



CAZALY
RESOURCES LIMITED

ABN: 23 101 049 334

ANNUAL REPORT 05



FOR THE YEAR ENDED 30 JUNE 2005

CORPORATE DIRECTORY

MANAGING DIRECTOR

Nathan McMahon

MANAGING DIRECTOR

Clive Jones

NON-EXECUTIVE DIRECTOR & COMPANY SECRETARY

Kent Hunter

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STOCK EXCHANGE LISTING

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

BANKERS

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PROJECTS REVIEW

Cazaly Resources Limited has been particularly active during the past year. Considerable success from drilling and corporate activities, particularly in respect to the Kunanalling project, has resulted in a substantial increase in the value of the assets of the Company. Resources at Kunanalling have **increased to 348,000 ounces** whilst the project area has significantly increased to approximately 750 square kilometres.

The Company has a large portfolio of ground largely prospective for gold and base metals situated within Western Australia. Through astute project acquisition and creative joint venture arrangements the Company is well exposed to potential exploration success in gold, iron ore, uranium, nickel and copper as well as several other commodities. The company has successfully joint ventured a significant number of these projects and intends to continue to actively develop new projects with a view towards divestment whilst aggressively expanding and developing its key asset at Kunanalling.

KUNANALLING – WEST KALGOORLIE PROJECT

Project greatly expanded, continued drilling success and advanced regional exploration commenced. Several new targets established with global resources of 348,000 ounces. Mining agreement signed with Placer Dome.

The Kunanalling Project is located approximately 30 kilometres west of Kalgoorlie and 30 kilometres north of Coolgardie in the East Coolgardie Mineral Field of Western Australia. The project has substantially increased in size since listing, largely as a result of dealings with other parties in the region, and the Company now commands a dominant land position in the greater Kalgoorlie region. The Company takes the view that a strong ground position allows significant leverage to exploration success. The Kunanalling project encompasses a large contiguous group of tenements centred along the Kunanalling Shear, a major regional structure associated with gold mineralisation exhibiting features similar to the nearby Zuleika Shear host to the +7 Moz. Kundana minefield.

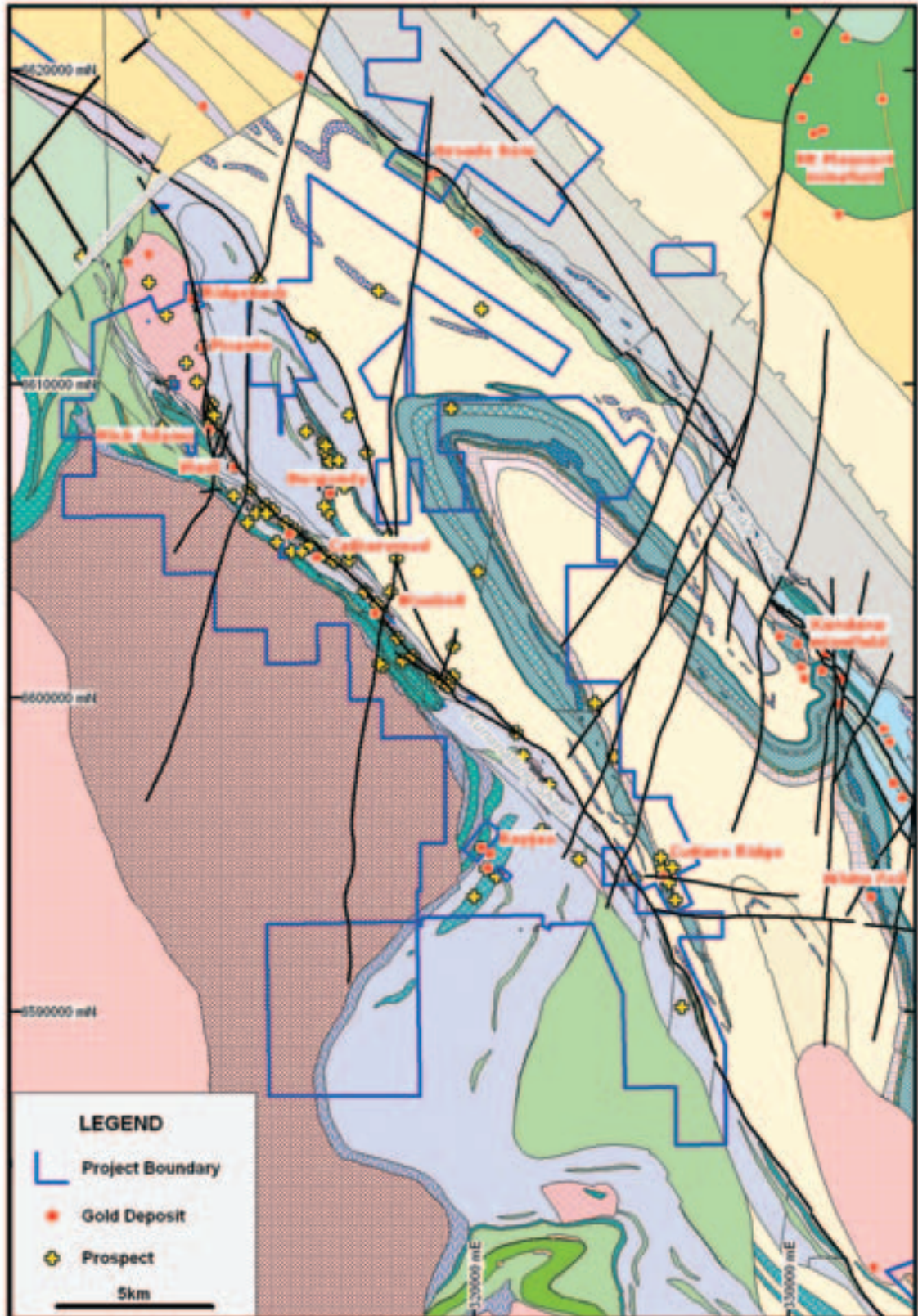
Resources at Kunanalling now total 348,000 oz. gold as seen in the following table;

MINERAL RESOURCES - KUNANALLING PROJECT

Project/Prospect	Measured		Indicated		Inferred		TOTAL		
	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Tonnes	g/t Au	Oz. Au
Mick Adam					1,822,000	1.40	1,822,000	1.38	80,800
Catherwood	337,000	2.52	144,000	2.64	72,000	2.04	553,000	2.49	44,300
Burgundy					642,000	2.00	642,000	2.00	41,300
Picante			195,000	3.73	135,000	3.71	330,000	3.72	39,500
Cutters Ridge					648,000	1.80	648,000	1.80	37,500
Wadi	188,000	2.44	234,000	1.56	177,000	1.43	599,000	1.80	34,600
Rajax					180,000	4.20	180,000	4.20	24,300
Emu Prospect					260,000	2.50	260,000	2.50	20,900
Premier			155,000	2.00	5,000	3.70	160,000	2.00	10,400
Blue Bell					118,000	2.00	118,000	2.00	7,600
Stockpiles/Tailings					114,000	1.10	114,000	1.10	3,900
Inkerman					25,000	3.50	25,000	3.50	2,800
TOTALS	368,000	2.38	307,500	2.25	4,930,500	1.84	5,451,000	1.98	347,900

Most of the resources are reported using a cut off grade of 1 g/t gold while various top cuts used for each resource were based upon standard statistical methods. The Burgundy resources utilised cut off grades of 0.8, 1.0 and 1.5 g/t Au for the oxide, transition and fresh rock zones respectively. SG data for the majority of the resources is based upon measured samples where available and where absent, values were based upon data from nearby resources in similar geological settings.

KUNANALLING PROJECT – REGIONAL SETTING



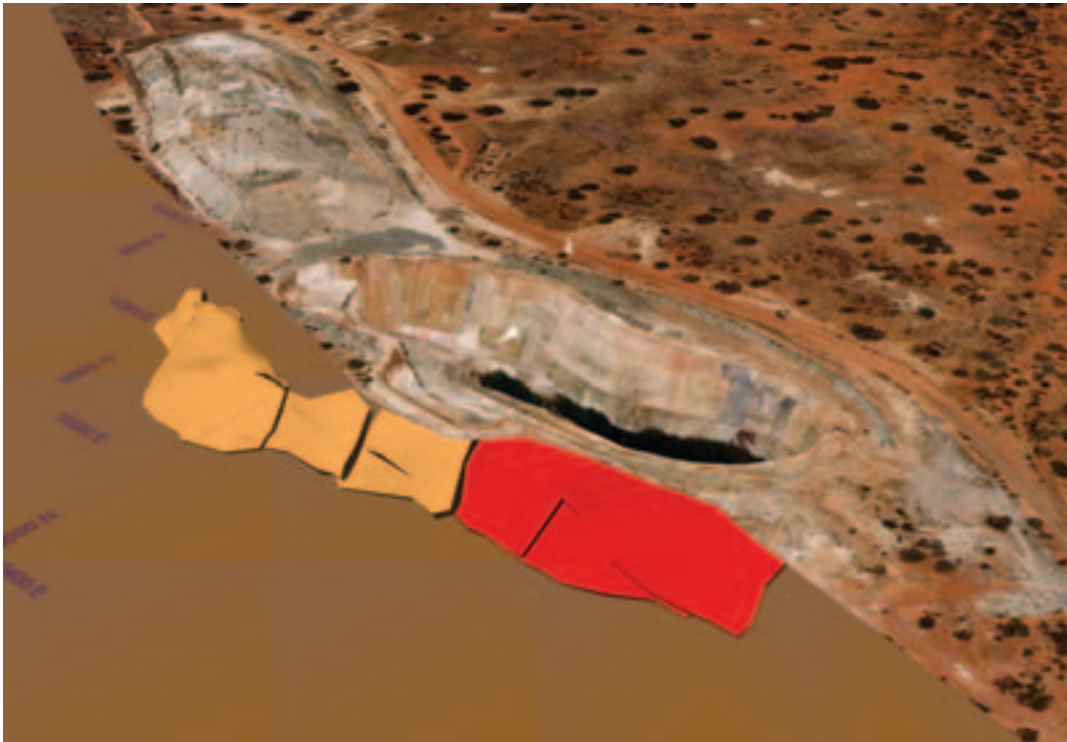
4 PROJECTS REVIEW

MINING

Recently the Company announced that it had entered into a Heads of Agreement with Placer Dome to develop the Catherwood, Wadi and Outridge gold deposits. Once commenced, the Project is scheduled to continue for 10-12 months with cashflow starting within 2 months of commencement owing to the shallow nature of the Catherwood ore. Ore will be treated at PDAP's Kalgoorlie West Operations at Paddington. Development of the operation will be funded by PDAP, from project cashflow, with net profits being shared by the parties on a pre-determined basis on commercial terms.

Clear benefits arising from this arrangement for the Company include;

- No requirement for Project Financing for CAZ;
- PDAP have extensive mining and milling experience in the region and CAZ will benefit from the resultant cost basis, management and logistics that will result. CAZ will effectively "piggy-back" onto PDAP's long serving effective cost structures and will be insulated from recent industry wide cost increases;
- The availability of treatment facilities at cost only;
- Reduction in risk profile by utilising experienced management in the field of small scale mining operations; and
- Ability of the CAZ management team to focus on exploration in the Kalgoorlie region.



Placer have also rescinded any 'clawback' rights over a specific area within Castle Hill bounded by the following boxed area; NW: 6,609,480mN, 309,120mE SE: 6,608,230mN, 313,720mE. This includes the Wadi, Mick Adams, Kiora and Kiora North zones of mineralisation.

Planning for the development of Catherwood is ongoing with final geotechnical and metallurgical studies recently studies completed. It is anticipated that final statutory mining approvals for the development of the Catherwood deposit will be received imminently.

CASTLE HILL AREA – TREND OF MINERALISATION & PROSPECTS



During the year exploration has provided a large degree of encouragement at several prospects, particularly in the North of the area in the castle Hill region, including *Picante*, *North Kiara* and *Ridgeback*. Drilling conducted at *Picante* following up on previously delineated gold mineralisation. Analyses of a previously drilled diamond drillhole lead to a new understanding of the structural controls on mineralisation at *Picante*. Follow-up RC drilling confirmed the predicted down plunge position of the mineralisation which was found to plunge at approximately 45° to the north. These results have enabled a preliminary resource of **330,000t @ 3.72g/t Au** to be estimated.

Continuous gold mineralisation at *Picante*, has now been traced for over 150 metres and remains open at depth. The continuous and consistent tenor of the mineralisation occurring close to the surface suggests that the zone could be quickly developed into a mining operation. Metallurgical test work is currently being conducted.

Drilling of other targets in the Castle Hill area was aimed at testing new areas of potential mineralisation based upon historical drill results and an increased understanding on the controls of mineralisation in the area. The *Picante* discovery has proved particularly useful in furthering the understanding on the mineralising controls in the region.

Results from drilling at the *Kiara North* and *Ridgeback* prospects has discovered further zones with the potential for the discovery of new resources. At *Kiara North* two zones have been outlined. The *Tommy* prospect has geological similarities with *Picante* with a result of **5m @ 4.00 g/t Au** at the tonalite-ultramafic contact. A follow-up hole, KNRC0272, produced **2m @ 33.2g/t Au**. Previous RAB drilling in the area had not returned any significant results, probably a result of gold depletion, although soil geochemistry is elevated. The Company considers the exploration results to be highly encouraging and provide the basis for ongoing work.

WEST KALGOORLIE PROJECTS

EXPLORATION COMMENCES OVER THE ORA BANDA/GRANTS PATCH PROJECT.

An initial drilling programme was completed over specific targets at the the Ora Banda project based upon the results of historical work and geological assessment. Previous mining in the region has been extensive with most mineralisation restricted to particular stratigraphic units and controlled by a range of structures. Subsequent targeting has been based upon this work. Several targets were tested in the initial programme with results generally being low in tenor. The results are currently being assessed however some encouragement was received from one of the conceptual targets, which lies under cover where highly prospective units have been disrupted by structures known to host mineralisation in adjacent areas. Three lines of drilling over a wide area returned broad anomalism (best result being 1 m @ 6.07 g/t Au). Follow up drilling is currently being proposed to further test this and other areas.

SHOVELANNA PROJECT – IRON ORE

TENEMENT APPLICATION IN MT. NEWMAN IRON ORE PROVINCE

Cazaly has made an application for exploration licence 46/678 on 29 August 2005. The licence covers an area of approximately 40 sq.km and covers Brockman Iron Formation lithologies along Shovelanna Hill. The area is located some 12 km north northwest of BHPB's Jimblebar operations at Wheelarra Hill and is immediately contiguous with BHPB's Orebody 18 mining operation.

Cazaly has entered into an agreement with Echelon Resources Limited whereby Echelon will provide technical capabilities and funding for a drilling program on the Project. Echelon has agreed to commit \$2.5 million towards the exploration program designed to generate a JORC compliant Resources. Under the agreement Echelon is also required to provide specialist iron ore technical services to ensure that Cazaly has the requisite technical capabilities to advance the Shovelanna Iron Ore Project through to development. In consideration for Echelon committing to provide technical capabilities and funding \$2.5 million in exploration funds, Echelon will receive a 14% interest in ELA 46/678 and receive 5 million options in Cazaly, exercisable at \$1.00, on or before 31 December 2007.

Echelon's managing director, Mr Matthew Rimes, is a mining engineer with an extensive career in the resources sector. Mr Rimes has primarily worked for major mining companies including Rio Tinto Group and North Limited focused on iron ore. Over the past 10 years he has been with Robe River Mining (an associated entity of Rio Tinto) and held senior positions at Robe River Mining's operations at Pannawonica and West Angelas. Prior to joining Echelon in June 2005, Mr Rimes held the position of Executive Manager Resource Development for Robe River Mining.

The Project is located within the Hamersley Iron Province, Australia's, and one of the world's, premiere iron ore mining regions since mining first began in 1966. The ores are generally of three types; Bedded, Channel and Detrital deposits. The bedded ores comprise the bulk of the regions' resources and it is this style of ore that exists at Shovelanna.

Initial reconnaissance over the area highlighted a large extent of outcropping highly mineralised Brockman Iron Formation within the area. Mineralised Dales Gorge and Joffre Formation lithologies were encountered over a large area of approximately 3.5km in strike.

Several surface samples collected from the outcropping mineralisation returned highly favourable results indicating that the ore is of a high grade nature akin to that occurring at the adjoining Orebody 18. Results are tabled below:

SAMPLE RESULTS - SHOVELANNA ROCK SAMPLES

SAMPLE No.	GDA East	GDA North	Fe %	Fe2O3 %	Al2O3 %	SiO2 %	P %	L.O.I. %	S %
SH001	201055	7418615	65.1	93.1	2.0	5.4	0.07	2.93	0.07
SH002	201014	7418251	70.2	100.4	0.5	1.5	0.06	2.01	0.01
SH003	201220	7418300	69.0	98.7	0.7	1.2	0.10	2.65	0.00
SH004	199928	7418213	69.6	99.5	0.5	1.6	0.12	3.31	0.02
SH005	199835	7418525	46.3	66.2	1.3	2.2	0.03	6.56	0.00
SH006	199882	7418765	63.6	90.9	3.4	4.3	0.10	5.33	0.05
SH007	199788	7418818	67.2	96.1	0.6	1.6	0.10	5.41	0.15
SH008	199525	7418551	68.3	97.7	0.9	1.7	0.09	4.19	0.04
SH009	199040	7418408	67.4	96.4	1.1	1.4	0.14	4.69	0.03
SH010	198516	7418329	69.8	99.8	0.4	0.9	0.02	1.94	0.00
SH011	198488	7418503	70.0	100.1	0.5	1.1	0.03	1.76	0.00
SH012	198573	7418665	68.2	97.5	0.7	1.5	0.09	3.85	0.04
SH013	198499	7418616	69.6	99.5	0.3	1.2	0.02	3.97	0.00
Avg			66.5	95.1	1.0	2.0	0.07	3.74	0.03

The area subject to the application was previously held by Hamersley Resources Limited (a subsidiary of Rio Tinto), Wright Prospecting Pty Ltd and Hancock Prospecting Pty Ltd under E46/209 which expired on 26 August 2005.

Cazaly Resources Ltd (ASX:CAZ) has been notified that the following objections have been lodged in respect to application for Exploration Licence 46/678:

- Objection MB54/056 by BHP Billiton Minerals Pty. Ltd, Itochu Minerals and Energy Australia Pty. Ltd and Mitsui-Itochu Iron Pty. Ltd.
- Objection MB57/056 by Hancock Prospecting Pty. Ltd.

The Company has also been formally advised by the WA Department of Industry and Resources (DoIR) that Rio Tinto Limited (Rio) has requested the Minister for State Development, Mr Alan Carpenter MLA, exercise his discretion under section 111A of the Mining Act of 1978 to refuse the application for the Shovelanna Iron Ore Project (ELA 46/678) on the grounds of public interest.

The Company is vigorously defending both the objections and the Section 111A submission as we believe we have both the financial and technical ability to advance the project at a significant larger quantum than what has occurred in the previous 15 years. An initial substantial Reverse Circulation drilling programme has been designed and approved to commence upon grant of the tenement. This drilling is part of a more comprehensive exploration and development programme which is envisaged to quickly advance the project towards being mined.

URANIUM PROJECTS

NEWLY APPLIED FOR AREAS PROSPECTIVE FOR DIFFERING STYLES OF URANIUM MINERALISATION

*The Company has recently made priority applications for several Licences over four separate project areas situated in the Gascoyne and goldfields regions of Western Australia and in the Northern Territory. Two project areas in the Gascoyne region lie some 150 kilometres apart and are called the **Pells Range** (ELA09/1193) and the **Jailor Bore** (ELA09/1194) projects whilst applications for three exploration licences, the Lake Way project, abuts Nova Energy Limited's Lake Way uranium deposit. One further application has been made at the Quartz Hill project which lies within the Harts Ranges to the northeast of Alice Springs in the Northern Territory,*

The **Pells Range** project is prospective for roll front style uranium mineralisation occurring within carbonaceous sediments of the Moogooloo Sandstone. Historical drilling within a major regional flexure of this unit has identified several uranium anomalies. Observations of the known mineralisation include; an association of mineralisation with more oxidised portions of the Moogooloo Sandstone in particular in areas of regional flexuring, an association with more carbonaceous units and sandstone channelling and a marked increase in mineralisation towards the basin margins. The project occurs in an ideal environment for the development of classic roll front uranium mineralisation.

The **Jailor Bore** project covers a suite of basement granitoids, schists and gneisses which are overlain by early Palaeozoic sediments. Uranium occurs in calcretised palaeodrainage sediments with carnotite, a uranium-vanadium mineral, being the dominant uranium mineral. Numerous occurrences of carnotite have been observed within the terraced calcrete deposits along the flanks of the major creek systems in the area. Previous exploration has only been of a broad reconnaissance nature but was successful in defining specific areas requiring further work.

The Company has also recently announced that they have concluded a Strategic Alliance and Data Co-Operation Agreement with Kalgoorlie-Boulder Resources Limited (ASX: KAL). KAL has recently concluded an Agreement whereby they may acquire up to a 95% interest in the Jailor Bore resource which Cazaly's tenement surrounds. The Alliance does not preclude either party from sole development nor from entering into Agreements with third parties.

The **Lake Way** Project comprises four contiguous Exploration Licence Applications, 53/1178, 53/1180, 53/1193 and 53/1194. The tenements are located immediately east and up to 50km north of the Wiluna townsite in the Eastern Goldfields Province of W.A. The Project adjoins Nova Energy Limited's calcrete hosted Lake Way uranium deposit and is just to the east of Agincourt Resources Limited's Wiluna Gold Mine.

The area is known to contain calcrete hosted uranium mineralisation from historic drilling, with significant low grade mineralisation being intersected in widely spaced drill holes to the south of Uramurdah Well along Uramurdah Creek. The mineralisation remains open to the north and east of the existing drill holes. Landsat Data mapping of the area to the north east of Uramurdah Well is similar in character to Nova's Lakeway deposit. A drilling program was initially proposed across the area by a previous explorer, but was not undertaken due to logistical problems. Additionally analysis of regional radiometric data has highlighted an extensive corridor of sporadically anomalous uranium associated with known palaeochannels and some areas of outcropping calcrete.

JOINT VENTURE PROJECTS

The Company has several Joint Ventures that allow shareholders to be exploration to exploration success at no cost to the Company including:

QUARTZ CIRCLE, JUTSON ROCKS AND NORTHAMPTON PROJECTS

Graynic Metals Ltd – Earning 80%

The Company has divested an 80% interest in the Quartz Circle, Jutson Rocks and Northampton Projects to Graynic Metals Ltd (ASX Code: GYN) for a total of 10,000,000 shares being approximately 39% (post IPO) of the issued capital in Graynic. Graynic successfully listed on the ASX on June 30th raising \$2.5M.

Cazaly distributed the 10 million Graynic shares to its shareholders by way of an in speci distribution on the basis of one Graynic share for approximately every four Cazaly shares.

The deal is entirely consistent with the Company's stated goal of returning shareholder value and relates to **a capital return of approximately 4.98 cents per share. This is another example of the Company providing shareholders with value.**

Whilst Cazaly is cognisant of the strong outlook of base metals including copper, nickel, lead and zinc we are also aware that our very strong land position and existing resource base at Kalgoorlie demands focused exploration. Cazaly, and its shareholders, retain significant exposure to the projects through its 20% equity and through the in speci distribution of Graynic stock.

Graynic has recently completed initial RC pre-collar drilling at the Quartz Circle project with follow up diamond core drilling due to commence shortly. Initial results were encouraging with results from the pre-collars including; **12m @ 2.07% Zn and 1.12% Pb (GM5, 4m @ 4.48% Zn (GM 7) and 24m @ 1.49% Zn (GM 9)**. Geological mapping in this area also discovered Zn bearing gossans with up to 2.9% Zn from rock chips being recorded.

EAST KALGOORLIE JOINT VENTURE

(Northern Mining Ltd – Earning 75%)

Northern Mining Ltd (planning to list on the ASX) are paying the Company \$200,000 cash and issuing 3,250,000 vendor shares and completing 15,000m of reverse circulation drilling to earn an initial 75% of the East Kalgoorlie project.

MOUNT CARRINGTON

(Drake Resources Ltd. - Earning 90%)

The Company recently concluded an Option and Sale Agreement with Drake Resources Limited ("Drake") for 90% of Cazaly's interest in the Mount Carrington Project.

The Mount Carrington project is a polymetallic (primarily gold and silver) project situated within the north-central part of the New England Fold belt in the northern goldfields of New South Wales. The project has a long history of mining. During the 1980s large scale open cut gold mining operations were undertaken with mining ceasing in 1990 following increasing metallurgical and grade control difficulties encountered once the mining reached the primary ore zones. These difficulties were believed to be largely due to the polymetallic nature of the orebody, with respect to the CIL plant being used, and a poor understanding, at the time, of the geological controls.

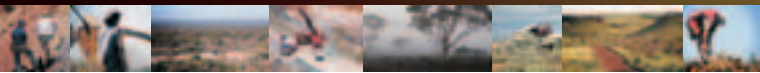
The project is currently Drake's major focus and a large drilling programme is currently underway.

MENZIES

(Great Australian Resources Ltd. - Earning 80%)

The company has reached agreement with Great Australian Resources Ltd ("GAR") whereby GAR may earn an 80% interest in the Menzies project. As part of the agreement GAR is obliged to conduct a minimum of 1,000 metres of drilling.

GAR has already conducted some drilling over the project testing a small number targets mainly based on the Cigar Prospect. The drilling intersected mainly mafics and some key mineralised structures with several encouraging gold hits indicating that the mineralisation is open along strike both to the north and south. GAR also drilled 2 RC holes into a sulphide nickel target. Results were very encouraging and included; **9m @ 1.31% Ni** and **10m @ 0.9% Ni**. Follow up magnetic, electromagnetic and geochemical surveys are planned at the prospect.



SUMMARY

The company has again had a highly active year further advancing its assets. The company has expanded its tenure and resource base in the Kalgoorlie region and has grown its global resources. This has been followed up with detailed exploration and good exploration success from drilling particularly at Kunanalling where the majority of work in the year has been conducted.

The Company has entered a mining agreement with Placer Dome and has begun exploration in the Grants Patch/Ora Banda region.

The company has also expanded its project base through applications over the Shovelanna iron ore project and several uranium projects. Cazaly is well positioned to take advantage of rising commodity prices through its aggressive exploration and development programmes and looks forward to another active year ahead.

NATHAN MCMAHON
MANAGING DIRECTOR

Information in this report pertaining to mineral resources and exploration results was compiled by Mr. Clive Jones and Mr. Mike Young who are Members of the Aus.I.M.M with not less than 5 years experience in the relevant fields, and who consent to the report appearing in the form and context in which it appears.

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2005.

1. DIRECTORS

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

Nathan McMahon
Clive Jones
Kent Hunter

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

COMPANY SECRETARY

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

Kent Hunter – B Bus.

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

2. PRINCIPAL ACTIVITIES

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

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

3. OPERATING RESULTS

The profit / (loss) of the economic entity after providing for income tax amounted to \$2,706,809 (2004: (\$55,394)).

4. DIVIDENDS PAID OR RECOMMENDED

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

5. REVIEW OF OPERATIONS

Operations

Cazaly Resources Limited controls one of the largest land positions in the immediate Kalgoorlie region having a holding second in size only to Placer Dome Asia Pacific (PDAP). Exploration over much of this ground has been ongoing with specific areas now targeted for exploration, in particular the Castle Hill area at Kunanalling and key stratigraphic units in the Grants Patch and Ora Banda regions. Results to date have been very successful culminating in the recent discovery of a new near surface gold resource at Picante and several other areas returning highly encouraging gold results. Additionally the economic entity has finalised a deal with Placer Dome Asia Pacific that will see the Catherwood and Wadi deposits mined in the near future.

5. REVIEW OF OPERATIONS (CONT.)

Resources at Kunanalling now total 348,000 oz. gold as seen in the following table:

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The economic entity has continued to be very active during the past quarter with ongoing successful exploration at Kunanalling and has further advanced its mining prospects. The controls one of the largest land positions in the Kalgoorlie region and has expanded exploration into the adjoining areas at Ora Banda and Grants Patch.

Drilling in the Castle Hill region at Kunanalling has resulted in the discovery of a new resource at Picante (330,000t @ 3.72 g/t Au) and the delineation of several other targets which will be further drilled in the forthcoming quarter.

The economic entity has also recently made applications for two areas in the Gascoyne region of Western Australia covering area prospective for uranium mineralisation.

The economic entity has made application for Exploration Licence 46/678 which to lies approximately 25 kilometres east of Mt. Newman. The application covers a portion of the Brockman Iron Formation and is located within 2 kilometres of the Shovelanna Hill, Wheelarra Hill Orebody 31 and Mt. Newman Orebody 17.

Open file data indicates that the Shovelanna Hill orebody is partially located on the Cazaly tenement application. This will be confirmed by field checking during the current field season.

The economic entity has also seen the successful listing of Graynic Metals Limited who will advance the Quartz Circle, Jutson Rocks and Northampton projects. Additionally some very prospective uranium ground was applied for during the quarter.

Financial Position

The net assets of the economic entity have increased by approximately \$2,850,000 from 30 June 2004 to \$7,276,637 in 2005 due largely to the issue of shares to raise additional funds and acquire exploration assets.

The economic entity currently has \$1.66 million in cash assets which the Directors believe puts the economic entity in a sound financial position with sufficient capital to effectively explore its current landholdings.

5. REVIEW OF OPERATIONS (CONT.)

Future Developments, Prospects and Business Strategies

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

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

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

On 1 July 2004 the Company acquired 100% ownership in Hayes Mining Pty Ltd for \$1.00.

On 2 July 2004, the Company issued 400,000 employee options under the Cazaly Resources Limited employee incentive scheme.

On 15 July 2004 the Company announced that it had finalised a deal with Placer Dome Asia Pacific Ltd ("PDAP") to acquire a 100% interest in Placer's Castle Hill Project for a nominal cash consideration.

On 6 October 2004, the Company issued 2,250,000 Directors Options as passed by the members at the Annual General Meeting on 6 October 2004.

On 15 November 2004, the Company issued 1,250,000 fully paid shares to Croesus Mining NL under the Agreement for Sale of Plant.

On 16 December 2004 the Company issued 1,145,874 fully paid ordinary shares converted from option holders exercising their \$0.20 options, expiring 31 January 2006.

On 4 February 2005, the Company issued 2,000,000 fully paid shares at \$0.40 to UK-based institutional investor Fiske plc.

On 18 February 2005 the Company issued 2,500,000 fully paid ordinary shares converted from the Directors exercising their \$0.35 options, expiring 28 February 2005.

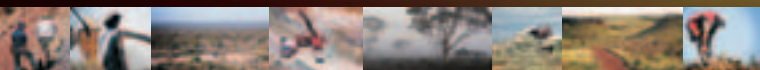
On 2 March 2005 the Company issued 145,000 fully paid ordinary shares converted from option holders exercising their \$0.20 options, expiring 31 January 2006.

On 23 June 2005 the Company was issued 10,000,000 fully paid ordinary shares in Graynic Metals Limited (Graynic) pursuant to the acquisition agreement between the Company and Graynic for the acquisition by Graynic of the Quartz Circle, Jutson Rocks and Northhampton projects.

On 23 June 2005, the Company implemented an in-specie distribution whereby shareholders of Cazaly received an in-specie distribution of shares in Graynic totalling 10,000,000 shares.

On 23 June 2005 the exercise prices of the Company's outstanding options were changed in accordance with Rule 7.22.3 of the Listing Rules. The number of options on issue remained the same, however the exercise price per option reduced by the same amount as the amount returned in respect to each Cazaly Share pursuant to the in-specie distribution of Graynic shares. Based upon an estimated capital reduction of 4.98 cents:

- the exercise price of the listed options expiring 31 January 2006 reduced to 15.02 cents;
- the exercise price of the options expiring 30 June 2005 reduced to 35.02 cents (subsequently lapsed);
- the exercise price of the options expiring 2 July 2009 reduced to 25.02 cents; and
- the exercise price of the options expiring 31 August 2007 reduced to 35.02 cents.



7. AFTER BALANCE DATE EVENTS

On 1 July 2005 the Company acquired 100% interest in Cyril Resources Pty Ltd for \$1.00.

On 7 September 2005 the Company announced that it had applied for Exploration Licence 46/678 which to lies approximately 25 kilometres east of Mt Newman. The application covers a portion of the Brockman Iron Formation and is located within 2 kilometres of the Shovelanna Hill, Wheelarra Hill Orebody 31 and Mt. Newman Orebody 17.

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

8. FUTURE DEVELOPMENTS

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

9. ENVIRONMENTAL ISSUES

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

10. INFORMATION ON DIRECTORS

Nathan McMahon

Managing Director (Corporate and Administration)

Qualifications

B.Com

Experience

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

Interest in Shares and Options

Fully Paid Ordinary Shares	5,239,688
15.02 cent Options expiring on 31 January 2006	153,422
35.02 cent Options expiring on 31 August 2007	1,000,000

Clive Jones

Managing Director (Technical)

Qualifications

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

Experience

Mr Jones has been involved in mineral exploration for over 22 years and has worked on the exploration for a range of commodities including gold, base metals, mineral sands, diamonds and industrial minerals. Mr Jones was also previously a director of Mount Burgess Mining Ltd, where he oversaw the discovery of the high grade Red October gold deposit situated in the Eastern Goldfields of Western Australia. Mr Jones is also a director of Jackson Gold Limited and Graynic Metals Limited.

Interest in Shares and Options

Fully Paid Ordinary Shares	4,050,001
15.02 cent Options expiring on 31 January 2006	50,000
35.02 cent Options expiring on 31 August 2007	1,000,000

10. INFORMATION ON DIRECTORS

Kent Hunter	Non-Executive Director		
Qualifications	B.Bus, CA.		
Experience	Mr Hunter is a Chartered Accountant with over 15 years' corporate and company secretarial experience. He has been involved in the listing of 15 exploration companies on ASX in the past four years with capital raisings exceeding \$54 million. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a director of Scimitar Resources Limited, Gryphon Minerals Limited and Elixir Petroleum Limited and is company secretary of four other ASX Listed entities.		
Interest in Shares and Options	Fully Paid Ordinary Shares		877,300
	15.02 cent Options expiring on 31 January 2006		175,766
	35.02 cent Options expiring on 31 August 2007		250,000

11. REMUNERATION REPORT

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

Remuneration Policy

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

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

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

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

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

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

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

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

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

11. REMUNERATION REPORT (CONT.)

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

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

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

Details of Remuneration for Year Ended 30 June 2005

The remuneration for each director of the company receiving the highest remuneration during the year was as follows:
2005 Financial Year

	Primary				Post	Equity		Total
	Salary and Fees	Superannuation Contribution	Cash Bonus	Non-cash Benefits	Employment Superannuation Contribution	Options	Other	
	\$	\$	\$	\$	\$	\$	\$	\$
Nathan McMahon	118,336(ii)	-	-	-	-	28,000 (i)	-	146,336
Clive Jones	150,000(iii)	-	-	-	-	28,000 (i)	-	178,000
Kent Hunter	25,000	-	-	-	2,250	7,000 (i)	37,470(iv)	71,720
	293,336	-	-	-	2,250	63,000	37,470	396,056

- i) The fair value of the Options is calculated at the date of grant using a Black-Sholes model.
- ii) An aggregate amount of \$118,336 was paid, or was due and payable to Kingsreef Pty Ltd, a company controlled by Mr Nathan McMahon, for the provision of corporate and tenement management services to the Company.
- iii) An aggregate amount of \$150,000 was paid, or was due and payable to Widerange Corporation Pty Ltd, a company controlled by Mr Clive Jones, for the provision of geological services to the Company.
- iv) An aggregate amount of \$37,470 was paid, or was due and payable to Mining Corporate Advisory Services Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services to the Company.

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

Grant Date	Expiry Date	Fair Value Per Option	Exercise Date	Price of Shares On Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
06/10/04	31/08/07	\$0.028	-	\$0.18	50%	5.37%	0%

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

11. REMUNERATION REPORT (CONT.)

Employment Contracts of Directors and Senior Executives

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

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

12. MEETINGS OF DIRECTORS

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

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

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

13. INDEMNIFYING OFFICERS OR AUDITOR

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

14. OPTIONS

Options Granted to Executives and Directors

Director	Expiry Date	Exercise Price	Number of Shares
Nathan McMahon	31 August 2007	\$0.3502	1,000,000
Clive Jones	31 August 2007	\$0.3502	1,000,000
Kent Hunter	31 August 2007	\$0.3502	250,000

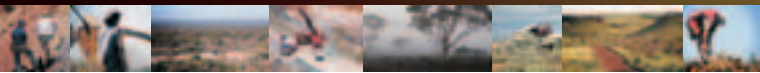
Unissued Shares Under Option

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

Expiry Date	Exercise Price	Number of Shares
2 July 2009	\$0.2502	400,000
31 August 2007	\$0.3502	2,250,000

During the year ended 30 June 2005, the following ordinary shares of the Company were issued on exercise of options.

Grant Date	Exercise Price	Number of Shares
24 January 2004	\$0.20	1,290,874
8 September 2003	\$0.35	2,500,000



15 PROCEEDINGS ON BEHALF OF COMPANY

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

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

16. AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 19 of the directors' report.

17. NON AUDIT SERVICES

The board of directors are satisfied that no non-audit services were performed during the year by the Company's auditors.

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

KENT HUNTER
DIRECTOR
30 SEPTEMBER 2005



Partners
 Philip Ellis CA
 Jim Cahill CA
 George Lazarou CA
 Ranko Matić CA

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**AUDITOR'S INDEPENDENCE DECLARATION
 UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
 TO THE DIRECTORS OF CAZALY RESOURCES LIMITED**

This declaration is made in connection with our audit of the financial report of Cazaly Resources Limited for the year ended 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

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

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

RIX LEVY FOWLER

RIX LEVY FOWLER
 Chartered Business Advisors

George Lazarou

GEORGE LAZAROU
 Partner

DATED at PERTH this 30th day of September 2005





STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 \$	2005 \$	2004 \$	2004 \$
Revenues from ordinary activities	2	3,645,411	3,645,411	287,811	
Employee benefits expense		(22,950)	(22,950)	(49,691)	
Depreciation and amortisation expense	3	(35,597)	(35,597)	(23,988)	
Borrowing costs expense	3	(3,001)	(3,001)	(92)	
Administrative expense		(165,576)	(165,019)	(44,478)	
Advertising and promotional expenses		(53,199)	(53,199)	(32,591)	
Consultancy expenses		(29,150)	(29,150)	(46,511)	
Compliance and Regulatory expenses		(82,079)	(81,867)	(24,048)	
Communication expenses		(14,245)	(14,245)	(18,948)	
Occupancy expenses		(58,709)	(58,709)	(27,140)	
Written-off exploration expenditure		(161,027)	(161,027)	-	
Provision for diminution in value of shares	3	(292,560)	(292,560)	-	
Other expenses from ordinary activities		(20,509)	(20,508)	(75,718)	
Profit/Loss from ordinary activities before income tax expense/benefit	3	2,706,809	2,707,579	(55,394)	
Income tax expense/benefit relating to ordinary activities	6	-	-	-	
Net profit / (loss) attributable to members		<u>2,706,809</u>	<u>2,707,579</u>	<u>(55,394)</u>	
Total changes in equity other than those resulting from transactions with owners as owners		2,706,809	2,707,579	(55,394)	
Basic earnings (loss) per share (cents per share)	17	<u>7.46</u>	<u></u>	<u>(0.23)</u>	
Diluted earnings (loss) per share (cents per share)	17	<u>4.95</u>	<u></u>	<u>(0.16)</u>	

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 \$	2005 \$	2004 \$	2004 \$
CURRENT ASSETS					
Cash assets	7	1,662,841	1,662,841	2,436,132	
Receivables	8	109,562	109,562	174,681	
TOTAL CURRENT ASSETS		<u>1,772,403</u>	<u>1,772,403</u>	<u>2,610,813</u>	
NON CURRENT ASSETS					
Receivables	8	77,731	3,565,425	-	
Other financial assets	9	1,071,794	941,795	37,995	
Plant & equipment	10	348,950	348,950	90,801	
Other assets	11	4,432,198	1,075,273	1,930,180	
TOTAL NON CURRENT ASSETS		<u>5,930,673</u>	<u>5,931,443</u>	<u>2,058,976</u>	
TOTAL ASSETS		<u>7,703,076</u>	<u>7,703,846</u>	<u>4,669,789</u>	
CURRENT LIABILITIES					
Payables	12	410,558	410,558	238,381	
Provision	13	15,881	15,881	4,754	
TOTAL CURRENT LIABILITIES		<u>426,439</u>	<u>426,439</u>	<u>243,135</u>	
TOTAL LIABILITIES		<u>426,439</u>	<u>426,439</u>	<u>243,135</u>	
NET ASSETS		<u>7,276,637</u>	<u>7,277,407</u>	<u>4,426,654</u>	
EQUITY					
Contributed equity	14	4,625,224	4,625,224	4,482,050	
Retained profits / (Accumulated losses)	15	2,651,413	2,652,183	(55,396)	
TOTAL EQUITY		<u>7,276,637</u>	<u>7,277,407</u>	<u>4,426,654</u>	

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	Note	2005 \$	2005 \$	2004 \$
Cash Flows from Operating Activities				
- Payments to suppliers and employees		(371,734)	(370,965)	(402,018)
- Interest received		96,809	96,809	105,538
- Other revenue		187,162	187,162	90,000
- Interest paid		(93)	(93)	(92)
- Payments for exploration and evaluation		<u>(2,335,480)</u>	<u>(126,877)</u>	<u>(817,173)</u>
<i>Net cash used in operating activities</i>	18	<u>(2,423,336)</u>	<u>(213,964)</u>	<u>(1,023,745)</u>
Cash Flows From Investing Activities				
- Proceeds from sale of exploration assets		-	150,000	60,000
- Proceeds from sale of equity investments		198,698	198,698	10,703
- Purchase of plant and equipment		(43,746)	(43,746)	(114,789)
- Purchase of exploration assets		(51,791)	(51,791)	(525,004)
- Purchase of equity investments		(268,559)	(138,560)	(49,083)
- Purchase of term deposit		(6,000)	(6,000)	-
- Loans to other entities		(61,731)	(61,731)	-
- Loans to associated entities		-	(2,489,371)	-
<i>Net cash used in investing activities</i>		<u>(233,129)</u>	<u>(2,442,501)</u>	<u>(618,173)</u>
Cash Flows from Financing Activities				
- Proceeds from issue of securities		1,933,174	1,933,174	4,365,199
- Payment for costs of issue of securities		<u>(40,000)</u>	<u>(40,000)</u>	<u>(287,149)</u>
<i>Net cash provided by financing activities</i>		<u>1,893,174</u>	<u>1,893,174</u>	<u>4,078,050</u>
Net increase in cash held		<u>(763,291)</u>	<u>(763,291)</u>	<u>2,426,132</u>
Cash Assets at beginning of the financial year		2,426,132	2,426,132	-
Cash Assets at end of the financial year	7	<u>1,662,841</u>	<u>1,662,841</u>	<u>2,426,132</u>

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) **Plant and Equipment**

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

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

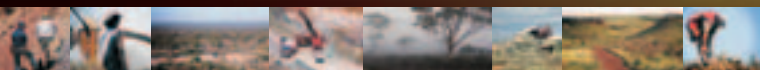
Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements

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

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

(b) **Income tax**

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the loss from ordinary activities adjusted for any permanent differences.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

Cazaly Resources Limited and its wholly-owned Australian subsidiaries intend to form an income tax consolidation group under the Tax Consolidation Regime. Cazaly Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidation group.

(c) **Exploration, evaluation and development expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through successful development on the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserve.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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

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

(d) **Leases**

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

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

(e) **Investment**

Shares in listed companies held as current assets are valued by directors at those shares' market value at each balance date. The gains or losses, whether realised or unrealised, are included in profit from ordinary activities before income tax.

Non-current investments are measured on cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments.

The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(f) **Earnings Per Share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the economic entity, adjusted for any bonus issue.

(g) **Revenue**

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

(h) **Cash**

For the purpose of the Statements of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

(i) **Employee Benefits**

Provision is made for the economic entity liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(j) **Goods and Services Tax (GST)**

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

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

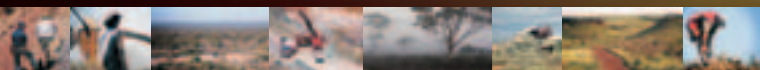
Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) **Recoverable amounts of Non-Current assets valued on cost basis**

The carrying amount of non-current assets valued on the cost basis, other than exploration expenditure carried forward (see Note 1c) are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying value of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is expensed in the reporting period in which it occurs. In accessing recoverable amount, the relevant cash flows have not been discounted to their present value.

(l) **Comparative**

Cazaly Resources Limited's wholly owned subsidiary Hayes Mining Pty Ltd was acquired on 1 July 2004. Comparative results for the 2004 period therefore only display the results of the Parent entity.



1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(m) Principles of Consolidation

A controlled entity is any entity controlled by Cazaly Resources Limited. Control exists where Cazaly Resources Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Cazaly Resources Limited to achieve the objectives of Cazaly Resources Limited. A list of controlled entities is contained in Note 20 of the financial report.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Outside interests in the entity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(n) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The economic entity is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity Board of Directors.

i) Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

Whilst, as stated, it is likely that in future impairments will be recognised more often in the future, the company estimates that there is no additional impairment to be recognised on the value of the assets subject to this standard as at 1 July 2005.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

ii) Non-current Investments

Under AASB 139: Financial Instruments: Recognition and Measurement, financial assets are required to be classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:

- held to maturity, measured at amortised cost;
- held for trading, measured at fair value with unrealised gains or losses charged to the profit and loss;
- loans and receivables, measured at amortised cost; and
- available for sale instruments, measured at fair value with unrealised gains or losses taken to equity

The economic entity financial assets comprise available for sale financial instruments. Under AASB 139: Financial Instruments: Recognition and Measurement, the measurement of available for sale instruments at fair value differs to current accounting policy which measures non-current investments at cost with an annual review by directors to ensure the carrying amounts are not in excess of the recoverable value of the instrument. The impact of the change is likely to increase the value of non-current other financial assets in relation to available for sale instruments.

AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year, and the first time adoption of this standard will apply from 1 July 2005. The economic entity has decided that it will adopt this election and will not restate comparative information for the 30 June 2005 financial year.

iii) Share Based Payments

Under current Australian GAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and will be spread over the vesting period during which the employee becomes unconditionally entitled to the options. The fair value of the options will be measured using the Black Scholes model.

No adjustment is expected in either the economic entity as all options on issue were both granted & vested prior to 1st January 2005.

iv) Exploration Expenditure

AASB 6 was issued in December 2004 to facilitate the introduction of AIFRS in relation to the treatment of exploration and evaluation expenditure, pending the completion of a comprehensive project on accounting for extractive industries. According to AASB 6, it is expected that the outcome will be a revised extractive industries standard that will replace AASB 6.

AASB 6 retains the concept of area of interest accounting. However, unlike AASB 1022, AASB 6 provides that for each area of interest, expenditures incurred in the exploration for and evaluation of mineral resources shall be either expensed or partially or fully capitalised

Unlike AASB 1022, AASB 6 specifically excludes expenditure incurred before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.

There are anticipated to be no significant impacts to the economic entity.

v) Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

There are anticipated to be no significant impacts to the economic entity.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(o) Joint Venture Entities

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

Joint Venture Operations

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

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

(p) Royalty Assets

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

	Economic Entity		Parent Entity	
	Note	2005	2005	2004
		\$	\$	\$
Operating activities				
- interest received		98,371	98,371	107,108
- option fees		300,000	300,000	90,000
- profit on sale of tenement		2,107,381	2,107,381	-
- profit on sale of shares		22,498	22,498	-
- other revenue		1,117,161	1,117,161	90,703
		<u>3,645,411</u>	<u>3,645,411</u>	<u>287,811</u>
Total Revenue				

3. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax has been determined after:

(i) Expenses

Borrowing costs				
- other persons		3,001	3,001	92
		<u>3,001</u>	<u>3,001</u>	<u>92</u>
Depreciation of non-current assets				
- plant and equipment		31,983	31,983	22,969
- amortisation of leasehold improvements		3,614	3,614	1,019
		<u>35,597</u>	<u>35,597</u>	<u>23,988</u>
Rental expense on operating leases				
- minimum lease payments		36,702	36,702	20,833
		<u>36,702</u>	<u>36,702</u>	<u>20,833</u>
Write down of investments		292,560	292,560	24,088
		<u>292,560</u>	<u>292,560</u>	<u>24,088</u>

4. REMUNERATION AND RETIREMENT BENEFITS

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

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

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

2005

	Primary				Post Employment	Equity		Total
	Salary and Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation Contribution \$	Options \$	Other \$	
Nathan McMahon	118,336(i)	-	-	-	-	28,000	-	146,336
Clive Jones	150,000(ii)	-	-	-	-	28,000	-	178,000
Kent Hunter	25,000	-	-	-	2,250	7,000	37,470(iii)	71,720
	293,336	-	-	-	2,250	63,000	37,470	396,056

- i) An aggregate amount of \$118,336 was paid, or was due and payable to Kingsreef Pty Ltd, a company controlled by Mr Nathan McMahon, for the provision of corporate and tenement management services to the Company.
- ii) An aggregate amount of \$150,000 was paid, or was due and payable to Widerange Corporation Pty Ltd, a company controlled by Mr Clive Jones, for the provision of geological services to the Company.
- iii) An aggregate amount of \$37,470 was paid, or was due and payable to Mining Corporate Advisory Services Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services to the Company.

2004

	Primary				Post Employment	Equity		Total
	Salary and Fees \$	Superannuation Contribution \$	Cash Bonus \$	Non-cash Benefits \$	Superannuation Contribution \$	Options \$	Other \$	
Nathan McMahon	72,500(i)	-	-	-	-	-	-	72,500
Clive Jones	88,750(ii)	-	-	-	-	-	-	88,750
Kent Hunter	18,750	-	-	-	1,687	-	21,040(iii)	41,477
	180,000	-	-	-	1,687	-	21,040	202,727

- i) An aggregate amount of \$72,500 was paid, or was due and payable to Kingsreef Pty Ltd, a company controlled by Mr Nathan McMahon, for the provision of corporate and tenement management services to the Company.
- ii) An aggregate amount of \$88,750 was paid, or was due and payable to Widerange Corporation Pty Ltd, a company controlled by Mr Clive Jones, for the provision of geological services to the Company.
- iii) An aggregate amount of \$21,040 was paid, or was due and payable to Mining Corporate Advisory Services Pty Ltd, a company controlled by Mr Kent Hunter, for the provision of company secretarial services to the Company.

4. REMUNERATION AND RETIREMENT BENEFITS (CONT.)

(c) Shareholdings

Number of Shares held by Directors and Executive

	Balance	Received as	Options Exercised	Net Change	Balance
	1.7.04	Remuneration		- Other	30.06.05
N B McMahon	3,883,784	-	1,500,000	(144,096)	5,239,688
C B Jones	3,250,000	-	1,000,000	(200,000)	4,050,001
K M Hunter	827,300	-	-	50,000	877,300
	7,961,084	-	2,500,000	(294,096)	10,166,989

Option Holdings

Number of 15.02 cent Options expiring 31 January 2006 held by Directors and Executive

	Balance	Granted	Options	Net Change	Balance	Total Vested	Total	Total
	1.7.04	as	Exercised	- Other	30.06.05		Exercisable	Unexercisable
		Remuneration						
N B McMahon	1,086,442	-	-	(933,000)	153,442	153,442	153,442	-
C B Jones	1,050,000	-	-	(1,000,000)	50,000	50,000	50,000	-
K M Hunter	275,766	-	-	(100,000)	175,766	175,766	175,766	-
	2,412,208	-	-	(2,033,000)	379,208	379,208	379,208	-

Number of 35.02 cent Options expiring 31 August 2007 held by Directors and Executive

	Balance	Granted	Options	Net Change	Balance	Total Vested	Total	Total
	1.7.04	as	Exercised	- Other	30.06.05		Exercisable	Unexercisable
		Remuneration						
N B McMahon	-	1,000,000	-	1,000,000	1,000,000	1,000,000	1,000,000	-
C B Jones	-	1,000,000	-	1,000,000	1,000,000	1,000,000	1,000,000	-
K M Hunter	-	250,000	-	250,000	250,000	250,000	250,000	-
	-	2,250,000	-	2,250,000	2,250,000	2,250,000	2,250,000	-

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

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

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
5. AUDITORS' REMUNERATION			
Remuneration of the auditor for:			
- Auditing or reviewing the financial report	9,800	9,800	8,500
- Other services	-	-	2,500
	<u>9,800</u>	<u>9,800</u>	<u>11,000</u>
6. INCOME TAX			
The prima facie tax on profit / (loss) from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax expense / (benefit) on profit / (loss) from ordinary activities before income tax at 30%			
	812,042	812,274	(16,618)
Add (Less)			
Tax effect of:			
- Permanent Differences	-	-	65
- Tax effect of timing differences not brought to account	(689,133)	95,745	(300,879)
- Other members of the income tax consolidation group net of intercompany transactions.	-	(785,110)	-
- Future income tax benefit not brought to account	-	-	317,432
- Tax effect of tax losses recouped	<u>(122,909)</u>	<u>(122,909)</u>	<u>-</u>
Income tax attributable to operating loss	<u>-</u>	<u>-</u>	<u>-</u>

Potential future income tax benefits attributable to tax losses and exploration expenditure carried forward amounting to approximately \$183,000 (2004: \$320,000) have not been brought to account at 30 June 2005 because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as virtually certain. These benefits will only be obtained if:

- (a) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- (b) the economic entity continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in tax legislation adversely affect the economic entity in realising the benefit from the deductions for the loss and exploration expenditure.

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
7. CASH ASSETS			
Cash at bank	118,936	118,936	285,494
Petty cash	500	500	400
Deposits at call	1,543,405	1,543,405	2,150,238
	<u>1,662,841</u>	<u>1,662,841</u>	<u>2,436,132</u>

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

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
8. RECEIVABLES			
Current			
Other debtors	109,562	109,562	174,681
Non-Current			
Bonds (i)	16,000	16,000	-
Loans to other entities	61,731	61,731	-
Loans to associated entities	-	3,487,694	-
	<u>77,731</u>	<u>3,565,425</u>	<u>-</u>

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

9. OTHER FINANCIAL ASSETS			
Current			
Shares in controlled entity, at cost	-	1	-
Shares in listed corporations, at cost	1,378,442	1,248,442	61,083
Less: Provision for write-down to recoverable amount	(306,648)	(306,648)	(23,088)
	<u>1,071,794</u>	<u>941,795</u>	<u>37,995</u>

10. PROPERTY, PLANT AND EQUIPMENT			
Field Plant and Equipment			
At cost	280,000	280,000	-
Accumulated depreciation	-	-	-
	<u>280,000</u>	<u>280,000</u>	<u>-</u>
Property, Plant and Equipment			
At cost	76,453	76,453	65,587
Accumulated depreciation	(41,039)	(41,039)	(17,537)
	<u>35,414</u>	<u>35,414</u>	<u>48,050</u>

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
10. PROPERTY, PLANT AND EQUIPMENT (CONT.)			
Office Furniture and Equipment			
At cost	19,464	19,464	16,584
Accumulated depreciation	(5,068)	(5,068)	(1,918)
	<u>14,396</u>	<u>14,396</u>	<u>14,666</u>
Motor Vehicle			
At cost	27,272	27,272	27,273
Accumulated depreciation	(8,844)	(8,844)	(3,514)
	<u>18,428</u>	<u>18,428</u>	<u>23,759</u>
Leasehold Improvement			
At cost	5,344	5,344	5,345
Accumulated amortisation	(4,632)	(4,632)	(1,019)
	<u>712</u>	<u>712</u>	<u>4,326</u>
	<u>348,950</u>	<u>348,950</u>	<u>90,801</u>

Movement in the carrying amounts for each class of plant and equipment between the beginning and end of the current financial year:	2005					Total
	Plant and Equipment	Field Plant and Equipment	Office Furniture	Motor Vehicles	Leasehold Improvements	
Balance at the beginning of the year	48,050	-	14,666	23,759	4,326	90,801
Additions	10,866	280,000	2,880	-	-	293,746
Disposals	-	-	-	-	-	-
Depreciation/expense	(23,502)	-	(3,150)	(5,331)	(3,614)	(35,597)
Carrying amount at the end of the year	<u>35,414</u>	<u>280,000</u>	<u>14,396</u>	<u>18,428</u>	<u>712</u>	<u>348,950</u>

Economic Entity Parent Entity

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$

11. OTHER ASSETS

Non-Current

Costs carried forward in respect of areas of interest in:

- Exploration and evaluation phases – at cost – (a)	4,385,198	1,075,273	1,883,180
- Royalty assets	47,000	-	47,000
	<u>4,432,198</u>	<u>1,075,273</u>	<u>1,930,180</u>

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
11. OTHER ASSETS (CONT.)			
(a) Brought forward	1,883,180	1,883,180	-
Exploration expenditure capitalised during the year	2,663,045	126,877	1,883,180
Exploration expenditure written off	(161,027)	(161,027)	-
Exploration expenditure transferred to controlled entity	-	(773,757)	-
	<u>4,385,198</u>	<u>1,075,273</u>	<u>1,883,180</u>

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

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

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

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
12. PAYABLES			
Current			
Unsecured			
Trade creditors	328,012	328,012	200,313
Application Fund	-	-	3,000
Other creditors and accrued expenses	82,546	82,546	35,068
	<u>410,558</u>	<u>410,558</u>	<u>238,381</u>

13. PROVISION

Current

Provision for Annual Leave	<u>15,881</u>	<u>15,881</u>	<u>4,754</u>
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Employees

Number of employees at year end	5	5	3
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	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
14. CONTRIBUTED EQUITY			
40,190,876 Fully paid ordinary shares (2004: 33,150,002) – (a)	4,534,585	4,534,585	4,378,502
9,063,899 Options (2004: 10,354,773) – (b)	90,639	90,639	103,548
	<u>4,625,224</u>	<u>4,625,224</u>	<u>4,482,050</u>
(a) Ordinary Shares			
At the beginning of the reporting period	4,378,502	4,378,502	-
Shares issued during the year			
- 1,250,000 on 15 November 2004	250,000	250,000	-
- 1,145,874 on 16 December 2004	229,174	229,174	-
- 2,000,000 on 4 February 2005	800,000	800,000	-
- 2,500,000 18 February 2005	875,000	875,000	-
- 145,000 on 2 March 2005	29,000	29,000	-
Options exercise during the year			
- 1,145,874 on 16 December 2004	11,459	11,459	-
- 145,000 on 2 March 2005	1,450	1,450	-
Capital reduction pursuant to in-specie distribution of Graynic Metals Limited shares			
- 23 June 2005	(2,000,000)	(2,000,000)	-
Transaction costs relating to share issues	(40,000)	(40,000)	-
At reporting date	<u>4,534,585</u>	<u>4,534,585</u>	<u>4,378,502</u>
	No.	No.	No.
Fully Paid			
At the beginning of the reporting period	33,150,002	33,150,002	-
Shares issued during the year			
Shares issued during the year			
- 1,250,000 on 15 November 2004	1,250,000	1,250,000	-
- 1,145,874 on 16 December 2004	1,145,874	1,145,874	-
- 2,000,000 on 4 February 2005	2,000,000	2,000,000	-
- 2,500,000 18 February 2005	2,500,000	2,500,000	-
- 145,000 on 2 March 2005	145,000	145,000	-
At reporting date	<u>40,190,876</u>	<u>40,190,876</u>	<u>33,150,002</u>

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
14. CONTRIBUTED EQUITY (CONT.)			
(b) Options			
At the beginning of the reporting period	103,548	103,548	-
Options converted during the year			
- 1,145,874 on 16 December 2004	(11,459)	(11,459)	-
- 145,000 on 2 March 2005	(1,450)	(1,450)	-
	<u>90,639</u>	<u>90,639</u>	<u>103,548</u>
At reporting date	No.	No.	No.
Options			
At the beginning of the reporting period	10,354,773	10,354,773	-
Options converted during the year			
- 1,145,874 on 16 December 2004	(1,145,874)	(1,145,874)	-
- 145,000 on 2 March 2005	(145,000)	(145,000)	-
	<u>9,063,899</u>	<u>9,063,899</u>	<u>10,354,773</u>

On 15 November 2004, the Company issued 1,250,000 fully paid shares to Croesus Mining NL under the Agreement for Sale of Plant.

On 16 December 2004 the Company issued 1,145,874 fully paid ordinary shares converted from option holders exercising their \$0.20 options, expiring 31 January 2006.

On 4 February 2005, the Company issued 2,000,000 fully paid shares at \$0.40 to UK-based institutional investor Fiske plc.

On 18 February 2005 the Company issued 2,500,000 fully paid ordinary shares converted from the Directors exercising their \$0.35 options, expiring 28 February 2005.

On 2 March 2005 the Company issued 145,000 fully paid ordinary shares converted from option holders exercising their \$0.20 options, expiring 31 January 2006.

On 23 June 2005 Cazaly shareholders received an in-specie distribution of shares in Graynic totalling 10,000,000 shares. The Company's capital reduced by the value of the in-specie distribution, being \$2,000,000.

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

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

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
15. ACCUMULATED PROFIT/(LOSS)			
Accumulated profit/(loss) at the beginning of the financial period	(55,396)	(55,396)	(2)
Net profit/(loss) attributable to members	2,706,809	2,707,579	(55,394)
Accumulated profit/(loss) at the end of the financial period	<u>2,651,413</u>	<u>2,652,183</u>	<u>(55,396)</u>

16. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

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

2005	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2005 total
	\$	\$		\$	\$
Financial assets					
Cash	118,936	1,543,405		500	1,662,841
Receivables	-	16,000		171,293	187,293
Investments	-	-		1,071,794	1,071,794
	<u>118,936</u>	<u>1,559,405</u>	<u></u>	<u>1,243,587</u>	<u>2,921,928</u>
Weighted average Interest rate	2.50%	5.32%	-		
Financial Liabilities					
Payables	-	-		410,558	410,558
Interest bearing liabilities	<u>-</u>	<u>-</u>	<u></u>	<u>-</u>	<u>-</u>
				<u>410,558</u>	<u>410,558</u>
Weighted average interest rate	-	-	-		
2004	Floating Interest Rate	Fixed Interest maturing in 1 year or less	Fixed Interest maturing over 1 to 5 years	Non- interest bearing	2004 total
	\$	\$		\$	\$
Financial assets					
Cash	285,494	2,150,238	-	400	2,436,132
Receivables	-	-	-	174,681	174,681
Investments	-	-	-	37,995	37,995
	<u>285,494</u>	<u>2,150,238</u>	<u>-</u>	<u>213,076</u>	<u>2,648,808</u>
Weighted average Interest rate	4.00%	5.37%	-		
Financial Liabilities					
Payables	-	-	-	238,381	238,381
Interest bearing liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
				<u>238,381</u>	<u>238,381</u>
Weighted average interest rate	-	-	-		

16. FINANCIAL INSTRUMENTS (CONT.)

(b) Net Fair Values

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

	2005		2004	
	Carrying Amount \$	Net fair Value \$	Carrying Amount \$	Net fair Value \$
On-balance sheet financial instruments				
Financial assets				
Cash and deposits	1,662,84	1,662,84	2,436,132	2,436,132
Receivables	187,293	187,293	174,681	174,681
Investments	1,071,794	1,071,794	37,995	37,995
	<u>2,921,928</u>	<u>2,921,928</u>	<u>2,648,808</u>	<u>2,648,808</u>
Financial liabilities				
Payables	410,558	410,558	238,381	238,381
Interest bearing liabilities			-	-
	<u>410,588</u>	<u>410,558</u>	<u>238,381</u>	<u>238,381</u>

(c) Credit Risk

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

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

17. EARNINGS PER SHARE

	Economic Entity	
	2005 \$	2004 \$
(a) Earnings / (Loss) used in the calculation of basic EPS	2,706,809	(55,394)
	Number of Shares	Number of Shares
(b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share:	36,303,137	23,705,344
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted earnings per share:	<u>54,640,186</u>	<u>34,129,254</u>

	Economic Entity	Parent Entity	
	2005	2005	2004
	\$	\$	\$
18. CASH FLOW INFORMATION			
(i) Reconciliation of cash flows from operating activities with profit/(loss) from ordinary activities after income tax			
- Profit / (Loss) from ordinary activities after income tax	2,706,809	2,707,579	(55,394)
Non-cash flows in operating loss			
- Depreciation	31,983	31,983	22,969
- Amortisation	3,614	3,614	1,019
- Profit on sale of shares	(22,498)	(22,498)	3,703
- Provision for diminution of investment	292,560	292,560	24,088
- Profit on sale of tenements	(3,337,381)	(3,337,381)	-
- Exploration write-off	161,027	161,027	-
Cash flows not in operating loss			
- Payments for exploration and evaluation	(2,335,480)	(126,877)	(817,173)
Changes in assets and liabilities			
- Decrease/(Increase) in operating receivables & prepayments	57,123	57,122	(174,682)
- Increase/(Decrease) in trade and other creditors, accruals and employee entitlements	7,780	7,780	(33,029)
- Movement in provisions	11,127	11,127	4,754
Net cash inflows (outflows) from Operating Activities	<u>(2,423,336)</u>	<u>(213,964)</u>	<u>(1,023,745)</u>
ii) Acquisition of Entities			
During the year 100% of the controlled entity Hayes Mining Pty Ltd was acquired.			
Details of this transaction are:			
Purchase consideration			

19. COMMITMENTS

On 10 November 2003 the economic entity entered into a lease agreement with Giorgio Longo and Clotilda Aurora Longo for the premises known as entire First Floor, 22 Oxford Close, Leederville, Western Australia. The initial term, is for two (2) years expiring on 30 September 2005 in consideration for a rental fee of \$30,000 per annum. The economic entity is currently in negotiation to extend the lease agreement with Giorgio Longo.

19. COMMITMENTS (CONT.)

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

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

	2005	2004
	\$	\$
Not longer than one year	2,356,140	1,150,380
Longer than one year, but not longer than five years	9,424,560	1,305,380
Longer than five years	-	1,305,380
	<u>11,780,700</u>	<u>3,761,140</u>

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

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

Joint Venture Commitments

The economic entity has entered into the following joint ventures:

International Goldfields Agreement – IGL Projects

On 28 July 2003 Cazaly entered into a Tenement Sale and Purchase Agreement with International Goldfields Ltd (“Vendor”), for the consideration of a cash payment and the issuing of a royalty of \$1/dry tonne mined and milled on any future production for the IGL Projects.

Mt. Vettters Project – Exploration Licence 27/277 and Prospecting Licences 27/1603 To 27/1605

On 1 March 2004 Cazaly entered into an Joint Venture Agreement with Discovery Nickel Ltd. (DNL), whereby DNL in consideration of issuing Cazaly 770,000 shares in DNL, Cazaly shall grant to DNL, the sole and exclusive right to earn a 75% interest in the Mt. Vettters Project by:

- (a) Sole funding exploration until the commencement of a bankable feasibility study; and
- (b) Expending a minimum of \$100,000 in the first year.

Upon commencement of a feasibility study Cazaly may elect to contribute or dilute according to standard industry formula.

East Kalgoorlie Project

On 14 April 2004 Cazaly have entered into a Joint Venture Agreement with Planet Mining Ltd. (“Planet”) whereby through an initial option payment of \$30,000 (thirty thousand dollars) Planet has the right to exercise the Option to acquire an 80% interest in the Project by:

- (a) Payment of \$170,000 for the projects upon listing (\$100,000 for the nickel project and \$70,000 for the gold project) on the ASX and the issue of shares in the purchaser having a value of \$200,000 (\$100,000 worth of shares for each project); and
- (b) Undertaking 5,000 metres of reverse circulation and/or diamond drilling within 36 months of listing on the nickel project

19. COMMITMENTS (CONT.)

and undertaking to complete 3,000 metres of reverse circulation and/or diamond drilling within 36 months of listing on the gold project.

Cazaly may elect to contribute after Planet has completed the earnin phase with standard industry dilution clauses applying or convert to a 1.5% Net Smelter Return.

This Agreement is conditional upon Planet listing on the ASX by 30th September 2004 but may be extended by agreement of both parties.

Placer Dome Asia Pacific Agreement – Kunanalling Project

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

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

Hampton Hill Mining Agreement – Northlander Project

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

- (i) Hampton Hill Mining will retain the once off right within 60 days of being notified of the establishment of a 500,000 or more ounce resource on the Northlander Project, to claw back a 34.3% interest or a 70% interest if Placer Dome Asia Pacific Limited does not exercise its equivalent rights within the 60 day period.
- (ii) a 0.98% Net Smelter Returns Royalty on all gold produced from mine within the Northlander Project.
- (iii) the right to explore for conceptual targets within a declared area of the northlander Project. Any reluctant resourced discovery of 500,000 or more ounces would be deemed to be owned

70% by Hampton hill Mining (this will be subject to clawback, the respective interest would then be PDAP 35.7% Hampton Hill Mining 34.5% and Cazaly Resources Ltd 30%. Any resource discovery of less than 500,000 ounces would continue to be 100% owned by Cazaly Resources.

Placer Dome Asia Pacific Agreement – Northlander Project

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

- (i) PDAP will retain the once off right within 60 days of being notified of the establishment of a 500,000 or more ounce resource on the Northlander Project, to claw back a 35.7% interest or a 70% interest if Hampton Hill Mining NL does not exercise its equivalent rights within the 60 day period.

19. COMMITMENTS (CONT.)

- (ii) a 1.02% Net Smelter Returns Royalty on all gold produced from mine within the Northlander Project.
- (iii) the right to explore for conceptual targets within a declared area of the northlander Project. Any reluctant resourced discovery of 500,000 or more ounces would be deemed to be owned 70% by Hampton Hill Mining (this will be subject to clawback, the respective interest would then be PDAP 35.7% Hampton Hill Mining 34.5% and Cazaly Resources Ltd 30%. Any resource discovery of less than 500,000 ounces would continue to be 100% owned by Cazaly Resources.

Mines And Resources (Australia) Pty. Ltd – Cutters Ridge Agreement

On 16 February 2004 Cazaly have hereby offer to acquire the full rights of Mines and Resources Australia Pty. Ltd, in the Cutters Ridge project, from Mines and Resources Australia upon and subject to the following terms and conditions. (i) Payment of the sum of \$10,000 (ten thousand Dollars) (Option Fee) Mines and Resources shall grant to us as from the day of the completion of the due diligence period, the sole and exclusive right to acquire 100% of the MRA's interest in the Cutters Ridge Projects. Cazaly Resources shall make the payment of \$10,000 as consideration for sole access to the exploration and mining data.

Cazaly may acquire a 100% interest in MRA's rights to the Cutters Ridge Project within 12 months of the expiry of the due diligence period by;

- (i) payment of \$20,000 cash and issuing MRA with share in Cazaly worth \$80,000.
- (ii) incurring exploration expenditure of \$125,000 during the Option period.

Peripheral Tenement/Project Farmout Option Agreements

The economic entity has entered into several Farmout Option Agreements that are conditional upon third parties listing on the ASX.

Third parties are responsible for the management of the Greater BTZ, Menzies, Yilgarn, East Kalgoorlie projects.

20. CONTROLLED ENTITIES

a)

Parent Entity	Country of Incorporation	Consolidated Entity Interest	
		2005	2004
Cazaly Resources Limited	Aust		
Controlled Entities			
Hayes Mining Pty Ltd	Aust	100%	-

b)

On 1 July 2004 the parent entity acquired 100% of Hayes Mining Pty Ltd, with Cazaly Resources Ltd entitled to all profits earned from 1 July 2004, for purchase consideration of \$1.00

21. SEGMENT INFORMATION

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

22. EVENTS SUBSEQUENT TO REPORTING DATE

On 1 July 2005 the Company acquired 100% interest in Cyril Resources Pty Ltd for \$1.00.

On 7 September 2005 the Company announced that it had applied for Exploration Licence 46/678 which to lies approximately 25 kilometres east of Mt Newman. The application covers a portion of the Brockman Iron Formation and is located within 2 kilometres of the Shovelanna Hill, Wheelarra Hill Orebody 31 and Mt. Newman Orebody 17.

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the Economic entity in future financial years.

23. RELATED PARTY INFORMATION

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

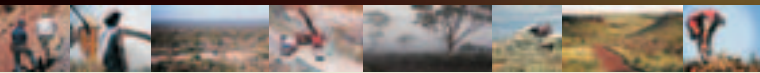
Transactions with related entities:

- (i) Director related Entities

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

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

The Economic entity has purchased a total of 150,000 fully paid shares, costing a total of \$30,000, in ASX Listed Company Graynic Metals Limited, a company which Mr McMahon and Mr Jones are Directors.

**DIRECTORS DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 20 to 43, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity; and
2. the Chief Executive Officer and Company Secretary have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.

in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Kent Hunter
Director

Perth,
30 September 2005

INDEPENDENT AUDITOR'S REPORT

To the Members of Cazaly Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Cazaly Resources Limited (the company) and the economic entity, for the year ended 30 June 2005. The economic entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

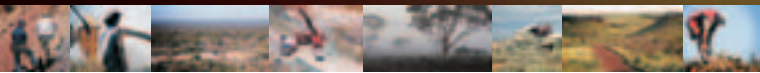
We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our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

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

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

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



**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's declaration set out on page 19 of the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and economic entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

RIX LEVY FOWLER**RIX LEVY FOWLER**
Chartered Business Advisors**GEORGE LAZAROU**
Partner

DATED at PERTH this 30th day of September 2005

Shareholding

The distribution of members and their holdings of equity securities in the company as at 28 September 2005 was as follows:

Number Held as at 28 September 2005	Class of Equity Securities	
	Fully Paid Ordinary Shares	31 January 2006 Options:
1-1,000 19	4	
1,001 - 5,000	142	35
5,001 - 10,000	167	43
10,001 - 100,000	418	125
100,001 and over	49	17
TOTALS	<u>795</u>	<u>224</u>
Holders of less than a marketable parcel:	- <u>fully paid shares</u>	<u>19</u>

Substantial Shareholders

The names of the substantial shareholders listed in the Company's register as at 28 September 2005.

Shareholder	Number
Clive Bruce Jones	4,300,001
Nathan Bruce McMahon	4,000,001

Unquoted Securities

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

Restricted Securities

The Company has issued the following restricted securities:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Ordinary Fully Paid	8,650,000	31 October 2005

48 ADDITIONAL SHAREHOLDER INFORMATION

Voting Rights

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

Ordinary Shares

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

Quoted and Unquoted Options

- These options have no voting rights.

ASX Listing Rule 4.10.19

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

Twenty Largest Shareholders

The names of the twenty largest ordinary fully paid shareholders and 31 January 2006, 15.02 cent option holders as at 28 September 2005 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital	Name	Number of 31 January 2006 Options Held	% Held of Class of Equities
Nathan Bruce McMahon	4,300,001	10.698	Mr Hubert Jozef Jaminon and		
Mr Clive Bruce Jones	4,000,001	9.952	Ms Christine Margaret Alcock	499,820	5.496
J P Morgan Nominees Australia	2,162,400	5.380	Geraldton Agricultural	310,000	3.409
CPA Financial Services Pty Ltd	1,800,000	4.478	West Coast Projects Pty Ltd	300,000	3.299
Croesus mining NL	1,025,000	2.550	Cleland Projects Pty Ltd	266,668	2.932
Mr Kent Michael Hunter	750,000	1.866	Bell Potter Nominees Ltd	240,000	2.639
Gwynvill Trading Pty Limited	600,000	1.492	Mrs Debra Lee McMahon	230,000	2.529
Kingsreef Pty Ltd	514,470	1.280	Dacin Nominees Pty Ltd	200,000	2.199
Mrs Debra Lee McMahon	392,600	0.976	Mr Graeme Carl Sparre	170,000	1.869
Virotec International Ltd	350,000	0.870	Mr Cyril Alan Ryman	157,537	1.732
Mrs Debra Lee McMahon	344,128	0.856	Mr Jeremy Robert Antill	150,000	1.649
Shoc Pty Ltd	330,000	0.821	Mr Kent Michael Hunter	150,000	1.649
Furnace Technologies Pty Ltd	310,000	0.771	Custodial Services Limited	140,000	1.539
Arredo Pty Ltd	300,000	0.746	Mr Robert Francis Brady	135,000	1.484
Mr Mervyn Basset & Mrs Shirkey Basset	300,000	0.746	Temple of Bel Pty Ltd	125,000	1.374
Mr Cyril Alan Ryman	300,000	0.746	Mr John Addison Doughty	120,000	1.319
Mr Michael Charles Young	300,000	0.746	MAC 110 nominees Pty Ltd	118,993	1.308
Jezza Nominees Ltd	297,500	0.740	Mr Mervyn Bassett and Mrs Shirley Bassett	116,667	1.283
Mines and Resources Australia	275,000	0.684	Mr Cyril Alan Ryman	100,000	1.099
Rolen Pty Ltd	257,356	0.640	Mr Paul Anthong Lyons	100,000	1.099
			Mr Paul Keith Wright	100,000	1.099
TOTAL	18,908,456	47.038		3,729,685	41.006

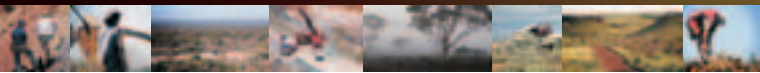
CORPORATE GOVERNANCE

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

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

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

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	1.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Security Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by CEO and CFO	1.4.11
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1.2
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2 Attestations by CEO and CFO	1.4.11
Recommendation 7.3 Reporting on Principle 7	2.1.3
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2.4
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5 Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1 Company Code of Conduct	3



1. BOARD OF DIRECTORS

1.1 Role of the Board

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

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company. To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

1.2 COMPOSITION OF THE BOARD

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

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

An Independent Director is a Non-Executive Director and:

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

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

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

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

1.3 RESPONSIBILITIES OF THE BOARD

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

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

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

Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

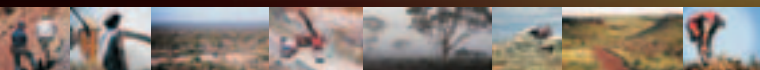
Full details of the Board's role and responsibilities are contained in the Board Charter; a copy of which is available for inspection at the Company's registered office.

1.4 BOARD POLICIES

1.4.1 Conflicts of Interest

Directors must:

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



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- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

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

1.4.3 Confidentiality

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

1.4.4 Continuous Disclosure

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

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

1.4.5 Education and Induction

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

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

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

1.4.6 Independent Professional Advice

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

1.4.7 Related Party Transactions

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

1.4.8 Shareholder Communication

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

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

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

1.4.9 Trading in Company Shares

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

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 30 June 2004 and will be implemented for the financial year ended 30 June 2005. The objective of this evaluation will be to provide best practice corporate governance to the Company.

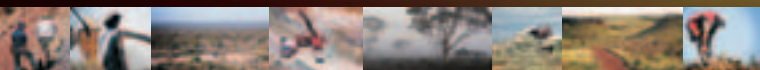
1.4.11 Attestations by CEO and CFO

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

2. BOARD COMMITTEES

2.1 Audit Committee

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



2.1.1 Role

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

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

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

2.1.2 Responsibilities

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

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

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

2.1.3 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 30 September 2005 Mr Nathan McMahon (Managing Director) and Mr Kent Hunter (Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.2 REMUNERATION COMMITTEE

2.2.1 Role

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

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

2.2.2 Responsibilities

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

2.2.3 Remuneration Policy

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

2.2.3.1 Senior Executive Remuneration Policy

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

fixed salary that is determined from a review of the market and reflects core performance requirements and expectations; a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;

participation in any share/option scheme with thresholds approved by shareholders; statutory superannuation.

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

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

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

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

2.2.3.2 Non-Executive Director Remuneration Policy

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

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

2.2.4 Current Director Remuneration

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

2.3 NOMINATION COMMITTEE

2.3.1 Role

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

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

2.3.2 Responsibilities

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

2.3.3 Criteria for selection of Directors

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

3. Company Code Of Conduct

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

SCHEDULE OF MINERAL TENEMENTS AS AT 6 JULY 2005

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

Notes: EL = Granted Eexploration Licence

MLA = Mining Lease Application

M = Granted Mining Lease

ELA = Exploration Licence Application P = Granted Prospecting Licence

PLA = All tenements are 100% owned unless detailed in Notes 19 of the Joint Venue Summary.



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