | (4,160,076) | (368,719) | (4,160,076) | (368,719) |
| Cost carried forward | 1,010,618 | 5,439,915 | – | 4,763,990 |

The recoverability of the carrying amount of the capitalised exploration and evaluation assets is dependent upon the successful development and commercial exploitation or alternatively sale of the respective areas of interest.

(i) The exploration expenditure written off during the year includes the write off of the Comet Gold project and Kurranjong Nickel project to realisable value, amounting to $2,847,939 and a write off of $1,082,125 associated with the Lao Project. Given the delays and uncertainty of the timing associated with obtaining Lao government approvals in respect of the Company's foreign investment licence application and mining concession grant it was considered prudent to write down the projects' carrying value. The remaining exploration costs written off relates to other tenement costs and consultant fees.

## Note 13 Trade and other payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| Trade payables and accruals | 225,524 | 98,410 | 225,524 | 97,814 |
| Other payables | 21,756 | 40,963 | 21,736 | 40,963 |
| Employee Entitlements | 23,055 | 8,951 | 23,055 | 8,951 |
| | 270,335 | 148,325 | 270,315 | 147,728 |

*a) Interest rate risk exposure*
Details of the Group's exposure to interest rate changes on liabilities are set out in note 18.

*b) Fair value disclosures*
Details of the fair value of liabilities for the Group are set out in note 18.

*c) Security*
There are no secured liabilities as at 30 June 2008.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

## Note 14 Borrowings

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| Redeemable convertible note (i) | – | 432,178 | – | 432,178 |
| | – | 432,178 | – | 432,178 |

(i) On 15 September 2005 the Company issued a convertible note. The note had a face value of $700,000 and is convertible into 7,000,000 ordinary shares at 10 cents per share at the election of the note holder. The interest rate applicable is 10% per annum. The note is repayable 12 months from the date of issue of the note or such later date as the parties may agree in writing, but in any event no later than 15 September 2007.

Conversion of 50% of the principal amount outstanding was mandatory and converted to ordinary shares on admission of the Company to the Official List of the Australian Securities Exchange on 6 April 2006. The Company may elect at any time to redeem up to 50%.

The holder of the note can convert the residual value at any time prior to redemption to ordinary shares under the terms of the instrument. The convertible notes have been accounted for as compound financial instruments in accordance with accounting policy note 1 (r):

On 18 September 2007 the Company announced the conversion of the convertible note and accrued interest thereon amounting to $439,658 into 4,396,580 ordinary fully paid shares at an issue price of 10 cents each.

The convertible note has been accounted for as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| Convertible note proceeds | 350,000 | 350,000 | 350,000 | 350,000 |
| Equity portion | (42,000) | (42,000) | (42,000) | (42,000) |
| | 308,000 | 308,000 | 308,000 | 308,000 |
| Interest accrued | 131,658 | 124,178 | 131,658 | 124,178 |
| Converted to equity | (439,658) | – | (439,658) | – |
| | – | 432,178 | – | 432,178 |

### Terms and conditions

The note does not give the holder any voting rights at shareholders' meetings.

In the event of the winding up of the company, the holder of the convertible note ranks above all other shareholders and is entitled to the proceeds of liquidation only to the extent of the face value of the notes and any accumulated interest.

## Note 15 Contributed equity

**(a) Reconciliation of movement in capital and reserves**

Consolidated 2008

| *in AUD* | Note | Share Capital | Translation Reserve | Remuneration Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 1 July 2007 | | 8,728,857 | – | – | (1,100,412) | 7,628,445 |
| Shares issued on conversion of convertible note | 14 | 439,658 | – | – | – | 439,658 |
| Foreign currency translation differences | | – | (1,293) | – | – | (1,293) |
| Share based payment expense | | – | – | 175,087 | – | 175,087 |
| Net loss for the year | 18 | – | – | – | (4,975,402) | (4,975,402) |
| Balance at 30 June 2008 | | 9,168,515 | (1,293) | 175,087 | (6,075,814) | 3,266,495 |

Consolidated 2007

| *in AUD* | Note | Share Capital | Translation Reserve | Remuneration Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance at 1 July 2006 | | 8,728,857 | – | – | (329,495) | 8,399,362 |
| Net loss for the year | 18 | – | – | – | (770,917) | (770,917) |
| Balance at 30 June 2007 | | 8,728,857 | – | – | (1,100,412) | 7,628,445 |

Company 2008

| *in AUD* | Note | Share Capital | Remuneration Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at 1 July 2007 | | 8,728,857 | – | (1,091,591) | 7,637,266 |
| Shares issued on conversion of convertible note | 14 | 439,658 | – | – | 439,658 |
| Share based payment expense | | – | 175,087 | – | 175,087 |
| Net loss for the year | 18 | – | – | (4,985,516) | (4,985,516) |
| Balance at 30 June 2008 | | 9,168,515 | 175,087 | (6,077,107) | 3,266,495 |

Company 2007

| *in AUD* | Note | Share Capital | Remuneration Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| Balance at 1 July 2006 | | 8,728,857 | – | (329,495) | 8,399,362 |
| Net loss for the year | 18 | – | – | (762,096) | (762,096) |
| Balance at 30 June 2007 | | 8,728,857 | – | (1,091,591) | 7,637,266 |

Translation Reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Remuneration Reserve
The remuneration reserve comprises of the share based payment expense recognised at the fair value of options granted to employees and directors.

## Note 15 Contributed equity (continued)

### (b) Share Capital

| | | Company 2008 No. | Company 2007 No. | Company 2008 $ | Company 2007 $ |
|---|---|---|---|---|---|
| Issued share capital | | 73,696,580 | 69,300,000 | 9,168,515 | 8,728,857 |
| *Share movements during the year* | *Issue price* | | | | |
| At the beginning of the year | | 69,300,000 | 69,300,000 | 8,728,857 | 8,735,595 |
| Shares issued on conversion of convertible note | $0.10 | 4,396,580 | – | 439,658 | – |
| Less: costs related to shares issued | | – | – | (6,738) | – |
| At the end of the year | | 73,696,580 | 69,300,000 | 9,168,515 | 8,728,857 |

### (c) Ordinary shares

The company is a public company limited by shares. The company was incorporated in Perth, Western Australia on 2 June 2004.

The company's shares are limited whereby the liability of its members is limited to the amount (if any) unpaid on the shares respectively held by them. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Options

Information relating to options issued by Alloy Resources Limited are set out in note 16.

## Note 16 Share-based payments

### (a) Option Plan

The Company has established a directors and employees option plan (DEOP).

The objective of the DEOP is to assist in the recruitment, reward, retention and motivation of directors and employees of the Company.

Each option issued under the plan will be issued free of charge.

The exercise price for options granted under the DEOP will be the price fixed by the Board prior to the grant of the option or, if no price is fixed, calculated based on weighted average of recent share trading on the ASX.

The options granted under the DEOP do not give any right to participate in dividends or rights issues until shares are allotted pursuant to the exercise of the relevant option.

## Note 16 Share-based payments (continued)

Under the DEOP, the Board may invite directors and employees to participate in the DEOP and receive options. A director or employee may receive the options or nominate a relative or associate to receive the options. The plan is open to directors and employees of the Company or its subsidiaries. The number of shares underlying options granted under the DEOP when aggregated with:

- The maximum number of shares that could be issued on exercise of unexercised DEOP options and any other director or employee incentive share or option plan; and
- The number of shares issued on exercise of options under the DEOP and any other employee incentive share or option plan in the last 5 years, must not exceed 5% of the issued shares at the time of grant of the options. This restriction will not apply if the Company has a current prospectus under which the options are granted.

If the Company, after having granted any option under the DEOP, reduces its issued share capital or subdivides or consolidates its shares, the number of the shares issued to the option holder on exercise of an option will be reduced, subdivided or consolidated, as the case may be, in accordance with the Listing Rules.

Options granted under the DEOP are not transferable.

### (b) Terms and conditions of the grants

The terms and conditions of the grants are as follows. All options are to be settled by physical delivery of shares.

### (c) Options issued during the year

During the financial year the company granted 4,250,000 options (2007: nil) over unissued ordinary shares of the company.

| Grant date / employees entitled | Number of options | Vesting conditions | Contractual life of options |
|---|---|---|---|
| Option grant to employees on 25 July 2007 | 250,000 | 12 month vesting period | 4 years |
| Option grant to Directors on 27 November 2007 | 4,000,000 | 12 month vesting period | 5 years |

### (d) Number and weighted average exercise prices of share options

| | Weighted average exercise price (cents) 2008 | Number of options 2008 | Weighted average exercise price (cents) 2007 | Number of options 2007 |
|---|---|---|---|---|
| Outstanding at 1 July | 29.9 | 35,200,000 | 29.9 | 35,200,000 |
| Forfeited during the period | – | – | – | – |
| Exercised during the period | – | – | – | – |
| Granted during the period | 24.7 | 4,250,000 | – | – |
| Outstanding at 30 June | 29.3 | 39,450,000 | 29.9 | 35,200,000 |
| Exercisable at 30 June | | 35,200,000 | | 35,200,000 |

## Note 16 Share-based payments (continued)

### (e) Options on issue at the balance date

The number of options outstanding over unissued ordinary shares at 30 June 2008 is 39,450,000 (2007: 35,200,000). The terms of these options are as follows:

| Number of Options Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 35,000,000 Listed | 20 cents | 6 April 2009 |
| 200,000 Unlisted (i) | 30 cents | 30 June 2009 |
| 250,000 Unlisted (ii) | 20 cents | 25 July 2011 |
| 4,000,000 Unlisted (iii) | 25 cents | 30 November 2012 |

(i) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 30 June 2007.
(ii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 25 July 2008.
(iii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 12 December 2008.

### (f) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is 1.15 years (2007: 1.77 years).

### (g) Weighted average fair value

The fair value of share options granted is measured using a Black-Scholes model with the following inputs:

| | Key management personnel Directors | Key management personnel | Senior employees | Senior employees |
|---|---|---|---|---|
| *Fair value of share options and assumptions* | 2008 | 2007 | 2008 | 2007 |
| Fair value at grant date | $0.06 | – | $0.06 | – |
| Share price | $0.12 | – | $0.16 | – |
| Exercise price | $0.25 | – | $0.20 | – |
| Expected volatility (weighted average volatility) | 78.38% | – | 50% | – |
| Option life (expected weighted average life) | 5 years | – | 4 years | – |
| Expected dividends | 0% | – | 0% | – |
| Risk-free interest rate (based on government bonds) | 6.17% | – | 6.38% | – |

### (h) Recognised share-based payment expense

| Employee Expenses | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| in AUD | $ | $ | $ | |
| Share options granted in 2008 – equity settled | 175,087 | – | 175,087 | – |
| Total expense recognised as employee costs | 175,087 | – | 175,087 | – |

### (i) Subsequent to the balance date

There are no options issued subsequent to the balance sheet date.

## Note 17 Accumulated losses

| 2008 | Consolidated $ | Company $ |
|---|---|---|
| Balance brought forward at 1 July 2007 | (1,100,412) | (1,091,591) |
| Loss for year | (4,975,402) | (4,985,516) |
| Balance carried forward at 30 June 2008 | (6,075,814) | (6,077,107) |

| 2007 | Consolidated $ | Company $ |
|---|---|---|
| Balance brought forward at 1 July 2006 | (329,495) | (329,495) |
| Loss for year | (770,917) | (762,096) |
| Balance carried forward at 30 June 2007 | (1,100,412) | (1,091,591) |

## Note 18 Financial instruments

### Financial risk management

The Company has exposure to a variety of risks arising from its use of financial instruments. This note presents information about the Company's and the Group's exposure to the specific risks, and the policies and processes for measuring and managing those risks. Further quantitative disclosures are included throughout this financial report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Company and the Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. The Company has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

### (a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from transactions with customers and investments. For the Company it arises from receivables due from subsidiaries.

*Trade and other receivables*
The Group has no investments and the nature of the business activity does not result in trading receivables. The receivables that the Group and Company recognises through its normal course of business are short term in nature and the most significant (in quantity) is the receivable from the Australian Taxation Office. The risk of no recovery of receivables from this source is considered to be negligible.

*Cash deposits*
The Group's primary banker is St George Bank, at balance date all operating accounts and funds held on deposit are with this bank. The Directors believe any risk associated with the use of only one bank is mitigated by their size and reputation. Except for this matter the Group currently has no significant concentrations of credit risk.

## Note 18 Financial instruments (continued)

*Impairment losses*
The Directors do not consider that any of the Group's financial assets are subject to impairment at the reporting date. No impairment expense or reversal of impairment charge has occurred during the reporting period. None of the Group's other receivables are past due (2007: Nil).

The Directors do not consider that the Group's financial assets are subject to anything more than a negligible level of credit risk, and as such no disclosures are made.

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Group's current and future operations, and consideration is given to the liquid assets available to the Company before commitment is made to future expenditure or investment.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| Consolidated 30 June 2008<br>*In AUD* | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Trade and other payables | 270,335 | (270,335) | (270,335) | – | – | – | – |
| | 270,335 | (270,335) | (270,335) | – | – | – | – |

| Consolidated 30 June 2007<br>*In AUD* | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Trade and other payables | 148,325 | (148,325) | (148,325) | – | – | – | – |
| Borrowings | 432,178 | (439,658) | (439,658) | – | – | – | – |
| | 580,503 | (587,983) | (587,983) | – | – | – | – |

| Company 30 June 2008<br>*In AUD* | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Trade and other payables | 270,315 | (270,315) | (270,315) | – | – | – | – |
| | 270,315 | (270,315) | (270,315) | – | – | – | – |

| Company 30 June 2007<br>*In AUD* | Carrying amount | Contractual cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Trade and other payables | 147,728 | (148,325) | (148,325) | – | – | – | – |
| Borrowings | 432,187 | (439,658) | (439,658) | – | – | – | – |
| | 579,915 | (587,983) | (587,983) | – | – | – | – |

## Note 18 Financial instruments (continued)

### (c) Market risk

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

*Currency risk*
The Group is exposed to currency risk on mineral exploration and evaluation expenditure that are denominated in a currency other than the respective functional currencies of the Company, the Australian dollar (AUD) and its subsidiary, the Thai Baht (THB). The currency in which these transactions are denominated is the Laos Kip (LAK) and the US Dollar (USD).

The Group and Company does not have material financial assets or liabilities at year-end denominated in currencies other than its functional currency.

*Interest rate risk*
As the Group has significant interest bearing assets, the Group's income and operating cash flows are materially exposed to changes in market interest rates. The assets are short term interest bearing deposits, and no financial instruments are employed to mitigate risk.

At the reporting date the interest profile of the Company's interest-bearing financial instruments was:

| | Consolidated Carrying amount | | Company Carrying Amount | |
|---|---|---|---|---|
| *AUD* | 2008 | 2007 | 2008 | 2007 |
| **Fixed rate instruments** | | | | |
| Financial liabilities | – | 432,178 | – | 432,178 |
| **Variable rate instruments** | | | | |
| Financial assets | 827,099 | 2,436,529 | 825,473 | 2,413,308 |

*Fair value sensitivity analysis for fixed rate investments*
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

*Cash flow sensitivity analysis for variable rate instruments*
A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| *Consolidated* *AUD* | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| **30 June 2008** | | | | |
| Variable rate instruments | 8,271 | (8,271) | 8,271 | (8,271) |
| **30 June 2007** | | | | |
| Variable rate instruments | 24,365 | (24,365) | 24,365 | (24,365) |

## Note 18 Financial instruments (continued)

| *Company* *AUD* | Profit or loss 100bp increase | Profit or loss 100bp decrease | Equity 100bp increase | Equity 100bp decrease |
|---|---|---|---|---|
| 30 June 2008 | | | | |
| Variable rate instruments | 8,254 | (8,254) | 8,254 | (8,254) |
| 30 June 2007 | | | | |
| Variable rate instruments | 24,133 | (24,133) | 24,133 | (24,133) |

### Fair values

*Fair values versus carrying amounts*
The carrying amounts of financial assets and liabilities as described in the balance sheet equate to their estimated net fair value.

### (d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors capital expenditure and cash flows as mentioned in 18(b).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## Note 19 Dividends

No dividends were paid or proposed during the financial year.
The company has no franking credits available as at 30 June 2008.

## Note 20 Key management personnel disclosures

### (a) Compensation for key management personnel

| | Consolidated Carrying amount 2008 $ | Consolidated Carrying amount 2007 $ | Company Carrying Amount 2008 $ | Company Carrying Amount 2007 $ |
|---|---|---|---|---|
| Short-term employee benefits | 130,000 | 130,000 | 130,000 | 130,000 |
| Post-employee benefits | 394,063 | 342,694 | 394,063 | 342,694 |
| Other benefits | 35,344 | 19,075 | 35,344 | 19,075 |
| Share-based payment | 150,204 | – | 150,204 | – |
| Total compensation | 709,611 | 491,769 | 709,611 | 491,769 |

## Note 20 Key management personnel disclosures (continued)

### (b) Other key management personnel

There were no other persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year.

### (c) Option holdings of key management personnel

The numbers of options over ordinary shares in the Company held during the financial year by each director of the Company and other key management personnel of the Group are set out below:

| 2008<br>Name | Balance at start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| *Directors* | | | | | | |
| Peter Harold | – | 1,000,000 | – | – | 1,000,000 | – |
| Jayson Meyers | 200,000 | 1,000,000 | – | – | 1,200,000 | 200,000 |
| Peter Hepburn-Brown | 125,000 | 1,000,000 | – | – | 1,125,000 | 125,000 |
| Kevin Hart | 25,000 | 1,000,000 | – | – | 1,025,000 | 25,000 |

| 2007<br>Name | Balance at start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| *Directors* | | | | | | |
| Peter Harold | – | – | – | – | – | – |
| Jayson Meyers | 200,000 | – | – | – | 200,000 | 200,000 |
| Peter Hepburn-Brown | 125,000 | – | – | – | 125,000 | 125,000 |
| Kevin Hart | 25,000 | – | – | – | 25,000 | 25,000 |

### (d) Share holdings of key management personnel

The number of shares in the Company held during the financial year by each director of the Company and other key management personnel of the Group, including their personally related parties are set out below. There were no shares granted during the reporting period as remuneration.

| 2008<br>Name | Balance at start of the year | Received during the year on exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| *Directors* | | | | |
| Peter Harold | 500,000 | – | – | 500,000 |
| Jayson Meyers | 4,000,000 | – | – | 4,000,000 |
| Peter Hepburn-Brown | 4,053,119 | – | – | 4,053,119 |
| Kevin Hart | 1,025,000 | – | – | 1,025,000 |

## Note 20 Key management personnel disclosures (continued)

| 2007<br>Name | Balance at start of the year | Received during the year on exercise of options | Other changes during the year | Balance at the end of the year |
|---|---|---|---|---|
| *Directors* | | | | |
| Peter Harold | 500,000 | – | – | 500,000 |
| Jayson Meyers | 4,000,000 | – | – | 4,000,000 |
| Peter Hepburn-Brown | 4,053,119 | – | – | 4,053,119 |
| Kevin Hart | 1,025,000 | – | – | 1,025,000 |

### (e) Loans made to key management personnel

No loans were made to a director of Alloy Resources Limited or any other key personnel, including personally related entities during the reporting period.

### (f) Other transactions with key management personnel and their related parties

Some Directors and Executives hold positions within other entities which cause them to have control or exert significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company during the reporting period. In each instance normal commercial terms and conditions applied. Terms and conditions were not more favourable than those available, or which might reasonably be expected to be available, for a similar transaction to unrelated parties on an arms length basis.

Dr. Jayson Meyers has an interest as a director in Resource Potentials Pty Ltd. This firm provides Geophysical consulting, Geological and Geochemical Database Management Services and office space and administration support to the Company in the ordinary course of business. The value of the transactions in the financial year ending 30 June 2008 amount to $117,569 (2007: $197,742).

Mr. Kevin Hart has an interest as a partner in a Chartered Accounting firm; Endeavour Corporate. This firm provides company secretarial and accounting services to the Company in the ordinary course of business. The value of the transactions in the financial year ending 30 June 2008 amount to $29,907 (2007: $33,427).

Amounts payable to key management personnel and other related parties at reporting date arising from these transactions were as follows:

| | 2008<br>$ | 2007<br>$ | 2008<br>$ | 2007<br>$ |
|---|---|---|---|---|
| Trade and other payables – current | 18,882 | 27,781 | 18,882 | 27,781 |

## Note 21 Remuneration of auditors

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008<br>$ | 2007<br>$ | 2008<br>$ | 2007<br>$ |
| Audit and review of the consolidated entity's financial statements | 37,500 | 17,600 | 37,500 | 17,600 |
| | 37,500 | 17,600 | 37,500 | 17,600 |

## Note 22 Contingencies

*(i) Contingent liabilities*

There were no material contingent liabilities not provided for in the financial statements of the Company or consolidated entity as at 30 June 2008 or 30 June 2007, other than:

*Native Title and Aboriginal Heritage*

Native title claims have been made with respect to areas which include tenements in which the Company has an interest. The Company is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the Company or its projects. Agreement is being or has been reached with various native title claimants in relation to Aboriginal Heritage issues regarding certain areas in which the Company has an interest.

*(ii) Contingent assets*

There were no material contingent assets as at 30 June 2008 or 30 June 2007.

## Note 23 Commitments

### (a) Exploration

The consolidated entity has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the consolidated entity's exploration programmes and priorities. As at balance date, total exploration expenditure commitments on tenements held by the consolidated entity have not been provided for in the financial statements and which cover the following twelve month period amount to $159,478 (2007: $778,043) respectively. These obligations are also subject to variations by farm-out arrangements or sale of the relevant tenements.

### (b) Contractual Commitment

There are no contracted commitments other than those disclosed above

## Note 24 Controlled entities

Alloy Resources Limited owns 100% of the share capital of Eskay Resources Pty Ltd. Eskay Resources Pty Ltd is incorporated in the state of Western Australia. An amount of $660,628 was advanced to the controlled entity during the year ended 30 June 2008 (2007: $325,934) which remains payable at 30 June 2008 (refer note 8).

During the previous financial year Alloy Resources Limited acquired 49.75% of the share capital of Nam Thong Mining Co Ltd. Nam Thong Mining Co Ltd is incorporated in the country of Thailand (refer note 10).

## Note 25 Interests in joint ventures

Joint venture agreements have been entered into with third parties, whereby the Company can earn an interest in exploration areas by expending specified amounts in the exploration areas.

There are no assets employed by these joint ventures and the consolidated entity's expenditure in respect of them is brought to account initially as capitalised exploration and evaluation expenditure (refer note 12).

## Note 26 Events occurring after the balance sheet date

On 2 July 2008, the Company announced the completion of the Comet Gold and Kurrajong Nickel prospects to Silver Lake Resource Limited. The settled amount was $1,425,000 and the assumption of unconditional performance funds amounting to $141,000.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

## Note 27 Reconciliation of loss after tax to net cash outflow from operating activities

Joint venture agreements have been entered into with third parties, whereby the Company can earn an interest in exploration areas by expending specified amounts in the exploration areas.

There are no assets employed by these joint ventures and the consolidated entity's expenditure in respect of them is brought to account initially as capitalised exploration and evaluation expenditure (refer note 12).

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2008 $ | 2007 $ | 2008 $ | 2007 $ |
| Loss after income tax | (4,975,402) | (770,917) | (4,985,516) | (762,096) |
| Depreciation | 39,853 | 35,499 | 39,807 | 35,499 |
| Write off of exploration expenditure | 4,160,076 | 368,719 | 4,160,076 | 368,719 |
| Exploration costs capitalised | (924,386) | (2,275,534) | (582,967) | (2,070,387) |
| Loss on sale of Comet Project | 129,495 | – | 129,495 | – |
| Loss on sale of Asset | 993 | – | – | – |
| Unrealised FX difference | (1,293) | – | – | – |
| Borrowing costs accrued | 7,480 | 34,904 | 7,480 | 34,904 |
| Share-based payments | 175,087 | – | 175,087 | – |
| Impairment loss | – | – | 25,221 | – |
| *Change in operating assets and liabilities:* | | | | |
| (Increase)/decrease in receivables/prepayments | 532 | 79,744 | 532 | 78,103 |
| Increase/(decrease) in payables | (13,998) | (81,557) | (13,852) | (82,154) |
| Increase/(decrease) employee provisions | 14,104 | 2,254 | 14,104 | 2,254 |
| Net cash outflow from operating activities | (1,387,459) | (2,606,888) | (1,030,533) | (2,395,158) |

## Note 28 Earnings per share

| | Consolidated 2008 Cents | Consolidated 2007 Cents |
|---|---|---|
| **(a) Basic earnings per share** | | |
| Loss attributable to ordinary equity holders of the company | (6.84) | (1.13) |
| **(b) Diluted earnings per share** | | |
| Loss attributable to ordinary equity holders of the company | (6.84) | (1.13) |
| **(c) Loss used in calculation of basic and diluted loss per share** | | |
| Loss after tax from continuing operations | (4,975,402) | (770,917) |
| Average number of shares used | 72,747,591 | 68,222,743 |

Potential ordinary shares are not considered dilutive as their conversion does not show an inferior view of the earnings performance of the company. Accordingly, diluted earnings per share is the same as the basic earnings per share. Number of options so excluded from the calculation is set out in Note 16.

# Directors' Declaration



In the opinion of the Directors of Alloy Resources Limited ("the Company")

1 (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' report, set out on pages 21 to 51, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance, for the financial year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a);

(c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001; and

(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the managing director and company secretary for the financial year ended 30 June 2008.

Signed at Perth this 26th day of September 2008.

Peter Hepburn-Brown
Managing Director

KPMG

## Independent auditor's report to the members of Alloy Resources Limited

**Report on the financial report**

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

*Directors' responsibility for the financial report*

The directors of 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(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards but that the financial report of the Company does not comply.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

# Independent Auditor's Report



KPMG

*Auditor's opinion*

In our opinion:

(a) the financial report of Alloy Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group'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.

(b) the financial report of the group also complies with International Financial Reporting Standards as disclosed in note 1(a).

## Report on the remuneration report

We have audited the Remuneration Report included on pages 16 to 19 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Alloy Resources Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

D P McComish

D P McComish
*Partner*

Perth
26 September 2008

# ASX Additional Information



Pursuant to the Listing Requirements of the Australian Securities Exchange, the shareholder information set out below was applicable as 25 September 2008.

## A. Distribution of Equity Securities

| Distribution | Number of Shareholders | Number of Option Holders |
|---|---|---|
| 1 – 1,000 | 2 | – |
| 1,001 – 5,000 | 30 | – |
| 5,001 – 10,000 | 123 | 92 |
| 10,001 – 100,000 | 311 | 122 |
| More than 100,000 | 98 | 47 |
| Total | 564 | 261 |
| Holding less than a marketable parcel | 171 | |

## B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

| | Issued Ordinary Shares | |
|---|---|---|
| Shareholder Name | Number of shares | Percentage of shares |
| Frazerview Investments Pty Ltd | 6,926,580 | 9.40 |
| Big Bell Gold Corporation Pty Ltd | 5,000,000 | 6.78 |
| Jayson & Janet Meyers | 4,000,000 | 5.43 |
| Nakura Resources Pty Ltd | 4,000,000 | 5.43 |

## C. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

## D. Use of Capital

Pursuant to the requirements of ASX Listing Rule 4.10.19 the Company has used all funds raised from its Initial Public Offering (IPO) in a manner that is consistent with the projections and objectives outlined in the IPO document.

# ASX Additional Information



## F. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

| | Shareholder Name | Listed Ordinary Shares Number | Percentage |
|---|---|---|---|
| 1 | Frazerview Investments Pty Ltd | 6,926,580 | 9.40 |
| 2 | Big Bell Gold Corporation Pty Ltd | 5,000,000 | 6.78 |
| 3 | Jayson & Janet Meyers | 4,000,000 | 5.43 |
| 4 | Nakura Resources Pty Ltd | 4,000,000 | 5.43 |
| 5 | Auriferous Mining Ltd | 2,499,925 | 3.39 |
| 6 | TM Cons Pty Ltd | 1,500,000 | 2.04 |
| 7 | Bannaby Investments Pty Ltd | 1,500,000 | 2.04 |
| 8 | Yarandi Investments Pty Ltd | 1,450,000 | 1.97 |
| 9 | Annette Mizon | 1,400,000 | 1.90 |
| 10 | Nefco Nominees Pty Ltd | 1,124,559 | 1.53 |
| 11 | Kevin Ronald Hart | 1,000,000 | 1.36 |
| 12 | Ajava Holdings Pty Ltd | 1,000,000 | 1.36 |
| 13 | RA & HM Healy | 1,000,000 | 1.36 |
| 14 | Philip Frederik Hoff | 1,000,000 | 1.36 |
| 15 | Merrill Lynch Australia Nominees | 1,000,000 | 1.36 |
| 16 | JAAC Corporation Pty Ltd | 950,000 | 1.29 |
| 17 | Auriferous Mining Ltd | 950,000 | 1.29 |
| 18 | Peter & Suratenaya Goh | 844,074 | 1.15 |
| 19 | ANZ Nominees Ltd | 751,824 | 1.02 |
| 20 | Heidi Karly Bullo | 750,000 | 1.02 |
| | | 38,646,962 | 52.48 |

## G. Twenty Largest Option Holders

| | Option Holder Name | Listed Ordinary Shares Number | Percentage |
|---|---|---|---|
| 1 | Robert Anthony Healy | 5,700,000 | 16.29 |
| 2 | Auriferous Mining Ltd | 2,499,925 | 7.14 |
| 3 | Bannaby Investments Pty Ltd | 2,210,000 | 6.31 |
| 4 | Peter John Douglas | 1,800,000 | 5.14 |
| 5 | Lorraine Young | 1,277,592 | 3.65 |
| 6 | Yarandi Investments Pty Ltd | 1,190,000 | 3.4 |
| 7 | RA & HM Healy | 1,000,000 | 2.86 |
| 8 | Balpina Pty Ltd | 957,495 | 2.74 |
| 9 | Terry Ronald & LC Sharp | 850,000 | 2.43 |
| 10 | Carlsam Pty Ltd | 714,400 | 2.04 |
| 11 | Rossi Orchards Pty Ltd | 680,000 | 1.94 |
| 12 | Terence Brown | 550,000 | 1.57 |
| 13 | Reach Out Pty Ltd | 500,000 | 1.43 |
| 14 | Peter Cook | 500,000 | 1.43 |
| 15 | Togolosh Pty Ltd | 500,000 | 1.43 |
| 16 | JR & Ngataua FJ Adamson | 500,000 | 1.43 |
| 17 | Erik ME Adriaanse | 486,650 | 1.39 |
| 18 | Gecko Resources Pty Ltd | 472,000 | 1.35 |
| 19 | Lawrence Crowe Consulting Pty Ltd | 400,000 | 1.14 |
| 20 | Blackcow Design Pty Ltd | 340,000 | 0.97 |
| | | 23,128,062 | 66.08 |

Alloy
Resources Limited
ABN 20 109 361 195

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