

**HAZELWOOD RESOURCES LIMITED**

**ABN 88118738 999**

**ANNUAL REPORT**

**For the year ended 30 June 2006**

# Corporate Directory

## Directors

**Mr Mark McAuliffe**

(Executive Chairman)

**Mr Terence Butler- Blaxell**

(Technical Director)

**Mr Ian Richer**

(Non Executive Director)

**Mr John Chegwidden**

(Non Executive Director)

## Company Secretary

Mr John Chegwidden

## Registered Office

Level 6, 189 St Georges Terrace,  
Perth WA 6000

Telephone: (08) 9320 5220

Facsimile: (08) 9481 6343

Email: [info@hazelwood.com.au](mailto:info@hazelwood.com.au)

## Auditors

Rix Levy Fowler

Level 1, 12 Kings Park Road  
West Perth WA 6005

Telephone: (08) 9226 4500

## Bankers

Westpac Banking

109 St George's Terrace

Perth WA 6000

## Share Registry

Computershare Investor Services Pty  
Limited

Level 2, Reserve Bank Building,

45, St George's Terrace,

Perth WA 6000

Telephone: (08) 9323 2000

## Stock Exchange Listing

The Company is listed on the Australian  
Stock Exchange Ltd (ASX)

Home Exchange: Perth, Western  
Australia

## Website

[www.hazelwood.com.au](http://www.hazelwood.com.au)

## Australian Stock Exchange Code:

**HAZ**

# CONTENTS

<b>Corporate Directory</b>	
<b>Directors' Report</b>	<b>3</b>
<b>Corporate Governance</b>	<b>9</b>
<b>Auditors Independence Declaration</b>	<b>11</b>
<b>Income Statement</b>	<b>12</b>
<b>Balance Sheet</b>	<b>13</b>
<b>Statement of Changes in Equity</b>	<b>14</b>
<b>Cash Flow Statement</b>	<b>15</b>
<b>Notes to Financial Statements</b>	<b>16</b>
<b>Directors' Declaration</b>	<b>27</b>
<b>Auditors Report</b>	<b>28</b>

# Directors' Report

The Directors present their report on Hazelwood Resources Limited for the period ended 30 June 2006 and the auditor's report thereon.

## Directors

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

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

Mark McAuliffe is a solicitor with over 25 years' experience in acting for and advising mining companies, public listed companies and institutions on a wide range of legal issues. Mr McAuliffe holds a Bachelor of Jurisprudence and a Bachelor of Laws from the University of Western Australia. His career includes advising and documenting a wide range of mining transactions from acquisitions, through joint ventures, initial public offerings and capital raisings. His mining experience extends beyond Australian jurisdictions and includes transactions in a number of countries in Africa and South East Asia. Mr McAuliffe commenced his career at Downing & Downing before establishing his own firm in 1989. Mr McAuliffe is presently a Legal Practitioner and director of McAuliffe Legal. He has sat on the board of many client companies, is a non executive director of Vital Metals Limited and a member of the Institute of Company Directors.

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

Mr Butler-Blaxell is a resources company specialist with over 14 years experience across a range of commodities including gold, industrial minerals, vanadium, base metals, nickel, tungsten and titanomagnetite. He has written investment research for AFSL licensees, and has experience in financial modelling and valuation. Over the past five years Mr Butler-Blaxell has been involved in the compilation of fund raising documents, project and company transactions, due diligence reviews, quantitative market event studies, and company promotion activities. He has been involved in the Exploration and Evaluation of several titanomagnetite and vanadium deposits, including specification of testwork programs and pilot plants. Mr Butler-Blaxell has a Bachelor of Science in physical-inorganic chemistry and geology from the University of Western Australia, a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia and a Master of Business Administration from Murdoch University. Memberships include Fellow of the Financial Services Institute of Australasia and a Member of the Australasian Institute of Mining and Metallurgy.

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

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

## Directors' Report Cont.

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### John Chegwidden CA

#### Non-Executive Director & Company Secretary

Mr Chegwidden has over 20 years experience as an accountant, including managing his own chartered accounting practice, providing advice in management, accounting and taxation, and consulting to manufacturing, mining, primary production and earthmoving operations. Mr Chegwidden has a strong knowledge of the mining and resources sector in Australia, with key competencies in exploration, materials processing, marketing and financial management in relation to junior mining companies. More recently he has consulted to a number of listed companies and negotiated with capital financiers for junior exploration companies. Mr Chegwidden was a founding executive director of Aurox Resources Limited, an ASX listed mining and exploration company, and served in the capacity of both executive and non-executive director until January 2006.

#### Company Secretary

John Chegwidden

#### Directors Meetings

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

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

#### Directors Interests in shares and options of the Company

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

	Ordinary Shares	Options <sup>1</sup>
Mr Mark McAuliffe	1,025,001	2,500,000
Mr Terence Butler-Blaxell <sup>2</sup>	2,560,001	2,500,000
Mr Ian Richer <sup>2</sup>	1,550,001	1,000,000
Mr John Chegwidden	1,105,001	1,000,000

#### Note:

1. The options were granted upon listing, 3 October 2006.
2. Terence Butler-Blaxell & Ian Richer both have a beneficial interest in 50,000 ordinary shares held by Siren Mining Limited

## **Directors' Report Cont.**

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### **Auditor**

Mr Ranko Matic is the signing partner for Hazelwood Resources Limited. Mr Matic is a partner of Rix Levy Fowler who continues in office in accordance with section 327 of the Corporations Act 2001.

### **Principal Activities**

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

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

### **Review and Results of Operations**

The operating loss after tax of the Company was \$155,062.

Since the date of incorporation, the Company acquired the right to acquire all of the capital in Kiara Holdings Pty Ltd which holds the Cookes Creek mining tenements, these tenements show significant nickel sulphide mineralisation, along with containing the historic Cookes Creek tungsten mining centre. The Company has since exercised this right and acquired all of the capital in Kiara Holdings Pty Ltd. The Company has also taken out mining tenement applications in its own right in the Eastern Goldfields, Gascoyne and Mangaroon areas. Since acquisition, the Company has undertaken initial geological work at the projects areas, along with the review of historic data, with the main concentration being on the Cookes Creek project. This work will be used to identify further geophysical work required and prospective drilling targets. The Company has written off the exploration expenses on Cosmo Newberry after deciding not to continue with any exploration in this area.

The Company had also been working towards a listing on the Australian Stock Exchange (ASX), with a prospectus lodged on the 28 July 2006, subsequently the Company listed on the 3 October 2006, after raising \$6 million.

### **Significant Changes in the State of Affairs**

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

### **Significant Events After Balance Date**

Subsequent to the period end 1,150,000 Ordinary Shares were issued at a price of 10 cents per share to raise \$115,000 in working capital.

Subsequent to the period end, \$6,000,000 (30,000,000 Ordinary Shares @ 20 cents) was raised on a initial public offering. Hazelwood Limited listed on the Australian Stock Exchange on 3 October 2006.

Subsequent to period end the Company also exercised its option to purchase all of the capital in Kiara Holdings Pty Ltd on the 28 September 2006. Kiara Holdings Pty Ltd holds the Cookes Creek project. The Company issued 8,000,000 Ordinary fully paid shares to the Vendors and paid \$350,000 in cash on the 28 September 2006 to exercise the option.

## **Directors' Report Cont.**

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The Company has also entered into a number of option agreements to purchase mining tenements, in the West Pilbara, Arthur River and East Pilbara areas, along with an agreement for the rights to explore for Tungsten on the Cookes creek tenement. The Company issued 400,000 Ordinary fully paid shares and paid \$70,000 in cash in accordance with these agreements.

The Company has also entered into a drilling agreement with Colby Drilling to provide drilling services for equity in the Company. The drilling fund allows for the issue of up to 3 million shares at a deemed issue price of 20 cents per share. No shares have yet being issued under this agreement.

The company issued 7,750,000 options to the Directors, contractors and advisors on the 3 October 2006.

On the 24 July 2006, the company entered into executive service agreements for Mark McAuliffe and Terence Butler-Blaxell, both directors of the company.

### **Environmental Regulation**

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

### **Likely Developments**

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

### **Dividends**

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

### **Proceedings on Behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## **Remuneration Report**

This report outlines the remuneration arrangements in place for Hazelwood Resources Limited.

### **Remuneration Policy**

The Company has structured remuneration packages for its executives and directors in order to attract and retain people with the necessary qualifications, skills and experience to assist the company in achieving its desired results. Remuneration is reviewed on an annual basis, taking into consideration a number of performance indicators.

## **Directors' Report Cont.**

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### **Remuneration of Non-executive Directors**

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

The non-executive directors are paid a set amount per year. The non-executive directors did not receive any payments for the year ended 30 June 2006. The non executive directors may receive consultants fees through related entities for services rendered on a commercial basis.

Due to the size of the company a remuneration committee has not being formed.

### **Remuneration of Executive Directors**

The Directors (both executive and non executive) of the company received nil remuneration during the period ended 30 June 2006.

### **Executive Services Agreement with Mr Mark McAuliffe**

The Company entered into an Executive Services Agreement with Mark McAuliffe on the 24 July 2006 in relation to his appointment as Executive Chairman. The term of the Services Agreement is for the period commencing on execution of the Services Agreement until it is terminated in accordance with the Services Agreement. Pursuant to the Services Agreement, Mr McAuliffe will receive a salary of \$180,000 per year exclusive of superannuation. In addition, the Company will reimburse Mr McAuliffe for running expenses of his motor vehicle incurred whilst on Company business (provided such expenses do not exceed \$10,000). The Company will also reimburse Mr McAuliffe for costs associated with parking, mobile and email when used for Company business.

Pursuant to the Services Agreement the Company will also grant to Mr McAuliffe:

- (i) 1,000,000 Options exercisable at 20 cents per Option;
- (ii) 500,000 Options exercisable at 25 cents per Option; and
- (iii) 500,000 Options exercisable at 30 cents per Option,

The Company may terminate the Services Agreement by giving 12 months notice. If the Company terminates the Service Agreement by giving 12 months notice, it is entitled to pay out Mr McAuliffe an amount equal to 12 months of his salary. Mr McAuliffe can terminate the Services Agreement by giving 3 months notice to the Company.

Mr McAuliffe did not receive any remuneration for the period ended 30 June 2006, and until the executive role becomes a full time position, Mr McAuliffe is receiving a pro-rata remuneration based on the time spent fulfilling the position.

### **Executive Services Agreement with Mr Terence Butler-Blaxell**

The Company entered into an Executive Services Agreement with Terence Butler-Blaxell on the 24 July 2006 in relation to his appointment as a Executive Director. The term of the Services Agreement is for the period commencing on execution of the Services Agreement until it is terminated in accordance with the Services Agreement. Pursuant to the Services Agreement, Mr Butler-Blaxell will receive a salary of \$165,000 per year exclusive of superannuation. In addition, the Company will reimburse Mr Butler-Blaxell for running expenses of his motor vehicle incurred whilst on Company business (provided such expenses do not exceed \$10,000). The Company will also reimburse Mr Butler-Blaxell for costs associated with parking, mobile and email when used for Company business.

## **Directors' Report Cont.**

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Pursuant to the Services Agreement the Company will also grant to Mr Butler Blaxell:

- (i) 1,000,000 Options exercisable at 20 cents per Option;
- (ii) 500,000 Options exercisable at 25 cents per Option; and
- (iii) 500,000 Options exercisable at 30 cents per Option,

The Company may terminate the Services Agreement by giving 12 months notice. If the Company terminates the Service Agreement by giving 12 months notice, it is entitled to pay out Mr Butler-Blaxell an amount equal to 12 months of his salary. Mr Butler-Blaxell can terminate the Services Agreement by giving 3 months notice to the Company.

Mr Butler-Blaxell did not receive any remuneration for the period ended 30 June 2006.

### **Options**

No options were issued to Directors during the period ended 30 June 2006.

### **Officers' Indemnities and Insurance**

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

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

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

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

The Company nor any of its related bodies corporate have provided any insurance for any auditor of the Company or a related body corporate.

### **Non-Audit Services**

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

No non audit services were provided by Rix Levy Fowler during the period.

### **Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

Signed in accordance with a resolution of the Directors



**John Chegwidden**  
**Director**

Perth, 31 October 2006

## Corporate Governance

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

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

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

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

### **Principle 2 Recommendation 2.2**

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

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

### **Principle 2 Recommendation 2.3**

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

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

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

### **Principle 2 Recommendation 2.4**

There is no nomination committee.

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

## **Corporate Governance Cont.**

### **Principle 8 Recommendation 8.1**

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

The current Board has only been in place since 9 March 2006 and did not conduct a performance evaluation during the Reporting Period. It is proposed the Chairman will conduct a review in the 2007 financial year.

### **Principle 9 Recommendation 9.2**

There is no separate remuneration committee.

Due to the small size and structure of the Board, a separate remuneration committee is not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. The Board considers that it is more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. When considering matters of remuneration, the Board functions in accordance with the Remuneration Committee Charter which was adopted on 17 July 2006. In addition, all matters of remuneration will continue to be determined in accordance with Corporations Act requirements, especially in respect of related party transactions. That is, no directors participate in any deliberations regarding his or her own remuneration or related issues.



The Board of Directors

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

This declaration is made in connection with our audit of the financial report of Hazelwood Resources Limited for the year ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

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

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

Yours faithfully

**RIX LEVY FOWLER**  
Chartered Business Advisors

**RANKO MATIC**  
Partner

DATED at PERTH this 31<sup>st</sup> day of October 2006

# Income Statement

For the period ended 30 June 2006

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		2006
	Notes	\$
Other income	2	283
Other expenses	3	(155,345)
		<hr/>
<b>Loss before income tax expense</b>		(155,062)
Income tax expense	4	-
		<hr/>
<b>Loss attributable to members of Hazelwood Resources Limited</b>	11	(155,062)
		<hr/>
<b>Earnings per share (cents per share)</b>		
- basic for loss for the period	21	(28.26)
- diluted for loss for the period	21	(28.26)

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

# Balance Sheet

As at 30 June 2006

	Notes	2006 \$
<b>Current Assets</b>		
Cash and cash equivalents	5	57,147
Trade and other receivables	6	4,858
Other current assets	7	39,603
		<hr/>
<b>Total Current Assets</b>		<b>101,608</b>
		<hr/>
<b>Non-Current Assets</b>		
Exploration and evaluation	8	224,511
		<hr/>
<b>Total Non-Current Assets</b>		<b>224,511</b>
		<hr/>
<b>Total Assets</b>		<b>326,119</b>
		<hr/>
<b>Current Liabilities</b>		
Trade and other payables	9	44,127
		<hr/>
<b>Total Current Liabilities</b>		<b>44,127</b>
		<hr/>
<b>Total Liabilities</b>		<b>44,127</b>
		<hr/>
<b>Net Assets</b>		<b>281,992</b>
		<hr/>
<b>Equity</b>		
Contributed equity	10	437,054
Accumulated losses	11	(155,062)
		<hr/>
<b>Total Equity</b>		<b>281,992</b>
		<hr/>

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

## Statement of Changes in Equity

For the period ended 30 June 2006

	Attributable to equity holders of the entity		Total Equity
	Issued Capital	Accumulated Losses	
	\$	\$	\$
<b>At 9 March 2006</b>	-	-	-
Issue of shares	437,054	-	<b>437,054</b>
Loss for the period	-	(155,062)	(155,062)
<b>At 30 June 2006</b>	<b>437,054</b>	<b>(155,062)</b>	<b>281,992</b>

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

## Cash Flow Statement

For the period ended 30 June 2006

	Notes	2006 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees		(91,996)
Interest received		283
Interest paid		(15)
Payment for exploration expenses		(77,057)
		<hr/>
<b>Net cash flows from used in operating activities</b>	20(a)	<b>(168,785)</b>
		<hr/>
<b>Cash flows from investing activities</b>		
Payment for exploration tenements		(211,122)
		<hr/>
<b>Net cash flows used in investing activities</b>		<b>(211,122)</b>
		<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares		437,054
		<hr/>
<b>Net cash flows from financing activities</b>		<b>437,054</b>
		<hr/>
Net increase in cash and cash equivalents		57,147
Cash and cash equivalents at beginning of period		-
		<hr/>
Cash and cash equivalents at end of period	5	<b>57,147</b>
		<hr/>

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

# Notes to the Financial Statements

For the period ended 30 June 2006

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## 1. Statement of Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the financial statements and notes of Hazelwood Resources Limited comply with International Financial Reporting Standards (IFRS).

The Company was incorporated on 9 March 2006 under the name Cookes Creek Limited. On 21 March 2006, the name was changed to Hazelwood Resources Limited.

### (A) Basis of Accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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

### (B) Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

- Interest income is recognised as it accrues.

### (C) Income Tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary

## Notes to the Financial Statements

For the period ended 30 June 2006

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### (C) Income Tax (continued)

differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

### (D) Cash and cash equivalents

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

### (E) Trade and Other Receivables

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

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

### (F) Exploration and Evaluation Expenditure

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

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

- (i) the expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

## Notes to the Financial Statements

For the period ended 30 June 2006

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### (F) Exploration and Evaluation Expenditure (Continued)

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (G)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

### (G) Impairment of Assets

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

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

### (H) Trade and Other Payables

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

### (I) Contributed Equity

Ordinary shares are classified as equity.

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

### (J) Goods and Service Tax (GST)

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

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

## Notes to the Financial Statements

For the period ended 30 June 2006

### (J) Goods and Service Tax (GST) (Continued)

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

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

	2006 \$
<b>2. Revenue</b>	
<i>Other income</i>	
Finance income – Financial Institutions	283
	<hr/>
<b>3. Expenses and Losses</b>	
<b>Expenses</b>	
Exploration expenses written off	63,668
Audit Fees	5,000

### 4. Income Tax Expense

Major components of income tax expense for the year ended 30 June 2006 is:

	2006 \$
<b>Income statement</b>	
<i>Current income</i>	
Current income tax charge	-
<i>Deferred income tax</i>	
Relating to origination and reversal of temporary differences	-
Income tax expense (benefit) reported in income statement	<hr/> <hr/>

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the year ended 30 June 2006 is as follows:

Accounting profit (loss) before income tax	<hr/> <hr/> (155,062)
At the statutory income tax rate of 30% (2005: 30%)	(46,518)
Expenditure not allowable for income tax purposes	269
Tax losses and timing differences not brought to account as a deferred tax asset	46,249
At effective income tax rate of 0%	<hr/> <hr/> -
Income tax expense reported in income statement	<hr/> <hr/> -

## Notes to the Financial Statements

For the period ended 30 June 2006

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### 4. Income Tax Expense (continued)

	Balance Sheet 2006 \$	Income Statement 2006 \$
<b>Deferred income tax</b>		
Deferred income tax at 30 June relates to the following:		
<i>Deferred income tax liabilities</i>		
Capitalised expenditure deductible for tax purposes	69,729	(69,729)
	<u>69,729</u>	
<i>Deferred income tax assets</i>		
Capital Raising Costs	269	269
Accrued expenses	1,500	1,500
Tax Losses	67,960	67,960
Gross deferred income tax assets	<u>69,729</u>	
<i>Net deferred tax asset (liability)</i>		
Deferred income tax expense (benefit)	<u>-</u>	<u>-</u>
<b>Unrecognised deferred tax assets</b>	2006	
Deferred tax assets have not been recognised in respect of the following items	\$	
Tax Losses	<u>155,062</u>	

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

2006  
\$

### 5. Current Assets – Cash and cash equivalents

Cash at bank and on hand	<u>57,147</u>
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The weighted average interest rate for the year was 4%.

### 6. Current Assets – Trade and other receivables

GST receivable	<u>4,858</u>
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## Notes to the Financial Statements

For the period ended 30 June 2006

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	2006	
	\$	
<b>7. Other Current Assets – Prospectus Costs</b>		
Expenditure incurred during the period	<b>39,603</b>	
	<hr/>	
In accordance with AASB 132 Financial Instruments: Presentation, prospectus costs will be offset against equity once the shares have been issued.		
<b>8. Non-Current Assets – Exploration and evaluation</b>		
Expenditure incurred during the period	<b>224,511</b>	
	<hr/>	
<b>9. Current Liabilities – Trade and other payables</b>		
Trade creditors and accruals - unsecured	<b>44,127</b>	
	<hr/>	
<b>10. Contributed Equity</b>		
<b>a) Share capital</b>		
Ordinary shares fully paid	437,054	
	<hr/>	
<b>b) Movements in ordinary shares on issue</b>		
	<b>Number</b>	<b>\$</b>
At 9 March 2005	4	4
Issued on 26 June 2006	9,050,000	9,050
Issued on 28 June 2006	4,300,000	43,000
Issued on 30 June 2006	3,850,000	385,000
	<hr/>	<hr/>
	<b>17,200,004</b>	<b>437,054</b>
	<hr/>	<hr/>
<b>c) Terms and conditions of contributed equity</b>		
Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.		
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.		

## Notes to the Financial Statements

For the period ended 30 June 2006

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	2006 \$
<b>11. Accumulated Losses</b>	
Balance at the beginning of the financial year	-
Net loss attributable to members	155,062
	<hr/>
Balance at the end of the financial year	155,062
	<hr/>

### 12. Auditor's Remuneration

Amounts received or due and received by Rix Levy Fowler for:

An audit or review of the financial report of the Company.	5,000
	<hr/>
Total remuneration	5,000
	<hr/>

### 13. Contingent Assets and Liabilities

There are no material contingent assets or liabilities which were not provided for in the financial statements of the Company as at 30 June 2006.

### 14. Subsequent Events

Subsequent to the period end 1,150,000 Ordinary Shares were issued at a price of 10 cents per share to raise \$115,000 in working capital.

Subsequent to the period end, \$6,000,000 (30,000,000 Ordinary Shares @ 20 cents) was raised on an initial public offering. Hazelwood Limited listed on the Australian Stock Exchange on 3 October 2006.

Subsequent to period end the Company also exercised its option to purchase all of the capital in Kiora Holdings Pty Ltd on the 28 September 2006. Kiora Holdings Pty Ltd holds the Cookes Creek project. The Company issued 8,000,000 Ordinary fully paid shares to the Vendors and paid \$350,000 in cash on the 28 September 2006 to exercise the option.

The Company has also entered into a number of option agreements to purchase mining tenements, in the West Pilbara, Arthur River and East Pilbara areas, along with an agreement for the rights to explore for Tungsten on the Cookes Creek tenement. The Company issued 400,000 Ordinary fully paid shares and paid \$70,000 in cash in accordance with these agreements.

## Notes to the Financial Statements

For the period ended 30 June 2006

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### 14. Subsequent Events (continued)

The Company has also entered into a drilling agreement with Colby Drilling to provide drilling services for equity in the Company. The drilling fund allows for the issue of up to 3 million shares at a deemed issue price of 20 cents per share. No shares have yet being issued under this agreement.

The company issued 7,750,000 options to the Directors, contractors and advisors on the 3 October 2006.

On the 24 July 2006, the company entered into executive service agreements for Mark McAuliffe and Terence Butler-Blaxell, both directors of the company.

Since the end of the financial year the directors are not aware of any matter or circumstance not otherwise dealt with in the report or financial statements that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent years.

### 15. Commitments

The Company has certain minimum obligations in pursuance of the terms and conditions of tenement licences in the forthcoming year. Whilst these obligations are capable of being varied from time to time, in order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2006/07 amounts of approximately \$642,310. These obligations are expected to be fulfilled in the normal course of operations.

### 16. Segment Reporting

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

### 17. Financial Risk Management Objectives and Policies

The Company's principal financial instruments is cash.

The main purpose of this financial instrument is to raise finance for the Company's operations.

The Company has various other financial instruments such as other debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

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

## Notes to the Financial Statements

For the period ended 30 June 2006

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### 17. Financial Risk Management Objectives and Policies (Continued)

#### *Interest rate risk*

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

#### *Credit risk*

The Company trades only with recognised, creditworthy third parties.

#### *Liquidity risk*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of equity funding.

### 18. Financial Instruments

#### i) Interest Rate Exposure

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

2006	Floating Interest Rate \$	Non- Interest Bearing \$	Total 2006 \$
<b>Financial Assets</b>			
Cash and cash equivalents	57,147	-	57,147
Trade and other receivables	-	4,858	4,858
	<hr/>		
	57,147	4,858	62,005
	<hr/>		
Weighted average interest rate	4%		
<b>Financial Liabilities</b>			
Trade and other payables	-	44,127	44,127
	<hr/>		
	-	44,127	44,127
	<hr/>		

All financial assets and financial liabilities are expected to be settled within 12 months.

The carrying amount of all financial assets and financial liabilities approximate their fair values.

## Notes to the Financial Statements

For the year ended 30 June 2006

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### 19. Key Management Personnel Disclosures

- (a) The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period

#### Directors

Mr Mark McAuliffe (Executive Chairman)  
Mr Terrence Butler-Blaxell ((Technical Director)  
Mr Ian Richer (Non Executive Director)  
Mr John Chegwidden (Non Executive Director and Company Secretary)

#### (b) Key management personnel compensation

No remuneration was paid to any key management personnel during the period.

#### (c) Individual directors and executives compensation disclosures

No remuneration was paid to any directors or executives during the period.

#### (d) Options and Rights Holdings

No options were granted during the period.

#### (e) Other key management personnel transactions with the Company

No related party transactions occurred during the period.

#### (f) Shareholdings

	Balance 9 March 2006	Received as Remuneration	Options Exercised	Net Change Other <sup>1</sup>	Balance 30 June 2006
<b>Directors</b>					
Mr Mark McAuliffe	1	-	-	1,000,000	1,000,001
Mr Terence Butler-Blaxell	1	-	-	2,500,000	2,500,001
Mr Ian Richer	1	-	-	1,500,000	1,500,001
Mr John Chegwidden	1	-	-	1,000,000	1,000,001

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

## Notes to the Financial Statements

For the year ended 30 June 2006

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### 20. Reconciliation of Cash Flows from Operating Activities

#### (a) Cash flows from operating activities

	<b>2006</b> \$
Operating profit/(loss) after income tax	(155,062)
Non cash items:-	
Exploration expenses written off	63,668
Changes in assets and liabilities:-	
- Decrease/(increase) in trade receivables	(4,858)
- Decrease/(increase) in other current assets	(39,603)
- Increase/(decrease) in trade and other payables	44,127
- Decrease/(Increase) in Non Current assets	(77,057)
	<hr/>
Net cash from operating activities	(168,785)
	<hr/>

There were no non-cash financing or investing activities during the period.

### 21. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	<u>2006</u> \$
Net loss attributable to equity holders	(155,062)
Weighted average number of ordinary shares for basic earnings per share	548,677

#### Diluted earnings per share

There were no dilutive instruments on hand at 30 June 2006.

## Directors' Declaration

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The Directors, declare that the financial statements and notes:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

- a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- b) there are reasonable grounds to believe that Hazelwood Resources Limited 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 Directors.



**John Chegwidden**  
**Director**

Perth, Western Australia  
31 October 2006



## ***Independent Audit Report***

### **To the Members of Hazelwood Resources Limited**

#### **Scope**

##### *The financial report and directors' responsibility*

The financial report comprises the income statement, balance sheet, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Hazelwood Resources Limited (the company) for the year ended 30 June 2006.

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 financial position, and of its performance as represented by the results of its 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.

## ***Independent Audit Report***

To the Members of Hazelwood Resources Limited (*CONTINUED*)

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### **Independence**

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

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

### **Audit Opinion**

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



**RIX LEVY FOWLER**  
Chartered Business Advisors



**RANKO MATIĆ**  
Partner

DATED at PERTH this 31<sup>st</sup> day of October 2006

# Hazelwood Resources Limited

## Supplementary Information for Investors As at 30 October 2006

The information contained below is to be read in conjunction with the annual report of Hazelwood Resources Limited dated 30 June 2006-10-31

### Details of Substantial Shareholders

The following is a list of the substantial shareholders of the Company:

CREEKWOOD NOMINEES PTY LTD	8,000,000	14.10
MR TERENCE HUGH BUTLER-BLAXELL	2,510,001	4.42
MR VICENCO ALAC	1,500,000	2.64
ANYCALL PTY LTD	1,500,000	2.64
MR BRUCE LAWRENCE HODGES	1,100,000	1.94
CHEGS ASSETS PTY LTD	1,000,000	1.76
AN CHIA HUNG + SU FEN SOPHIA CHANG + SHANG CHIN HUNG + CHI SHENG HUNG	1,000,000	1.76
MCAULIFFE ADMINISTRATION PTY LTD	1,000,000	1.76
ROCKDALE CAPITAL PTY LTD	975,000	1.72
TOMIK NOMINEES PTY LTD	900,000	1.59
FENWICK ENTERPRISES PTY LTD	700,000	1.23
VALENTINO NOMINEES PTY LTD	700,000	1.23
DW COLLINS GRANGE PTY LTD	660,000	1.16
MS SHU MEI CHANG	600,000	1.06
MR WILLIAM HENREY HERNSTADT	600,000	1.06
ACADEMIC GROWTH INSTITUTE FUND PTY LTD	500,000	0.88
MS SHIRLEY EDITH BLAXELL	500,000	0.88
MR WILLIAM HENRY HERNSTADT	500,000	0.88
MR KEIRAN ERIC JANSSON	500,000	0.88
JEMAYA PTY LTD	500,000	0.88

### Distribution of Shareholder Numbers

The following is a distribution schedule showing the shares held and the number of shareholders in that category:

Number of shares Held	Number of Shareholders
1-1000	6
1,001 – 5,000	7
5,001 – 10,000	130
10,001 – 100,000	304
More than 100,000	95