



# SPITFIRE RESOURCES LIMITED

ABN: 40 125 578 743

*Annual Report for the  
Year ended 30 June 2010*

**DIRECTORS & OFFICERS**

James T Hamilton (Managing Director/Executive Chairman)

Christopher J Daws (Non Executive Director)

Russell P Hardwick (Non Executive Director)

**COMPANY SECRETARY**

Russell P Hardwick

**REGISTERED OFFICE**

Suite 1, 346 Barker Road

SUBIACO WA 6008

P: +61 8 6382 3700

F: +61 8 6382 3777

**LEGAL ADVISORS**

Steinepreis Paganin

Level 4, Next Building

16 Milligan Street

PERTH WA 6000

P: +61 8 9321 4000

F: +61 8 9321 4333

**AUSTRALIAN SECURITIES EXCHANGE**

The Company's shares are listed on the Australian Securities Exchange.

ASX Code: **SPI**

**EXPLORATION MANAGER**

Stuart Peterson

**AUDITORS**

Bentleys

Level 1, 12 Kings Park Road

WEST PERTH WA 6005

P: +61 8 9226 4500

F: +61 8 9226 4300

**SHARE REGISTRY**

Security Transfers Registrars Pty Ltd

770 Canning Highway

APPLECROSS WA 6153

P: +61 8 9315 2333

F: +61 8 9315 2233

## CHAIRMAN'S REPORT

---

Dear Shareholder,

After yet another year of turmoil and volatility on global equity markets, I am pleased to report that Spitfire Resources (Spitfire) has continued to progress its growth strategy through targeted and well-funded exploration, and is now well positioned to benefit from a rebound in investor sentiment.

The core to our strategy this year has been to continue to expand our knowledge of, and presence in, the global manganese sector.

To this end: we accepted an invitation to join the International Manganese Institute (IMnI), the highly respected peak organisation for the global manganese industry, which is headquartered in Paris; we invited two new major international corporations with an interest in manganese (one Chinese, one Indian) to become substantial shareholders; and we continued to build our strategic land position in the East Pilbara manganese belt of Western Australia, where we now have an enviable 1,804km<sup>2</sup> of prospective tenure under our control.

These moves are predicated on management's belief in the long-term future of the world steel industry and the role that both China and India will play in the growth of this industry moving forward.

In contrast to the general malaise in equity markets in the financial year just past, the global steel sector has rebounded strongly. Not surprisingly, the driver of this turnaround has been China, where steel output returned rapidly to pre-GFC levels and is forecast to grow to around 850 million tonnes per annum by 2014.

Stunningly, some commentators now believe it is not unimaginable to see China producing one billion tonnes of steel products a year in just 20 years time.

The knock-on effects of China's steel industry resurgence have already been felt in the coking coal and iron ore sectors where commodity prices have risen and the equity prices of companies exposed to these minerals have risen across the spectrum – from junior explorers to large miners.

Our view is that, of all the steel inputs, manganese remains the real "sleeper" due to the fact that it can't be substituted, that there is a critical lack of high-grade/low impurity ore in the world and that the existing high-grade manganese ore supply chain is tightly controlled, often by large, integrated resource houses.

It's against this macro setting that Spitfire has been getting on with its plan of continuing to build its ground position in Western Australia and exploring this tenure by mapping, the use of airborne geophysics and drilling.

Highlights of the year included a significant uplift in the size of the near-surface manganese resource at Tally-Ho and a substantial increase in the amount of 100%-owned tenure at our South Woodie Woodie (SWW) Project.

It's worth remembering that Spitfire started its corporate life in 2007 with just three tenements. Today, through a combination of pegging, acquisitions and success at the ballot box, it has 17 tenements at South Woodie Woodie. And such is the prospectivity of this East Pilbara region that Spitfire now finds itself surrounded by three producing manganese mines, with a fourth expected to be brought on-stream as early as 2011.

Against this backdrop, we remain very positive about our future, although maintaining exploration pressure at SWW remains a key challenge for the Company moving forward. Accordingly, it is our intention to drill more or less continuously during the balance of this calendar year and into next, with the objective of substantially lifting our manganese resource inventory to give us the critical mass required to start our own production plant.

During the year, Spitfire also conducted reconnaissance and confirmation drilling programs at its Langloh and Avoca thermal coal projects in Tasmania. The results were encouraging and, once a full suite of data is available, the Company will examine its development options.

Likewise, Spitfire has commenced a desktop study on its very large Northern Territory exploration portfolio with a view to understanding how best to progress this asset in the months ahead.

Spitfire took advantage of improved capital market windows during the year to raise approximately \$2,827,500 million through share placements to new and existing sophisticated investors, strengthening our cash resources to more than \$4.2 million at the time of writing this report.

## CHAIRMAN'S REPORT

---

These funds give us the ability to maintain our exploration momentum at SWW and the flexibility to pursue new project concepts both in Australia and offshore.

The year has also seen the upheaval of a Federal election in Australia and plans by the sitting Labor Government to introduce a highly controversial new mining tax.

Your Board views this proposed tax as not only discriminative from both an industry and commodity perspective but also as having the potential, if it gets enacted, to become a major totem for anti-Australian mining sentiment from offshore investors. This could reverse a long-held view that Australia is amongst the best places in the world to target resource investments.

In summary, Spitfire has a plan, funding and clear focus. Thanks to its tight capital structure and calculated exposure to manganese, your Company is now well positioned to benefit from exploration success.

Best of all, it is going about its business at a time when the steel sector is forecast to enjoy substantive mid-term growth which should translate into robust ore prices moving forward.

I would like to conclude by thanking my fellow Directors, as well as all our staff and consultants for their efforts during the year, and finally our Shareholders for their continued support and patience.

I look forward to keeping you abreast of our activities as we move into our most exciting year since listing just three short years ago.



**JAMES HAMILTON**  
Executive Chairman

### South Woodie Woodie Manganese Project

The South Woodie Woodie Manganese Project comprises four granted Exploration Licences and 13 Exploration Licence Applications covering a total area of 1,804km<sup>2</sup> in Western Australia's emerging East Pilbara Manganese Province.

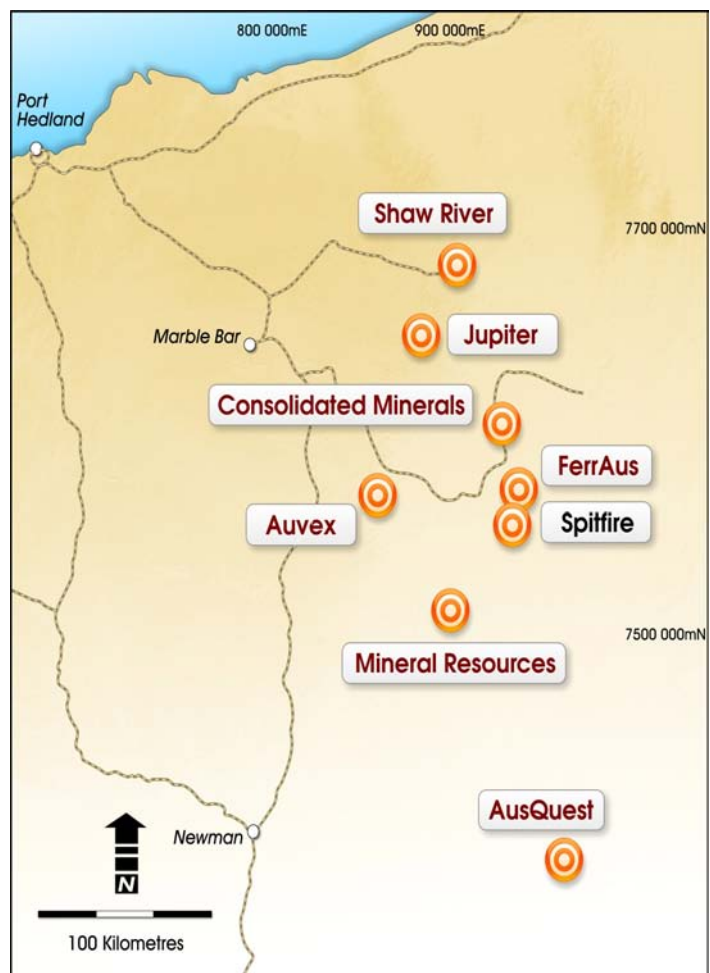
The majority of tenements lie approximately 50km down-strike to the south of the 1.2Mtpa Woodie Woodie Manganese Mining Centre (operated by Consolidated Minerals Limited) and in close proximity to several emerging manganese projects which are being actively explored or developed.

Spitfire's initial exploration success at South Woodie Woodie has been within the Southern Target Area of the Project, where it has discovered a near-surface manganese deposit at the Tally-Ho Prospect, in an area which has had little historical exploration.

### Regional Overview

The South Woodie Woodie Project is located in the heart of a major emerging global manganese province, where millions of dollars are currently being invested in exploration across a range of projects including:

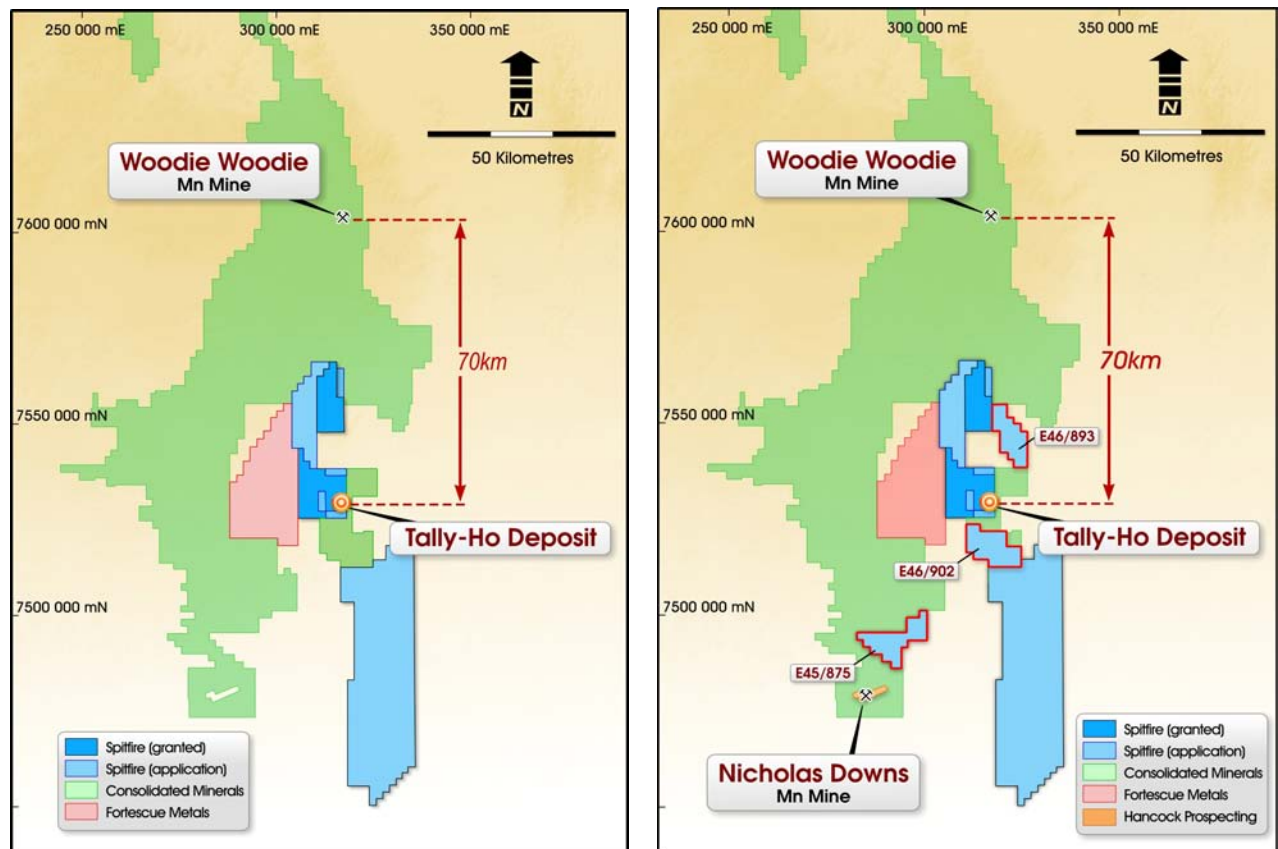
- Consolidated Minerals' Woodie Woodie Manganese Mine, where plans have been announced to spend \$40 million on exploration around and to the south of the mine;
- Auvex's Manganese Project, where mining has recently commenced and an IPO is planned;
- Shaw River Resources' Baramine Project, where drilling programs are underway;
- Jupiter Mines' Oakover Project, where significant intersections of manganese have been reported;
- AusQuest's Table Hill-Savory Manganese Projects, where exploration is ongoing; and
- Minerals Resources' Nicholas Downs Project, where mining commenced during the year under an agreement with Hancock Prospecting, with a production target of 60,000 tonnes per month of 38% ferruginous manganese.



**New Ground Acquisitions**

**December 2009**

**June 2010**



**Figure 1 – Expansion of Spitfire’s tenement holding at South Woodie Woodie, December 2009 & June 2010**

During the year, Spitfire was successful in securing several strategic additions to its tenement portfolio at South Woodie Woodie, further strengthening its position in the emerging East Pilbara Manganese province, where it now has a dominant regional ground holding. Key additions to the Company’s tenement portfolio during the year included:

- five tenement applications secured through the acquisition of the privately owned Company Bellpiper Pty Ltd, as well as the acquisition of the granted tenement EL46/787 in the South Woodie Woodie area;
- a highly prospective 111km<sup>2</sup> tenement (E45/875), located immediately north of the Nicholas Downs Manganese Mine (where mining commenced during the year) and some 50km south-east of the existing South Woodie Woodie tenements. This tenement was awarded to Spitfire in a ballot which was strongly contested by FMG Pilbara, Murchison Metals and Hancock Balfour Downs; and
- two tenements, E46/902 (107km<sup>2</sup>) and E46/893 (87km<sup>2</sup>), located down-strike to the south of the Woodie Woodie Manganese Mine, which were awarded to Spitfire in another strongly contested ballot. The northernmost tenement, E46/893, lies just 50km south of Woodie Woodie.

The tenements E45/875, E46/902 and E46/893 were all secured as a result of the partial surrender of the ground by Consolidated Minerals, operator of the Woodie Woodie mine. The new and recently announced tenement applications are all 100% owned, while Spitfire’s original tenement holding of 430.1km<sup>2</sup> at South Woodie Woodie is 80% owned.

Subsequent to the end of the financial year, the Company secured another new tenement application, ELA45/3730, covering an area of 43km<sup>2</sup>, increasing its total ground holdings in the East Pilbara to more than 1,800km<sup>2</sup>. This makes Spitfire one of the largest landholders in the district (see Figure 2).

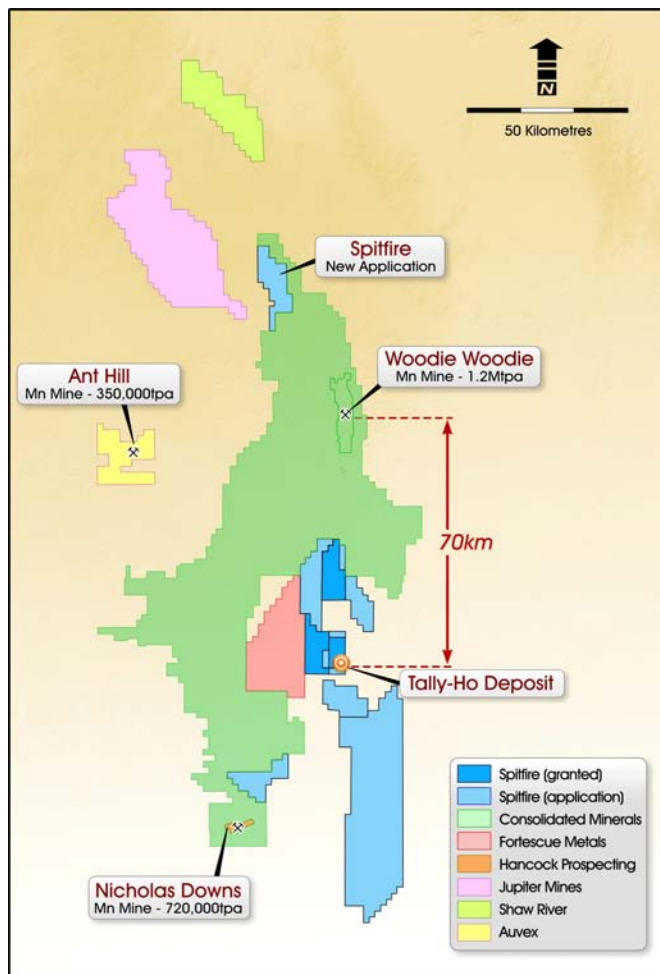


Figure 2 – South Woodie Woodie Exploration Map, showing location of new tenement (August 2010)

### Tally-Ho Deposit

As reported in the 2009 Annual Report, Spitfire’s initial work programs at South Woodie Woodie resulted in the discovery and delineation of the Tally-Ho Manganese Deposit, located in the south-western portion of its tenement holding.

After defining an initial JORC compliant Inferred Resource last year, Spitfire commenced a program of follow-up drilling to test for extensions to the known mineralisation and gain a better understanding of the style of mineralisation.

This drilling program, which was completed during the December 2009 Quarter, comprised 18 RC (Reverse Circulation) drill holes for 692m (including five pre-collars for a total of 80 metres) as well as 9 diamond holes for 330m.

The RC drilling was designed to test for interpreted extensions to the deposit to the north-east, while the diamond drilling recovered core that was dispatched for extractive metallurgical test work.

### Updated JORC Inferred Resource Estimate

The updated Inferred Mineral Resource for Tally-Ho, which was calculated by independent resource consultants Optiro Pty Ltd, was based on the results of this extensional drilling, which increased the resource strike length by approximately 480m to 680m. The revised Inferred Resource is summarised below:

The new tenement is located in close proximity to the Oakover Manganese Project (Jupiter Mines), where recent significant near-surface manganese intersections have been reported in a 43-hole RC drilling program by Jupiter including 2m @ 35.5% Mn and 4m @ 31.21% Mn (see *Jupiter Mines ASX Statement – 23 July 2010*). The tenement also lies near Shaw River Resources’ Baramine Manganese Project. Shaw River recently reported encouraging intercepts from this Project including 9m @ 21.2% Mn from the Nells Prospect and 8m @ 22.4% Mn from the Area 3 Mineralisation, saying it was on track to achieve a maiden JORC resource by the end of 2010 (see *Shaw River ASX Statement – 2 September 2010*).

The new tenement is reported to contain outcrops of Carawine Dolomite and Pinjian Chert, the main host rock formations for the high-grade manganese deposits at Woodie Woodie.

Preliminary work including regional mapping is planned to commence on the new tenements upon granting.

	Tonnes	Mn%	Fe%	SiO <sub>2</sub> %	Al <sub>2</sub> O <sub>3</sub> %	Pb%	P%	S%
<b>Previous Inferred Resource Estimate<sup>1</sup></b>	205,000	10.20	8.10	57.00	8.10	0.02	0.03	0.02
<b>New Inferred Estimate<sup>2</sup></b>	2,940,000	7.07	9.13	62.93	6.65	0.01	0.04	0.01

<sup>1</sup> Inferred Resource estimate quoted utilising a 7.5% Mn cut-off applied to modelled blocks within mineralised envelope wireframe.

<sup>2</sup> Inferred Resource estimate quoted incorporating all modelled blocks within mineralised envelope wireframe.

The Tally-Ho deposit remains open in most directions, particularly to the north and north-east. Spitfire believes there is potential to further increase the resource tonnage by undertaking further drilling in these areas (see Figure 3).

The Tally-Ho deposit is a flat-lying, tabular body of mineralisation comprising multiple stacked narrow seams of in-situ manganese mineralisation located close to surface grading up to 46% Mn. As with the previous resource estimate, the new JORC inferred resource represents a fully diluted resource.

The inferred resource grade of 7% Mn reflects the inclusion of barren material between the high grade seams (see Figure 4).

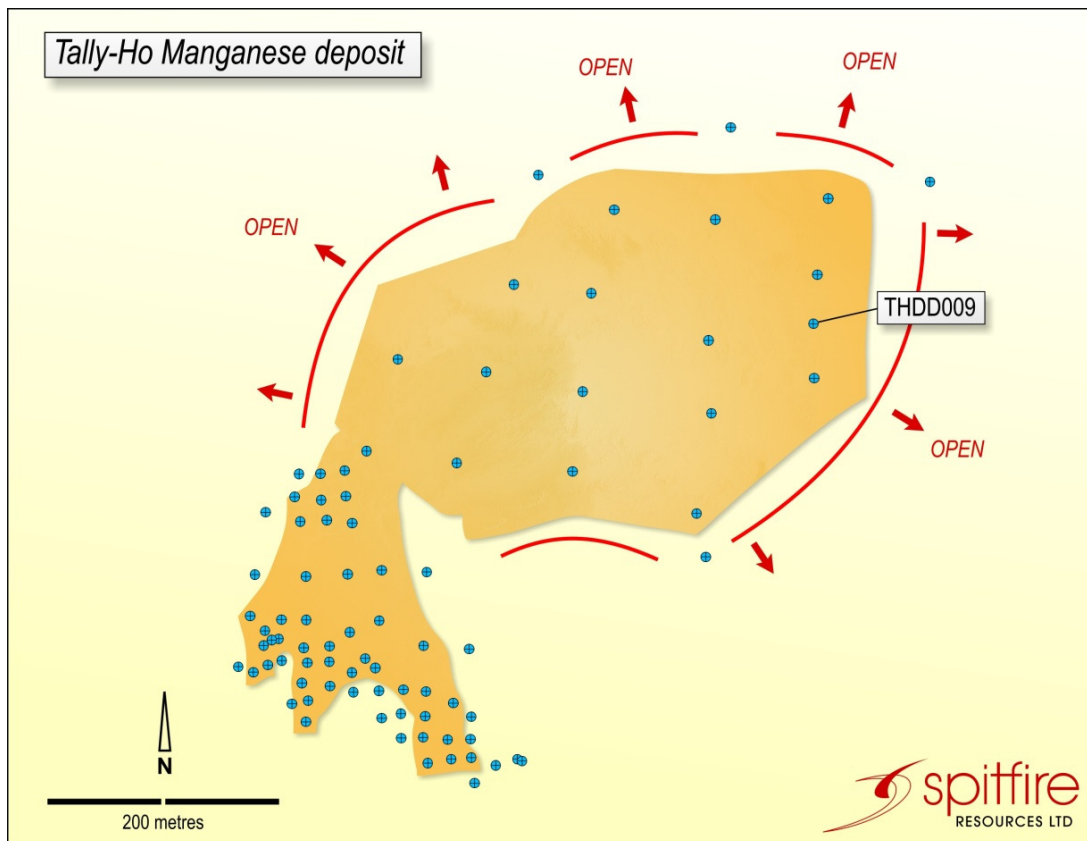


Figure 3 – Plan View of Tally-Ho deposit showing the updated modelled boundary

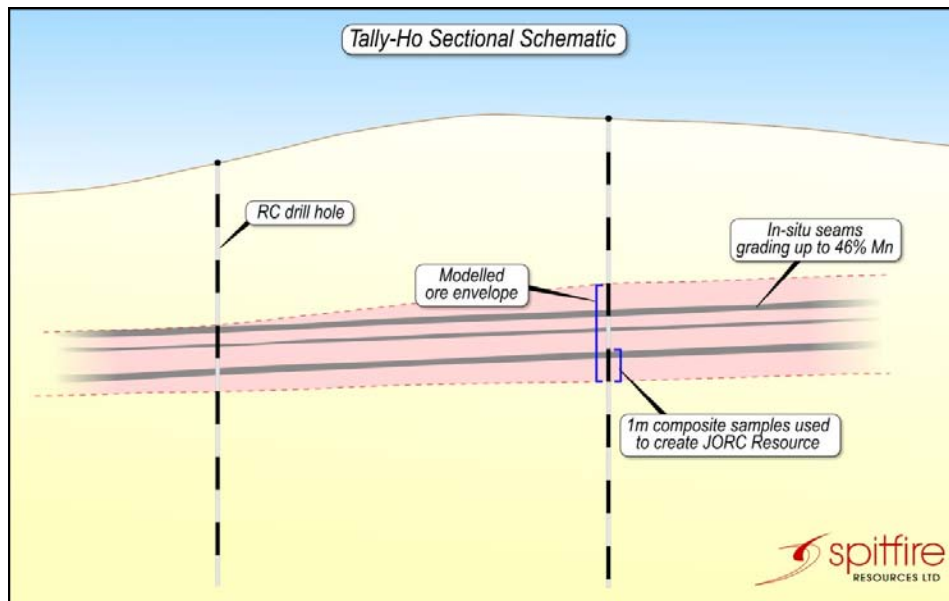


Figure 4 – Tally-Ho Sectional Schematic

### Upgradeability Potential and Beneficiated Exploration Target

Preliminary metallurgical testwork was conducted during the year on mineralised core from drill hole THDD009 (see Figure 3), from within the resource envelope. This work was undertaken by AMMTEC in Perth. A standard Dense Media Separation (DMS) process was undertaken on a 2.6m length of mineralised HQ diamond core which was crushed to -30mm +8mm, resulting in a yield of 31.45% and a final product specification of 40% Mn.

Importantly, the key iron content downgraded during the DMS process from 10.7% to 6.5%, while over 50% of the dilutant material separated at a specific gravity of 2.9g/c<sup>3</sup>. This suggests that a majority of the material could be upgraded using a simple screening circuit prior to the DMS process. A yield of more than 30% is viewed as favourable, particularly when combined with the shallow nature of the Tally-Ho deposit.

Diamond drilling has also confirmed that the deposit occurs as a series of thin, shallow-dipping, discrete bands of manganese mineralisation. The depth to the base of the lower mineralised horizon averages approximately 40m (see Figure 4).

Only one diamond drill intercept has been submitted for metallurgical analysis to date and further in-fill drilling of the deposit and additional metallurgical test work will be required to confirm that these results can be applied across the entire deposit. This work will also be needed to confirm the overall yield and upgradeability properties.

Should this metallurgical work confirm that an average yield of 20% is achievable across the entire deposit, the Company believes Tally-Ho, after beneficiation and further drilling, could contain between 500,000 and 600,000 tonnes of manganese grading between 35 and 45% Mn.\*

*\* Because the potential quantity and grade of this Exploration Target is conceptual in nature, Spitfire notes in accordance with Section 18 of the JORC Code that there has been insufficient verification of previous exploration to define a beneficiated Mineral Resource. It is uncertain if further exploration or metallurgical test work will result in the determination of the targeted beneficiated Mineral Resource.*

### Regional Exploration

In parallel with the work at the Tally-Ho deposit, Spitfire continued to progress an aggressive regional exploration program targeting multiple +40% Mn DSO manganese deposits within its tenements.

During the December 2009 Quarter, the Company completed a detailed interpretation of the results of an airborne electromagnetic (EM) survey completed over the broader area surrounding the Tally-Ho Deposit.

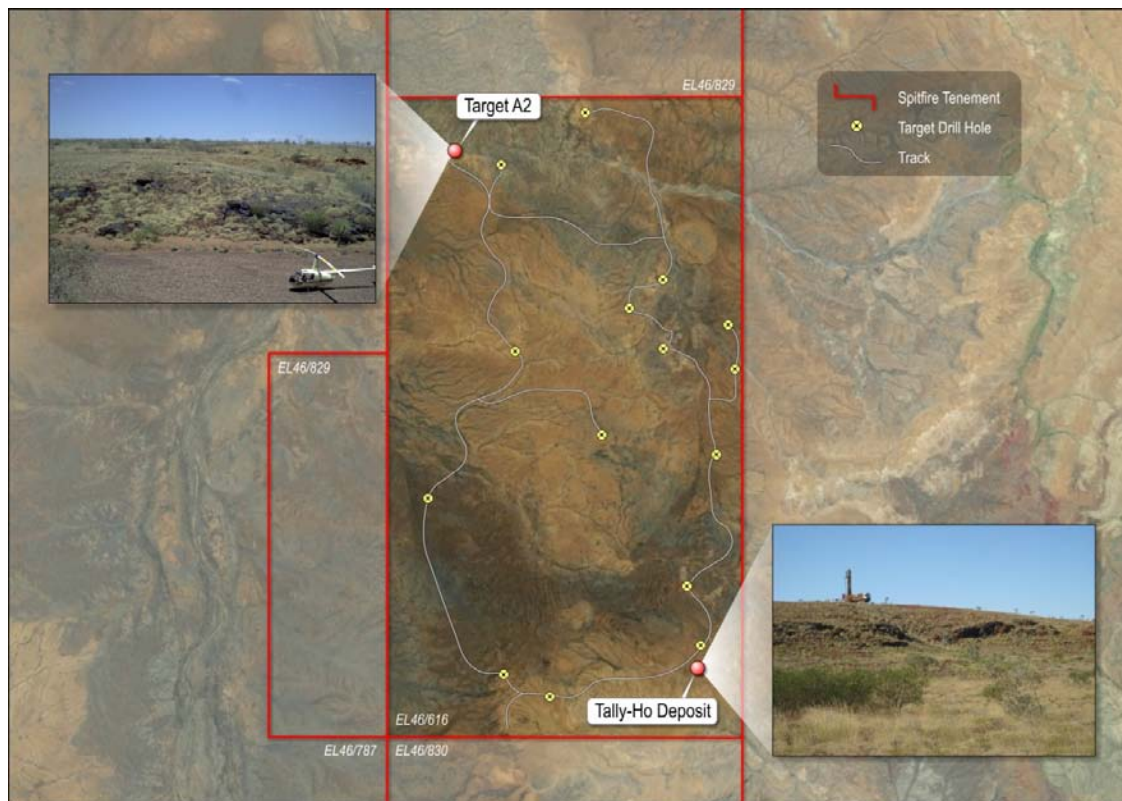
## REVIEW OF OPERATIONS

Numerous areas of interest were identified from this work providing a strong pipeline of exploration targets, from which 15-16 high priority targets were specified using a combination of closely spaced aerial EM geophysics and geological knowledge. The targets are located throughout EL46/616 (SPI 80%), which also hosts the Tally-Ho manganese deposit.

The Company budgeted for an initial 3,000m of Reverse Circulation (RC) drilling across these priority targets, with further metres to be drilled if deemed appropriate. Boart Longyear was contracted to undertake the drilling, which commenced on 9 April 2010.

### **Phase 1 2010 Drilling Program**

The 2010 program provided the first definitive test of multiple targets for high-grade manganese which have been developed and geologically assessed by Spitfire over the past two field seasons within the South Woodie Woodie Project (see Figure 5).



**Figure 5 – E46/616 Drill Hole Locations**

The initial (Phase 1) program of reconnaissance drilling across 15 geophysical and geological target areas at South Woodie Woodie was completed during the June 2010 Quarter, comprising a total of 19 holes for 2,027m of Reverse Circulation (RC) drilling conducted under contract by Boart Longyear.

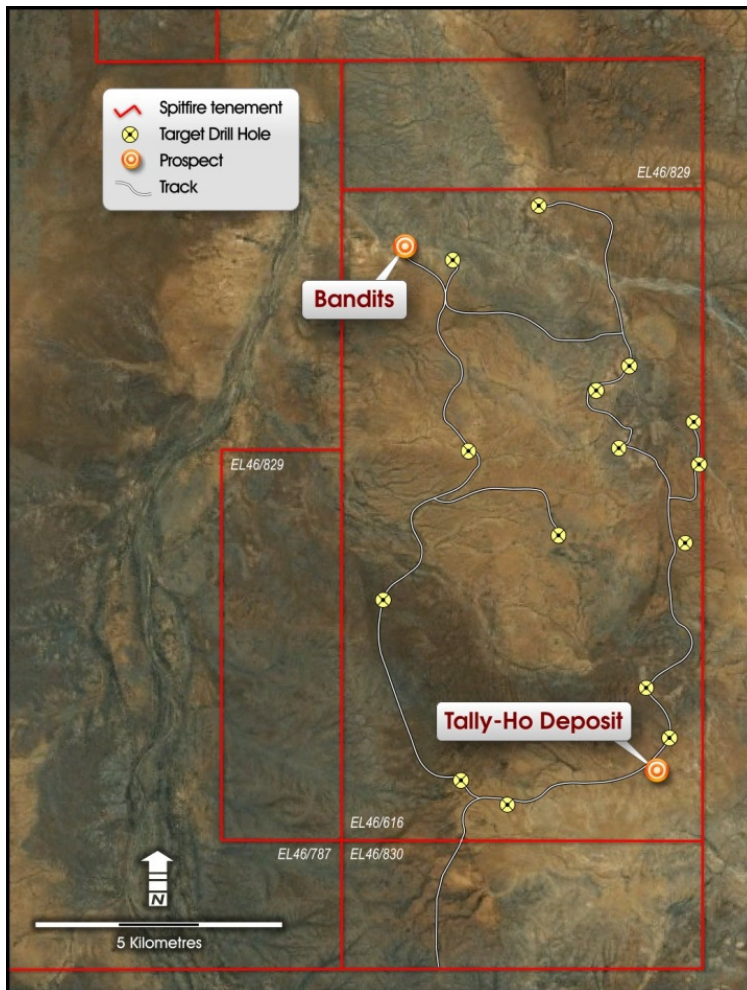
Geological logging of the results indicated that hole WWS079, located 9km north of the Tally-Ho deposit intersected 20m of visual mineralisation. The mineralisation has been interpreted to be similar in style to that found at Tally-Ho.

Hole WWS083 also intersected 11m of manganese mineralisation. This general area is now referred to as the “Bandits” prospect (see Figure 6).

Eleven of the 19 holes were sampled and 182 samples were dispatched for analysis.

**Anomalous Manganese Intersected at Bandits Prospect**

Subsequent to the end of the financial year, assay results were received for WWS079 and three other drill holes in the vicinity, WWS072, WWS082 and THRC076, which intersected visual manganese mineralisation.



**Figure 6 – South Woodie Woodie Exploration Map showing the Bandits area**

All of these holes intersected relatively narrow widths of anomalous manganese, with the highest grade being 12.3% Mn, as summarised below:

Hole ID	Easting	Northing	From	To	Mn	Fe	Al2O3	SiO2	S	P	PbO
	GDA94	GDA94	Metres	Metres	%	%	%	%	%	%	%
WWS072	317259	7529543	32	33	7.81	5.95	14.6	51.8	0.001	0.13	0.012
WWS072	317259	7529543	56	57	7.65	3.52	15	55.8	0.001	0.138	0.013
WWS079	314472	7535592	31	32	7.65	14.2	6.39	53.1	0.011	0.016	0.013
WWS079	314472	7535592	32	33	7.53	13.6	6.61	53.6	0.011	0.016	0.014
WWS079	314472	7535592	33	34	6.17	12.4	5.66	59.2	0.008	0.015	0.011
WWS079	314472	7535592	34	35	7.41	12.3	4.14	59.9	0.006	0.014	0.012
WWS082	313791	7535720	44	45	7.04	0.84	0.81	85.7	0.002	0.008	0.005
THRC076	317467	7258683	42	43	12.3	41.2	1.01	11.3	0.001	0.214	0.007
THRC076	317467	7258683	43	44	7.98	39.2	1.39	20.8	0.001	0.185	0.005

## REVIEW OF OPERATIONS

---

The mineralisation has been interpreted to be similar in style to that found at Tally-Ho.

While the mineralisation at Tally-Ho comprises multiple high-grade seams, drilling at Bandits has intersected a single narrow seam.

While at this stage the prospect appears to have limited economic potential, Spitfire is encouraged by the widespread nature of these anomalous intersections, combined with the presence of outcropping high-grade manganese.

Follow-up drilling is planned in this area to test for the presence of larger accumulations of Tally-Ho-style mineralisation as part of the planned Phase 2 drilling program commencing in October 2010 (see below).

### **Phase 2 Drilling Program**

During the year, Spitfire contracted GPX Surveys to fly a new 774km airborne geophysical survey west of the Tally-Ho area to potentially delineate a second suite of targets for drill testing later in the calendar year.

The Company also completed a 67km<sup>2</sup> helicopter-borne EM survey over the tenement adjacent to the Bandits area. Preliminary interpretation of the data has defined a series of new targets which have been assessed in light of the results of the drilling program and other geological information.

At site, detailed mapping of the project area continues. The mapping is being used in conjunction with the geophysical surveys to define areas to be drill tested.

Spitfire intends to commence drilling at South Woodie Woodie again later this year. Further close-spaced drilling at the newly discovered Bandits prospect will be part of that program.

The Phase 2 drilling program will not just be limited to the southern area. A number of new targets have been identified for testing on EL46/615 to the north.

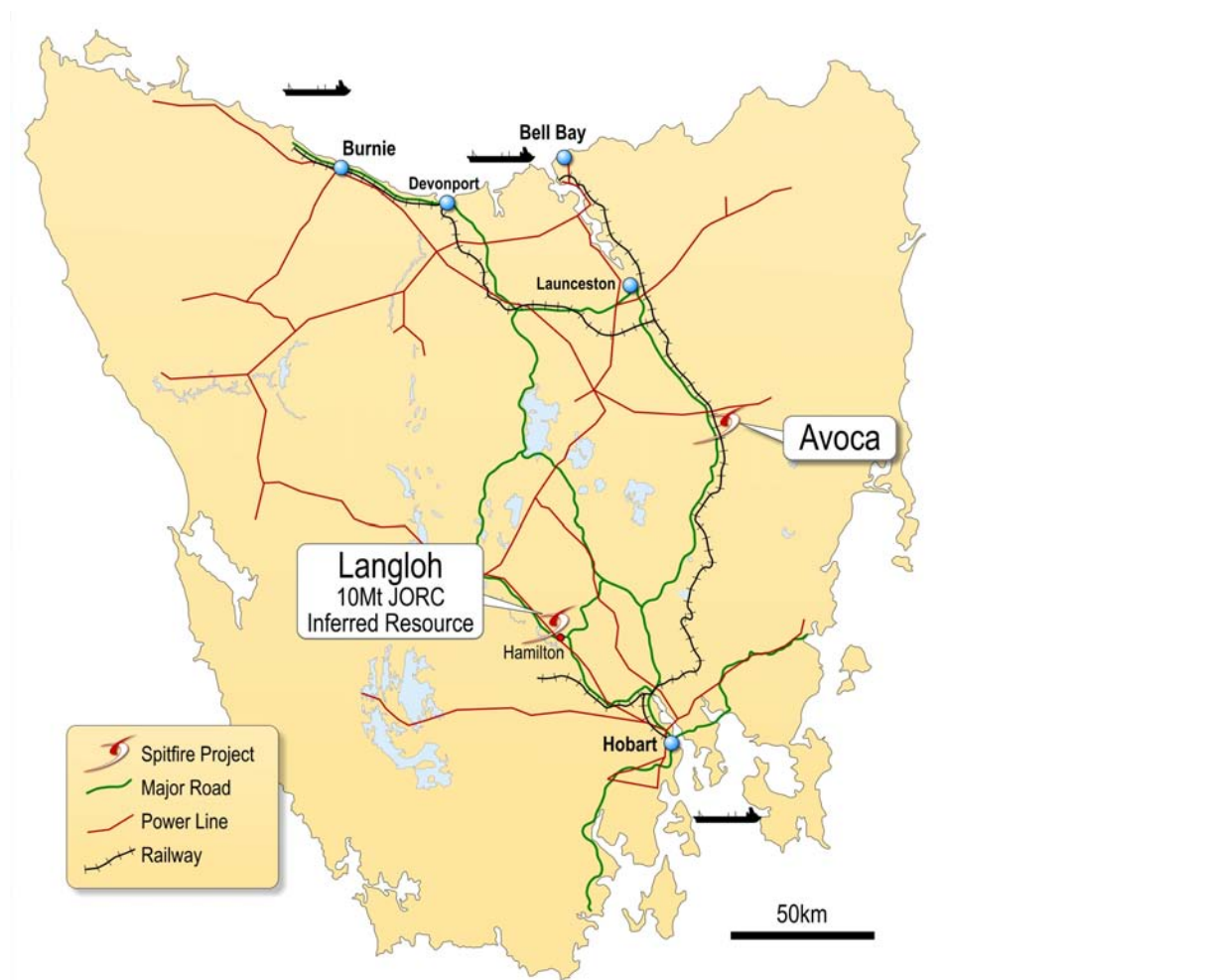
These include targets which are considered prospective for direct shipping-style manganese, as well as lower-grade Tally-Ho-style mineralisation.

Preparations are continuing for Phase 2 drilling, with Programs of Work (POW's) submitted in August for both the 616 and 615 tenements.

Drilling is planned to commence, subject to approvals, heritage clearances and drill rig availability, in October 2010.

### **Tasmanian Coal**

*Spitfire's Tasmanian Coal project comprises a prospective portfolio of coal exploration properties located in Tasmania. These assets comprise the Langloh Coal Project (which has an existing 10 million tonne in-situ Inferred JORC thermal coal resource) and the Avoca Coal Project. All of these projects have excellent access to infrastructure (see Figure 7).*



**Figure 7 – Tasmania Exploration Map showing exploration areas**

Spitfire commenced diamond and Rotary Air Blast (RAB) drilling at its two thermal coal projects in the Derwent Valley and Fingal Tier regions of Tasmania in mid-March 2010. This followed the appointment of a specialist coal advisor and extensive testwork operations last year.

An initial 11-hole diamond drilling and RAB program was completed at the Langloh (Hamilton) Coal Project, representing the first exploration program to be conducted in this area since the early 1980s (see Figure 8).

The Langloh Project comprises a granted tenement covering an area of 103km<sup>2</sup> in the Derwent Valley region. The project area was drilled and sampled by Capricorn Resources and Petrecon Australia between 1981 and 1982, with a total of 28 holes completed for 1,413m of drilling.

This resulted in the definition of an initial In Situ Inferred black coal JORC resource of 10 million tonnes within an area approximately 7.25km long by 4.5km wide. Three seams were delineated averaging 3.6m in cumulative width and lying within a maximum 45m below surface.

The Langloh Project is favourably located with respect to infrastructure. Historical analysis of the coal suggests that it is of medium calorific value, possibly suitable for export markets in Asia.

Three RAB holes tested for extensions to the existing resource, which remains open both along strike and at depth. A further seven diamond holes were drilled to extract samples for coal quality analysis. The results of this drilling have confirmed the continuity of the coal seams and provided core for extensive coal quality analysis.

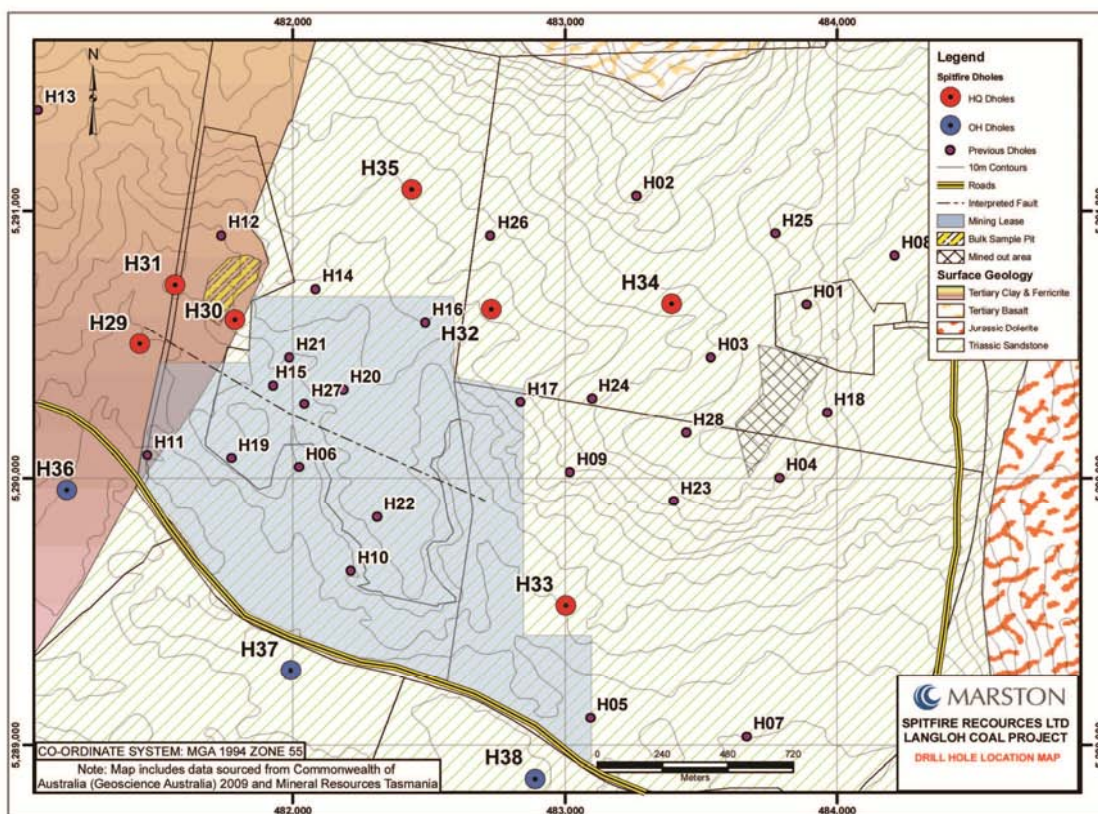


Figure 8 – Langloh Drill Hole Location Map

A second program, comprising 18 holes of RAB drilling and two diamond drill holes, was also completed at the Avoca Project in the June 2010 Quarter. The key objectives of the drilling were to extract samples for coal quality analysis and test the area’s coal-bearing potential (see Figure 9).

The results were encouraging, with multiple coal seams, in some instances up to 3.5m thick, intersected over a strike length of up to 5-7km. The extensive nature of the coal seams indicates the possibility that the Avoca Project may host significant tonnages of coal. Coal has been mined in the areas surrounding Avoca almost continually since 1923.

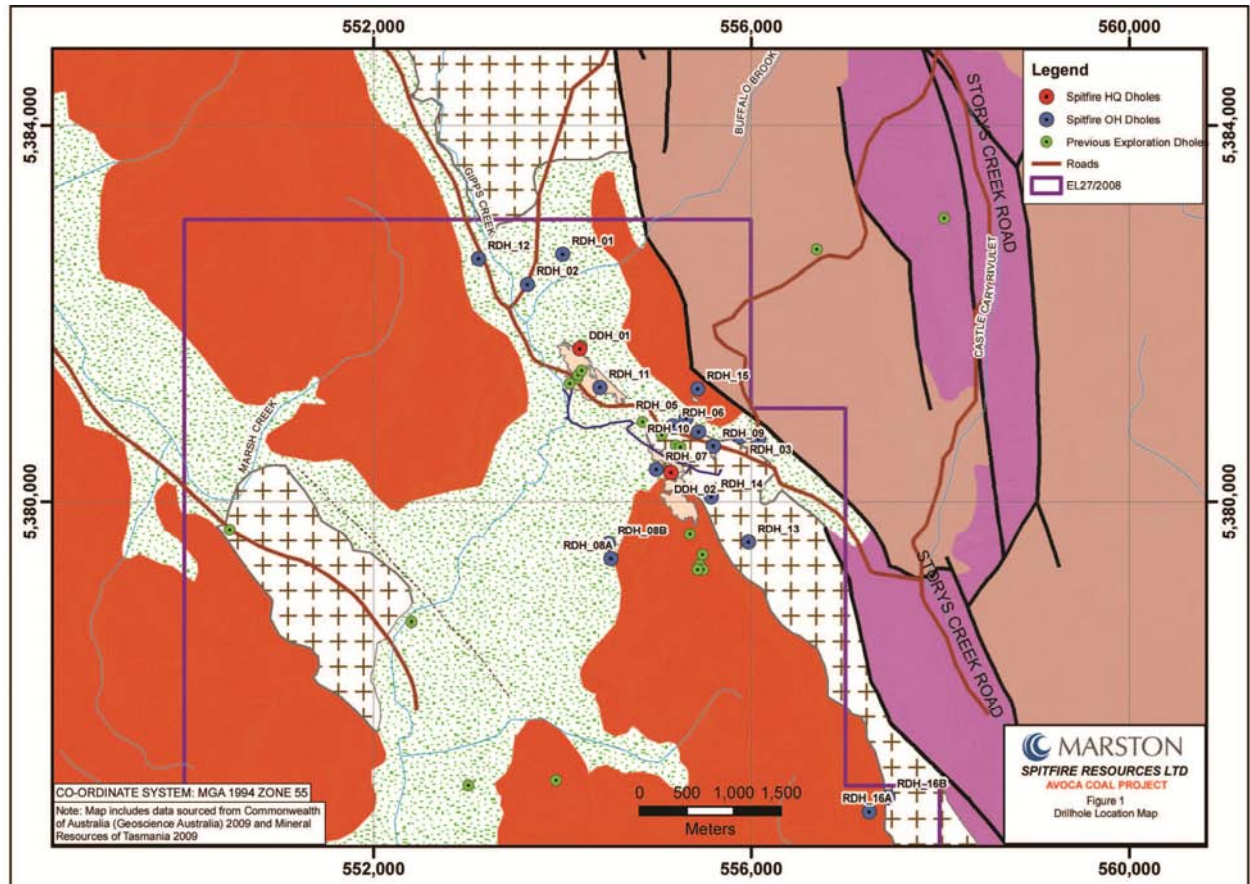
**Significant Coal Intersections at Avoca**

Hole_ID	Coal Seam Thickness (m)	Depth From (m)
SF_DDH_002**	2.43	54.32
SF_DDH_001**	1.8	3.37
	2.58	18.46
SF_DDH_010*	2.5	20
	3	49
	3.5	67
SF_DDH_011*	2	20
	2.75	80.25
SF_DDH_005*	3	22
	2	53
SF_DDH_006*	3	8
	3	27.5
SF_DDH_003*	2	11
SF_DDH_004*	3.5	6.5
	1.5	24
	2	38.5

**Note:**

\* Denotes open hole drilling method

\*\* Denotes HQ3 Diamond drilling method



**Figure 9 – Avoca Drill Hole Location Map**

Samples from the drilling have been dispatched to SGS in Newcastle for a 3 month program of coal quality analysis which will be crucial to determining the next steps for advancing this project. These coal quality results and those of the drilling program are to be reviewed by specialist coal consultancy Marston.

The Company intends to fully evaluate the development potential of the Tasmanian coal assets as soon as a full suite of data is available on coal quality and resource potential.

**Northern Territory Exploration Portfolio**

Spitfire holds a 70% interest in a group of four Exploration Licences and three Exploration License Applications (ELA's) which have been lodged surrounding the Lindeman's Bore Project, located 380km south west of Katherine in the Northern Territory.

The Lindeman's Bore Project is owned and operated by Proto Resources & Investments Ltd (ASX: PRW). The tenements have a total area of 9,680km<sup>2</sup> covering prospective magnetic features surrounding the Lindeman's Bore discovery.

No significant activities were carried out during the year.



**JAMES HAMILTON**  
Managing Director

**Competent Person's Statement – South Woodie Woodie and Northern Territory Project**

*The information in this report relating to Exploration Results and Mineral Resources from the South Woodie Woodie Manganese Project and Northern Territory Project is based on information compiled by Nathan Cull who is a Member of the Australian Institute of Geoscientists. Mr Cull is the Senior Consulting Geologist to Spitfire Resources Ltd, and consents to the inclusion in this report of the information as presented. He has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the type of activity described to qualify as a competent person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.*

**Competent Person's Statement – Tasmanian Coal Project**

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Neil Fraser who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Fraser is employed by Marston International Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Neil Fraser consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## DIRECTORS' REPORT

The Directors of Spitfire Resources Limited submit herewith the Annual Report of the Company and its controlled entities, for the period from 1 July 2009 to 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### 1. DIRECTORS

The Directors in office of the Company at any time during or since the end of the financial year, unless otherwise stated, are:

Name, qualifications and independence status	Experience, special responsibilities and other Directorships in listed entities
<p>James Hamilton MAICD Chairman &amp; Managing Director</p>	<p><b>Experience</b> Mr Hamilton has 18 years experience in extensively analysing exploration projects, mines and management teams across a variety of mineral commodities, including precious metals, base metals, diamonds, energy minerals and industrial minerals.</p> <p><b>Special responsibilities</b> None</p> <p><b>Other Directorships</b> Former director of AIM-listed Churchill Mining Plc from March 2005 until April 2009.</p>
<p>Russell Hardwick BBus, ACIS CPA, MAICD Director/Secretary</p>	<p><b>Experience</b> Mr Hardwick is a Certified Practising Accountant with 17 years experience in a variety of private and public companies and is a member of the Australian Institute of Company Directors. Most recently he has served as Company Secretary for an AIM-listed minerals exploration company and an ASX-listed publishing company.</p> <p><b>Special responsibilities</b> Mr Hardwick is the chairman of the audit committee.</p> <p><b>Other Directorships</b> None</p>
<p>Christopher Daws Associate Diploma in Applied Science (Environmental Technology) MAICD, SA Fin Non Executive Director</p>	<p><b>Experience</b> Mr Daws has a strong background in finance and economics having spent 11 years involved in Australian equities markets and has worked within some of the largest broking organisations in the world. Mr Daws is a Senior Associate of the Financial Services Institute of Australasia. Mr Daws held the role of CEO for four years for ASX-listed Niagara Mining Limited (renamed Poseidon Nickel Limited) including acting as a Director from November 2006 to July 2007.</p> <p><b>Special responsibilities</b> Mr Daws is a member of the audit committee.</p> <p><b>Other Directorships</b> Mr Daws is a Director of ASX listed US Nickel Limited (Appointed 9 January 2009) and Argent Limited (Appointed 7 July 2010)</p>

**2. COMPANY SECRETARY**

<b>Name and qualifications</b>	<b>Particulars</b>
Russell Hardwick BBus, ACIS CPA, MAICD	The Company Secretary is Mr Russell Hardwick. Mr Hardwick is a Certified Practising Accountant and an Associate Member of the Institute of Chartered Secretaries. Mr Hardwick has also held the role of Company Secretary with other ASX listed companies for 10 years.

**3. DIRECTORS' MEETINGS**

The following table sets out the number of Directors' meetings held during the financial year and the number attended by each Director. During the financial year, seven Board meetings were held.

<b>Directors</b>	<b>Director Meetings</b>		<b>Audit Committee Meetings</b>	
	<b>Number entitled to attend</b>	<b>Attendance</b>	<b>Number entitled to attend</b>	<b>Attendance</b>
James Hamilton	7	7	-	-
Russell Hardwick	7	7	2	2
Christopher Daws	7	7	2	2

In addition, various matters were dealt with by circular resolution signed by all of the Directors.

**4. REMUNERATION REPORT**

This report details the nature and amount of remuneration for each key management person of Spitfire Resources Limited, and for the executives receiving the highest remuneration.

**4.1 Remuneration Policy**

Key management personnel and Executive Directors have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Compensation levels for key management personnel and Secretary of the Company and Group are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Board obtains independent advice as required on the appropriateness of compensation packages of both the Company and the Group given trends of comparative companies and the objectives of the Company's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel;
- The key management personnel's ability to control the performance; and
- The Group's exploration success.

The performance of key management personnel is measured against criteria agreed annually with each Executive. The Board may exercise its discretion in relation to approving incentives, bonuses and options. The policy is designed to attract the highest calibre of Executives and reward them for performance that results in long-term growth in shareholder wealth.

## DIRECTORS' REPORT

---

Key management personnel are also entitled to participate in the employee share and option arrangements. Options are valued using the Black-Scholes methodology.

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

The Board policy is to remunerate Non Executive Directors at market rates for time, commitment and responsibilities. Directors also provide consultancy services to the Company and are remunerated at market rates. The Board determines payments to the Non Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. 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 Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

### 4.2 Company performance, shareholder wealth and Director and Executive remuneration

The remuneration policy has been tailored to increase goal congruence between Shareholders, Directors and Executives. As part of each of the key management personnel's remuneration package, there is a performance-based component consisting of the issue of options to encourage the alignment of management and Shareholders' interests. Included in the issue of options are vesting periods determined by the Board.

This policy has been deemed by the Board to be the most appropriate performance-based compensation method for a company in the minerals exploration industry.

### 4.3 Key Management Personnel

The remuneration structure for key management personnel and Executive Directors is based on a number of factors, including length of service, particular experience of the individual concerned and the requirements and overall performance of the Company.

The Company has entered into a consulting agreement with Goldregis Corporation Pty Ltd to provide the services of Mr James Hamilton to the Company. The agreement commenced on 1 February 2009 on a continuing basis with no fixed term. The agreement specifies the duties and obligations for the consultancy services, including the design and implementation of the Company's corporate and strategic plan including the review of other mining exploration projects. The agreement contains normal termination clauses including the Company or the consultant providing six months' notice. On termination of the agreement by the Company for any reason except a serious breach of any of the provisions of the Agreement committed by the consultant, the consultant shall be entitled to 12 months standard consulting fees.

The Company has entered into a consulting agreement with Ravenhill Corporate Pty Ltd to provide the services of Mr Russell Hardwick to the Company. The agreement commenced on 1 February 2009 on a continuing basis with no fixed term. The agreement specifies the duties and obligations for the consultancy services including all aspects of provision of compliance with the ASX, ASIC and also the provision of general management consulting services. The agreement contains normal termination clauses including the Company or the consultant providing six months' notice. On termination of the agreement by the Company for any reason except a serious breach of any of the provisions of this Agreement committed by the consultant, the consultant shall be entitled to 12 months standard consulting fees.

The employment agreements and contracts of service between the Company and other key management and staff are on a continuing basis. The Company may terminate an employment contract by providing one month's written notice or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time.

## DIRECTORS' REPORT

### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual performance and overall performance of the Group. In addition, the Board refers to external consultants or publications as required to provide analysis and advice to ensure the Directors' and Senior Executives' compensation is competitive in the market place.

### Long-term incentive

Options are issued under the Spitfire Employee Share Option Plan (ESOP) to employees. It provides for key management personnel to receive options over ordinary shares for no consideration. Any options issued to directors require the approval of shareholders.

The Board determines the proportion of fixed and variable compensation for each key Director and management personnel. The following table sets out the remuneration for the Directors and key management expensed during the 2010 financial year:

2010	Short Term Benefits		Long Term Benefits			Value of options as proportion of remuneration %
	Salaries or Director Fees \$	Consulting Fees \$	Options \$	Post Employment Superannuation \$	Total \$	
<b>Executive Directors</b>						
James Hamilton	25,000	260,000	175,699	-	<b>460,699</b>	38.14%
<b>Non Executive Directors</b>						
Russell Hardwick	25,000	90,425	79,881	2,250	<b>197,556</b>	40.43%
Christopher Daws	25,000	-	63,883	2,812	<b>91,695</b>	69.67%
<b>Executives</b>						
Nathan Cull*	210,654	-	78,017	18,959	<b>307,630</b>	25.36%

2009	Short Term Benefits		Long Term Benefits			Value of options as proportion of remuneration %
	Salaries or Director Fees \$	Consulting Fees \$	Options \$	Post Employment Superannuation \$	Total \$	
<b>Executive Directors</b>						
James Hamilton	25,000	260,000	273,976	-	<b>558,976</b>	49.01%
<b>Non Executive Directors</b>						
Russell Hardwick	25,000	94,400	102,741	1,688	<b>223,829</b>	45.90%
Christopher Daws	25,000	-	102,741	1,688	<b>129,429</b>	79.38%
<b>Executives</b>						
Nathan Cull*	200,942	-	76,024	18,085	<b>295,051</b>	25.77%

\*Mr Nathan Cull resigned as an employee on 23 August 2010. He now fulfils the role of Senior Consulting Geologist.

## DIRECTORS' REPORT

There were no performance related payments made during the year (2009: nil). Performance hurdles are not attached to remuneration options, however the Board determines appropriate vesting periods to provide rewards over a period of time to directors and key management personnel.

The following factors and assumptions were used in determining the fair value on the grant date of options granted to key management personnel and employees under the Spitfire Employee Share Option Plan:

Grant Date	Option Life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend Yield
18 August 2009	5	\$0.0465	\$0.150	\$0.100	60%	5.50%	-
27 November 2009	5	\$0.0362	\$0.168	\$0.089	60%	5.50%	-
22 June 2010	5	\$0.0460	\$0.175	\$0.105	60%	5.50%	-

### 4.4 Share-based compensation

The Company has adopted the Spitfire Employee Share Option Plan which was approved by Shareholders at the April 2008 General Meeting.

The Board considers length of service, seniority, responsibilities, potential contribution and any other relevant matters in determining eligibility of participants. The Board has sole responsibility in determining the number of options and terms and conditions of options granted to any participant under the option plan. The options issued under the option plan will be granted for nil consideration.

The expiry date of the options will be determined by the Board and will also lapse within 30 days of the participant ceasing to be an employee of the Company or a controlled entity (subject to certain exceptions). The Board, at its discretion, may apply certain vesting conditions upon any options issued under the option plan. During the year, 50% of the options issued under the Spitfire Employee Share Option Plan vest 12 months from the grant date with the balance 24 months from the grant date.

The options are not quoted on the ASX, however application will be made for an ASX quotation of any shares issued upon the exercise of the options.

The aim of the Spitfire Employee Share Option Plan is to provide long term incentives to Executives to create and enhance Shareholder wealth and to provide a mechanism to assist the Company in its endeavours to retain key Executives and employees.

Details of share options in the Company provided as remuneration to each Director of the Company and each of the key management personnel of the Group during the financial year are set out in the following table. When exercisable, each option is convertible into one ordinary share of Spitfire Resources Limited.

	Number of options granted during 2010	Grant Date	Fair value per option at grant date	Exercise price per option	Expiry Date	Number of options vested during 2010
<b>Executive Directors</b>						
James Hamilton	3,000,000	27 November 2009	\$0.0362	\$0.168	27 November 2014	Nil
<b>Non Executive Directors</b>						
Russell Hardwick	2,000,000	27 November 2009	\$0.0362	\$0.168	27 November 2014	Nil
Christopher Daws	1,000,000	27 November 2009	\$0.0362	\$0.168	27 November 2014	Nil
<b>Executives</b>						
Nathan Cull	1,000,000	18 August 2009	\$0.0465	\$0.150	18 August 2014	Nil
	400,000	22 June 2010	\$0.0460	\$0.175	22 June 2015	Nil

## DIRECTORS' REPORT

No Employee Plan options were forfeited or cancelled during the 2010 financial year.

### 4.5 Analysis of options granted as compensation

Details of vesting profiles of the options granted as remuneration to each key management person of the Group are detailed in the following table:

	Number of options granted	Grant Date	% vested in 2010 year	% forfeited in year	Financial years in which grant vests
<b>Executive Directors</b>					
	2,000,000	8 February 2008	50%	Nil	Vested
James Hamilton	2,000,000	8 February 2008	50%	Nil	Vested
	2,000,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	2,000,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	3,000,000	27 November 2009	Nil	Nil	50% in 10/11 & 50% in 11/12*
<b>Non Executive Directors</b>					
	750,000	8 February 2008	50%	Nil	Vested
Russell Hardwick	750,000	8 February 2008	50%	Nil	Vested
	750,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	750,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	2,000,000	27 November 2009	Nil	Nil	50% in 10/11 & 50% in 11/12*
Christopher Daws	750,000	8 February 2008	50%	Nil	Vested
	750,000	8 February 2008	50%	Nil	Vested
	750,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	750,000	6 March 2009	50%	Nil	Balance vests in 10/11*
	1,000,000	27 November 2009	Nil	Nil	50% in 10/11 & 50% in 11/12*
<b>Executives</b>					
	400,000	29 April 2008	50%	Nil	Vested
Nathan Cull	400,000	29 April 2008	50%	Nil	Vested
	100,000	19 September 2008	50%	Nil	Balance vests in 10/11
	100,000	19 September 2008	50%	Nil	Balance vests in 10/11
	500,000	21 January 2009	50%	Nil	Balance vests in 10/11
	500,000	21 January 2009	50%	Nil	Balance vests in 10/11
	1,000,000	18 August 2009	Nil	Nil	50% in 10/11 & 50% in 11/12
	400,000	22 June 2010	Nil	Nil	50% in 10/11 & 50% in 11/12

\* 50% of the options vest, and only become exercisable, on the earlier of the weighted average share price for Spitfire ordinary shares being greater than \$0.30 for 5 consecutive days, or 1 year after the grant date. The balance of the options vest, and only become exercisable, on the earlier of the weighted average share price for Spitfire ordinary shares being greater than \$0.30 for 5 consecutive days, or 2 year after the grant date.

## DIRECTORS' REPORT

### 4.6 Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person is detailed as follows. These amounts are the total fair value of the options calculated at the grant date and amounts are allocated to remuneration over the vesting periods:

30 June 2010	Granted in year	Value of options exercised	Lapsed in year
	\$	\$	\$
<b>Executive Directors</b>			
James Hamilton	108,600	-	-
<b>Non Executive Directors</b>			
Russell Hardwick	72,400	-	-
Christopher Daws	36,200	-	-
<b>Executives</b>			
Nathan Cull	64,900	-	-
<b>Total</b>	<b>282,100</b>	<b>-</b>	<b>-</b>

30 June 2009	Granted in year	Value of options exercised	Lapsed in year
	\$	\$	\$
<b>Executive Directors</b>			
James Hamilton	119,200	-	-
<b>Non Executive Directors</b>			
Russell Hardwick	44,700	-	-
Christopher Daws	44,700	-	-
<b>Executives</b>			
Nathan Cull	58,450	-	-
<b>Total</b>	<b>267,050</b>	<b>-</b>	<b>-</b>

### 5. DIRECTORS' INTERESTS

The relevant interest of each Director in the shares and rights or options over such instruments issued by the Companies within the Group, as notified by the Directors to the ASX in accordance with s205G(1) of the Corporations Act 2001, at the date of this Report is as follows:

30 June 2010	Ordinary shares	Options over ordinary shares
	Number	Number
<b>Executive Directors</b>		
James Hamilton	1,000,000	11,000,000
<b>Non Executive Directors</b>		
Russell Hardwick	325,000	5,000,000
Christopher Daws	700,000	4,000,000

## DIRECTORS' REPORT

30 June 2009	Ordinary shares	Options over ordinary shares
	Number	Number
<b>Executive Directors</b>		
James Hamilton	1,000,000	8,519,967
<b>Non Executive Directors</b>		
Russell Hardwick	225,000	3,461,634
Christopher Daws	700,000	3,690,634

### 6. SHARE OPTIONS

#### Unissued shares under options

At the date of printing, unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of options
8 February 2013	\$0.20	4,500,000
	\$0.25	4,500,000
29 April 2013	\$0.20	500,000
	\$0.25	500,000
19 September 2013	\$0.20	150,000
	\$0.25	150,000
21 January 2014	\$0.10	500,000
	\$0.125	500,000
6 March 2014	\$0.10	3,500,000
	\$0.125	3,500,000
18 August 2014	\$0.15	1,000,000
27 November 2014	\$0.168	6,000,000
15 December 2014	\$0.15	200,000
22 June 2015	\$0.175	1,000,000

#### Shares issued on exercise of options

During the financial year there were 940 shares issued upon the exercise of June 2010, 20c options.

**7. CORPORATE GOVERNANCE STATEMENT**

The Company considered and set up a framework for embracing the ASX Principles of Good Corporate Governance and Best Practice Recommendations. The Company has further reviewed the second edition of the Corporate Governance Principles and Recommendations ("Recommendations") released in August 2007.

Commensurate with the spirit of the Recommendations, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. The Corporate Governance information is available on the Company's website at [www.spitfireresources.com.au](http://www.spitfireresources.com.au)

This statement outlines the main Corporate Governance practices that were in place throughout the financial year.

**Principle 1 – Lay solid foundations for management and oversight**

The Board has adopted a charter which sets out the role and function of the board. The Board has considered and identified the functions reserved to the Board and those functions that are delegated to senior executives. A copy of this is available on the Company website. In carrying out its responsibilities and exercising its powers, the Board at all times recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Shareholders, as well as its employees, customers, and the community.

The senior executives and staff participated during the year in the Company's annual performance review which sets out and identifies performance against agreed key performance indicators.

**Principle 2 – Structure the Board to add value****Board Composition**

The skills, experience and expertise relevant to the position of each Director who is in office at the date of this Report are detailed in the Directors' Report.

The names of the Directors and date of appointments are:

<b>Board of Directors</b>	<b>Date of appointment</b>	<b>Independent</b>
James Hamilton	29 May 2007	No
Russell Hardwick	29 May 2007	No
Christopher Daws	29 May 2007	Yes

The Company has a Board of three Directors comprising the Managing Director/Executive Chairman and a Non Executive Director and a Director/Secretary. The name of the independent Director of the Company is Christopher Daws.

The Board seeks a mix of skills suitable for a junior resources company including resources experience, reporting and compliance and access to capital markets.

The Board considers that only Mr Christopher Daws is independent after reviewing the ASX Corporate Governance Council's definition of independence and considering materiality.

When determining whether a Non Executive Director is independent, the Director must not fail any of the following materiality thresholds:

- Less than 10% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- No material sales are made to or purchases made from any entity or individual directly or indirectly associated with the Director; and
- None of the Director's income or the income of an individual or entity directly or indirectly associated with the Director is derived from a contract with any member of the economic entity other than income derived as a Director of the entity.

## DIRECTORS' REPORT

Each Director has the right of access to all relevant Company Information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice in the furtherance of their duties as Directors at the Company's expense.

The Company conducts its operations as a listed entity in accordance with the Principle 2, other than in relation to the matters specified below:

Recommendation	Notification of Departure	Explanation of Departure
<p>Recommendation 2.1 A majority of the Board should be Independent Directors</p>	<p>Only one of the three Directors is considered to be independent</p>	<p>The Company has a Board of three Directors comprising the Managing Director/Executive Chairman and two Non Executive Directors. The Board considers that only Mr Christopher Daws is independent after reviewing the ASX Corporate Governance Council's definition of independence and considering materiality. The Board recognises the importance of a majority of Independent Directors which may be desirable over the longer term, but after considering the needs of the Company at this time and the Board policies which have been put in place, it is the view of the Board that the current composition serves the best interests of the Shareholders.</p>
<p>Recommendation 2.2 The Chairperson should be an Independent Director</p>	<p>Chairman is an Executive Director</p>	<p>Mr Hamilton acts as the Executive Chairman of the Company. The Board has considered the recommendations and prefers to maintain Mr Hamilton as the Chairman because he has been actively involved in the formation and promotion of the Company. The Board recognises the importance of an Independent Chairman which may be desirable over the longer term. The Board expects to appoint an Independent Chairman in the future, subject to the scope and requirements of its exploration projects. The Board believes that Mr Hamilton's appointment as Chairman currently serves the best interests of the Shareholders, taking into account the size and requirements of the Company.</p>
<p>Recommendation 2.3 The roles of the Chair and Chief Executive Officer should not be exercised by the same individual</p>	<p>Chairman is the CEO</p>	<p>Mr Hamilton acts as the Chief Executive Officer and Chairman of the Company. The Board has considered the Recommendation and expects to appoint an Independent Chairman in the future, subject to the scope and requirements of its exploration projects. The Board recognises the importance of an Independent Chairman which it considers may be desirable over the longer term.</p>
<p>Recommendation 2.4 The Board should establish a Nomination Committee</p>	<p>The Board has decided not to form a Nomination Committee</p>	<p>The Board does not believe that any efficiencies or other benefits would be gained by establishing a separate Nomination Committee. In any event, the Board has adopted a Nomination Committee Charter which is equally suited to use by the full Board or a subcommittee.</p>
<p>Recommendation 2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors</p>	<p>The Board has not conducted a formal Performance Evaluation</p>	<p>The Board recognises the importance of a formal Performance Evaluation but as the Company consists of only three Directors, it believes that a formal Performance Evaluation is not required at this point in time. As the Company grows and develops, it will continue to consider the efficiencies and merits of a formal Performance Evaluation of the Board, its committees and individual Directors.</p>

### ***Principle 3 – Promote ethical and responsible decision making***

The Company has adopted a code of conduct for Directors and Executives with the overriding principle that Directors and Executives must act honestly, in good faith and in the best interest of Spitfire Resources Limited ('the Company') as a whole. A copy of the code of conduct is available on the Company website.

The Company has adopted a policy regarding Directors and employees trading in its securities of the Company. The overriding principle in dealing with any securities is contained in the insider trading provisions of the Corporations Act and provides that a person cannot buy or sell shares when they are in possession of information which isn't generally available, which could reasonably be expected to have a material effect on the share price of a company if that information was generally available. A copy of the share trading policy is available on the Company website.

### ***Principle 4 – Safeguard integrity in Financial Reporting***

The Board has established an Audit Committee and adopted a formal charter. The purposes of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the external reporting of financial information, the internal control and operational risk management framework, the independence and effectiveness of audit and compliance with laws and regulations. A copy of the charter is available on the Company website.

The members of the Audit Committee are:

Russell Hardwick (CPA)- Chairman  
Christopher Daws (Independent Director)

During the year, the Audit Committee met twice. The Board reviews the performance of the external auditor on an annual basis. The Company currently requires the partner managing the audit for the external auditor be changed within a period of five years from engagement.

### ***Principle 5 – Make timely and balanced disclosure***

The Company is committed to complying with the continuous disclosure obligations of the Corporations Act and the listing rules of Australian Securities Exchange Limited (ASX). The Company has adopted a written policy on disclosure of information, a copy of which can be found on the Company website.

The Company Secretary has been appointed as the person responsible for communications with the Australian Securities Exchange. In addition, the Company Secretary has responsibility for overseeing and coordinating disclosure of information and communicating with the Managing Director in relation to continuous disclosure matters.

### ***Principle 6 – Respect the rights of Shareholders***

Spitfire Resources Limited recognises the right of Shareholders to be informed of matters, which affect their investments in the Company. The Board aims to ensure that the Shareholders are informed of all major developments affecting the Company. The Company has adopted a written policy on Shareholder communication, a copy of which can be found on the Company website. The Company maintains a database of Shareholders who receive automatic email updates of significant developments in the Company's affairs.

The Board encourages participation of Shareholders at the Annual General Meeting and provides a presentation on the Company which is also lodged with the Australian Securities Exchange Limited (ASX).

The Company's auditor, Bentleys, will be in attendance at the Annual General Meeting and is available to answer questions from Shareholders about the conduct of the annual audit.

## DIRECTORS' REPORT

### ***Principle 7 – Recognise and manage risk***

The Company is a junior resource entity at exploration stage with no current production operations. The Board is responsible for risk oversight and management. Day to day responsibility is delegated to the Managing Director. The Managing Director is responsible for identification of risk, monitoring risk, communication of risk events to the Board and responding to risk events with Board authority. Management has established and implemented a safety management program and has also arranged for an independent review of the program. The Company Secretary and Financial Controller will manage the Company's internal controls and the Audit Committee will oversee risk management and internal compliance.

The Managing Director and Company Secretary have declared in writing to the Board, that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively.

### ***Principle 8 – Remunerate Fairly and Responsibly***

Details in relation to the Company's remuneration policy is disclosed in the Directors' Report. The Company conducts its operations in accordance with the Principle 8, other than in relation to the matters specified below:

<p>Recommendation 8.1 The Board should establish a Remuneration Committee</p>	<p>The Board has not formed a separate Remuneration Committee</p>	<p>Due to the size and development phase of the Company, the Board has no formal Remuneration Committee. All matters pertaining to remuneration are dealt with by the full Board, taking independent advice if required.</p>
<p>Recommendation 8.3 Distinguish between structure of Non Executive Directors remuneration from that of Executive Directors and Senior Executives</p>	<p>The Company has issued incentive options to Non Executive Directors</p>	<p>The Board acknowledges the grant of Director Options to Russell Hardwick and Christopher Daws is contrary to the Recommendations. However, the Board considers the grant of Director Options is reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.</p> <p>The Board considers that in view of the financial, legal and other responsibilities assumed by Directors of public companies, the payment of monetary Directors' fees alone is often not an adequate reward and does not provide an adequate incentive to keep Board members and Directors of the requisite level of experience and qualifications.</p> <p>The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Director Options.</p>

Further information about the Company's corporate governance practices are set out on the Company's website at [www.spitfireresources.com](http://www.spitfireresources.com)

## **8. PRINCIPAL ACTIVITIES**

The principal activities of the Group during the course of the 2009/2010 financial year were to explore the South Woodie Woodie Manganese Project, the Tasmania Coal project and to examine other opportunities in Australia and offshore.

## **9. OPERATING AND FINANCIAL REVIEW**

The Group incurred a loss for the year of \$1,780,833 (2009: \$1,390,457). The Company remains well funded with cash of \$4.9 million at 30 June 2010. Further information is included in the Review of Operations.

### **Financial Position**

The net assets of the consolidated Group have increased to \$15,156,248 as at 30 June 2010. This increase has largely resulted from the following factors:

- Raising of additional equity funds;
- Capitalising exploration expenditure; and

The Group's working capital, being current assets less current liabilities, has increased slightly from \$4,701,673 in 2009 to \$4,743,334 in 2010.

The Directors believe the Group is in a strong and stable financial position to continue to explore its projects and to identify new opportunities.

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

The following significant changes in the state of affairs of the Company occurred during the financial year:

- On 1 July 2009, the Company issued 11,194,444 fully paid ordinary shares at 9c per share raising \$1,007,500; and
- On 25 September 2009, the Company issued 3,000,000 fully paid ordinary shares at 9c per share for the acquisition of tenements
- On 21 April 2010, the Company issued 14,000,000 fully paid ordinary shares at 13c per share raising \$1,820,000.

Further information is included in the Review of Operations.

## **10. DIVIDENDS**

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend as at the date of printing this Report.

## **11. EVENTS SUBSEQUENT TO REPORTING DATE**

On 16 July 2010 the entity secured a prospective new manganese exploration tenement application located approximately 38km north-west of the Woodie Woodie Manganese Mine and approximately 110km north of Spitfires South Woodie Woodie Project.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year, that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## **12. LIKELY DEVELOPMENTS**

Likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations have not been included in this Report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

**13. ENVIRONMENTAL ISSUES**

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

The Directors of the Group are not aware of any breach of environmental legislation for the year under review.

**14. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS**

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.

**15. NON-AUDIT SERVICES**

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important. Should the Group engage the auditor for non-audit related services, the provision of the non-audit services is compatible with the general standard of independence for the auditors imposed by the Corporations Act 2001.

During the financial year ended 30 June 2010 the auditors did not provide the Group with any non-audit related services.

**16. 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 Company was not a party to any such proceedings during the financial year.

**17. AUDITOR'S INDEPENDENCE DECLARATION**

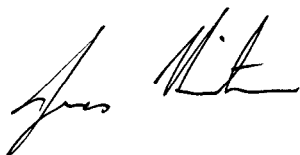
The Auditor's Independence Declaration for the year ended 30 June 2010 has been received and can be found on page 31.

**18. ROUNDING OF AMOUNTS**

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of Directors made pursuant to s298 (2) of the Corporations Act 2001.

This Report is made with a resolution of the Directors:



**JAMES HAMILTON**  
Managing Director

Dated at Perth this 17<sup>th</sup> day of September 2010

To The Board of Directors

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

This declaration is made in connection with our audit of the financial report of Spitfire Resources Limited and Controlled Entities for the year ended 30 June 2010 and in accordance with the provisions of the Corporations Act 2001.

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

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

Yours faithfully

  
**BENTLEYS**  
Chartered Accountants

  
**CHRIS WATTS CA**  
Director

DATED at PERTH this 17th of September 2010

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

	Note	Consolidated	
		2010 \$000	2009 \$000
<b>Continuing operations</b>			
Revenue	2	18	13
Interest received	2	208	322
<b>Gross profit/(loss)</b>		<b>226</b>	<b>335</b>
Depreciation expense		(18)	(23)
Consulting expenses		(446)	(455)
Occupancy costs		(77)	(81)
Travel expenses		(90)	(64)
Exploration & Evaluation costs expensed		(472)	-
Administrative expenses		(904)	(1,103)
<b>Loss before income tax</b>		<b>(1,781)</b>	<b>(1,391)</b>
Income tax expense	4	-	-
<b>Loss from continuing operations</b>		<b>(1,781)</b>	<b>(1,391)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income attributable to the members of the company</b>		<b>(1,781)</b>	<b>(1,391)</b>
<b>Loss per share</b>			
Basic loss per share	7	(1.73c)	(1.79c)

*The accompanying notes form part of these financial statements.*

STATEMENT OF FINANCIAL POSITION AS 30 JUNE 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	4,998	4,773
Trade and other receivables	9	188	121
<b>TOTAL CURRENT ASSETS</b>		<b>5,186</b>	<b>4,894</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	65	83
Exploration and evaluation assets	12	10,348	8,715
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,413</b>	<b>8,798</b>
<b>TOTAL ASSETS</b>		<b>15,599</b>	<b>13,692</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	418	173
Financial liabilities	14	5	3
Provisions	15	20	16
<b>TOTAL CURRENT LIABILITIES</b>		<b>443</b>	<b>192</b>
<b>NON-CURRENT LIABILITIES</b>			
Financial liabilities	14	-	5
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>5</b>
<b>TOTAL LIABILITIES</b>		<b>443</b>	<b>197</b>
<b>NET ASSETS</b>		<b>15,156</b>	<b>13,495</b>
<b>EQUITY</b>			
Issued capital	16	17,777	14,541
Reserves	17	1,393	1,187
Accumulated losses		(4,014)	(2,233)
<b>TOTAL EQUITY</b>		<b>15,156</b>	<b>13,495</b>

The accompanying notes form part of these financial statements.

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

Consolidated	Note	Issued Capital \$000	Option Reserve \$000	Accumulated Losses \$000	Total Equity \$000
<b>Balance at 1 July 2008</b>		12,846	489	(842)	<b>12,493</b>
Total comprehensive income for the year		-	-	(1,391)	<b>(1,391)</b>
Issue of ordinary shares		1,700	-	-	<b>1,700</b>
Share based payments	17	-	698	-	<b>698</b>
Share issue expenses		(5)	-	-	<b>(5)</b>
<b>Balance at 30 June 2009</b>		<b>14,541</b>	<b>1,187</b>	<b>(2,233)</b>	<b>13,495</b>
<b>Balance at 1 July 2009</b>		14,541	1,187	(2,233)	<b>13,495</b>
Total comprehensive income for the year		-	-	(1,781)	<b>(1,781)</b>
Issue of ordinary shares		3,097	-	-	<b>3,097</b>
Share based payments	17	-	440	-	<b>440</b>
Expiry of share options	17	234	(234)	-	-
Share issue expenses		(95)	-	-	<b>(95)</b>
<b>Balance at 30 June 2010</b>		<b>17,777</b>	<b>1,393</b>	<b>(4,014)</b>	<b>15,156</b>

*The accompanying notes form part of these financial statements.*

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
<b>Cash flows from operating activities</b>			
Cash paid to suppliers and employees		(1,145)	(972)
Payments for exploration and evaluation		(1,440)	(1,504)
Other revenue		18	13
Finance costs		-	(1)
Interest received		212	348
<b>Net cash used in operating activities</b>	21	<b>(2,355)</b>	<b>(2,116)</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		-	(84)
Other (Prospects/Tenement Bonds)		(124)	(42)
Payment for subsidiary, net of cash acquired	21	(25)	-
<b>Net cash (used in)/from investing activities</b>		<b>(149)</b>	<b>(126)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		2,827	400
Expense of share issue		(95)	(5)
Repayment of borrowings		(3)	(3)
<b>Net cash from financing activities</b>		<b>2,729</b>	<b>392</b>
Net increase/(decrease) in cash and cash equivalents		225	(1,850)
Cash and cash equivalents at 1 July 2009		4,773	6,623
<b>Cash and cash equivalents at 30 June 2010</b>	8	<b>4,998</b>	<b>4,773</b>

*The accompanying notes form part of these financial statements.*

## **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

### **REPORTING ENTITY**

Spitfire Resources Limited (the "Company") is a Company domiciled in Australia. The address of the Company's registered office is Suite 1, 346 Barker Rd, Subiaco, WA 6008. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group primarily is involved in the minerals exploration industry.

### **BASIS OF PREPARATION**

#### **a) Statement of compliance**

The Financial Report is a General Purpose Financial Report, which has been prepared in accordance with Australian Accounting Standards Board (AASB) (including Australian interpretations and other authoritative pronouncements) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated Financial Report of the Group and the Financial Report of the Company comply with International Financial Reporting Standards (IFRS's) and interpretations adopted by the International Accounting Standards Board (IASB).

#### **b) Basis of measurement**

The Financial Report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### **c) Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

## **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### **(a) Principles of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Company's financial statements, investments in subsidiaries are carried at cost.

**(ii) Business combinations**

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

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

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

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

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

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

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

**(iii) Transactions eliminated on consolidation**

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

**(b) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**(ii) Depreciation**

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Leasehold Improvements	20%
Plant and Equipment	33%

**(c) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than biological assets, investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(d) Employee benefits**

**(i) Share-based payment transactions**

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

**(e) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(f) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expense comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

**(g) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(h) Tax consolidation**

Spitfire Resources Limited and its 100% owned controlled entities have formed a tax consolidated group. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Spitfire Resources Limited.

**Tax effect accounting by members of the tax consolidated group**

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head entity, Spitfire Resources Limited.

In this regard, Spitfire Resources Limited has assumed the benefit of tax losses from controlled entities as detailed in the notes to the accounts. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

**(i) Goods and services tax**

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.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(j) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary Shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(k) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

***Change in accounting policy***

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Board considers the business from both a functional and geographic perspective and has identified five reportable segments.

Development of the South Woodie Woodie Manganese Project is the main focus of the Group, with these activities forming the Australian manganese exploration segment. The Group is also undertaking exploration activities for coal in Tasmania and also holds exploration tenements in the Northern Territory. The administration, fund raising and investment activities of the Group form the Treasury and unallocated segments.

All assets, liabilities, revenues and expenses are monitored by the Board of Directors. This represents a change to the reportable segments presented with comparatives for 2009 having been restated.

**(l) Exploration and evaluation 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 the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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.

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

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**(m) Revenue and other income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Investment property revenue is recognised on a straight line basis over the period of lease term so as to reflect a constant periodic rate of return on the net investment.

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

**(n) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments.

**(o) Financial Instruments**

***Recognition and Initial Measurement***

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

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

***Derecognition***

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

**Classification and Subsequent Measurement**

*i. Financial assets at fair value through profit or loss*

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

*ii. Loans and receivables*

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

*iii. Held-to-maturity investments*

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

*iv. Available-for-sale financial assets*

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

*i. Financial liabilities*

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

**Fair Value**

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

**Impairment**

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

**(p) New Accounting Standards for application in future periods**

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

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

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

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
  - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
    - a. the objective of the entity's business model for managing the financial assets; and
    - b. the characteristics of the contractual cash flows.
- **AASB 124: Related Party Disclosures** (applicable for annual reporting periods commencing on or after 1 January 2011).

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

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

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

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

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

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

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- **AASB 2009–10:** Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- **AASB 2009–12:** Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- **AASB 2009–13:** Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- **AASB 2009–14:** Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

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

- **AASB Interpretation 19:** Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

#### (q) **Critical Accounting Estimates and Judgements**

The Directors evaluate estimates and judgements incorporated into the Financial Report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

##### ***Impairment***

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

***Provision for Impairment of Receivables***

The Company has written down the value of its intercompany loans to nil as at the reporting date the recovery of intercompany loans is not virtually certain. Other than the intercompany loans, no provision for impairment of receivables has been made at 30 June 2010.

***Exploration and Evaluation Costs***

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward in respect of an area that has not at balance sheet 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 relating to, the area of interest are continuing.

***Share-based Payment Transactions***

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using the Black-Scholes option pricing model.

***Environmental Issues***

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

***Taxation***

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

The financial report was authorised for issue on 17<sup>th</sup> September 2010 by the Board of Directors.

**NOTE 2: REVENUE AND OTHER INCOME**

	Consolidated	
	2010 \$000	2009 \$000
<b>Revenue</b>		
- Office sub-lease rental revenue	18	13
<b>Other revenue</b>		
- Interest received	208	322
<b>Total revenue</b>	<u>226</u>	<u>335</u>

**NOTE 3: LOSS FOR THE YEAR**

	Consolidated	
	2010 \$000	2009 \$000
<b>a) Expenses</b>		
Rental expense on operating leases		
- Minimum lease payments	66	75
<b>b) Significant expenses</b>		
Consulting fees	446	455
Director fees	75	75
Salaries and wages	105	97
Share options expense	440	698
Exploration & Evaluation costs expensed	472	-

**NOTE 4: INCOME TAX EXPENSE**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Major components of income tax expense for the years ended 30 June 2010 and 2009 are:		
<b>Income Statement</b>		
<i>Current Income</i>		
Current income tax charge	-	-
Adjustments in respect of previous current income tax	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Benefit from previously unrecognized tax loss used to reduce deferred tax expense	-	-
Income Tax expense (benefit) reported in income statement	-	-
<b>Statement of Changes in Equity</b>		
A reconciliation of income tax expense (benefit) applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2010 and 2009 is as follows:		
<b>Accounting loss before income tax</b>	<b>(1,781)</b>	<b>(1,391)</b>
At the statutory income tax rate of 30% (2009: 30%)	(534)	(417)
Add:		
Non-deductible expenses	129	216
Temporary differences and tax losses not brought to account	405	597
Adjustments in respect of previous current income tax	-	19
Less:		
Capital raising costs	-	(34)
Uplift in the tax cost base of assets	-	(381)
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
Effective income tax rate of 0%	0%	0%

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Recognised deferred tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
Exploration expenditure	3,099	2,227
Prepaid expenditure	-	(10)
Accrued interest	6	8
Sundry payables	(3)	(2)
Capital losses	(102)	-
Provision for employee entitlements	(6)	(5)
Capital raising costs	(95)	-
Tax losses	(4,306)	(3,057)
Business related costs	(2)	(3)
Unrecognised deferred tax assets	1,409	842
Tax (assets) liabilities	-	-
Set off of tax	-	-
<b>Net tax (assets) liabilities</b>	<b>-</b>	<b>-</b>
<b>Unrecognised Deferred Tax Assets</b>		
Tax Losses	1,409	842
	<b>1,409</b>	<b>842</b>

**NOTE 5: INTERESTS OF KEY MANAGEMENT PERSONNEL**

Names and positions held of consolidated and company key management personnel in office at any time during the 2009/2010 financial year are:

<b>Key Management Person</b>	<b>Position</b>
James Tyson Hamilton	Managing Director / Executive Chairman
Russell Paul Hardwick	Non Executive Director / Company Secretary
Christopher John Daws	Non Executive Director
Nathan Andrew Cull	Exploration Manager

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

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

The totals of remuneration paid to Key Management Personnel of the Company and the Group during the year are as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Short-term employee benefits	636	631
Post-employment benefits	24	21
Share based payments	397	555
	<b>1,057</b>	<b>1,207</b>

**Number of Options held by Key Management Personnel:**

The number of options over ordinary shares held by each Key Management Personnel of the Group during the financial year is as follows:

<b>30 June 2010</b>	<b>Balance 1 July 2009</b>	<b>Granted as Compensation</b>	<b>Other changes during the year</b>	<b>Options Exercised</b>	<b>Balance 30 June 2010</b>
<b><i>Executive Directors</i></b>					
James Hamilton	8,519,967	3,000,000	(519,967)	-	11,000,000
<b><i>Non Executive Directors</i></b>					
Russell Hardwick	3,461,634	2,000,000	(461,634)	-	5,000,000
Christopher Daws	3,690,634	1,000,000	(690,634)	-	4,000,000
<b><i>Executives</i></b>					
Nathan Cull	2,068,333	1,400,000	(68,333)	-	3,400,000

<b>30 June 2010</b>	<b>Balance 30 June 2010</b>	<b>Total Vested 30 June 2010</b>	<b>Total Exercisable 30 June 2010</b>	<b>Total Unexercisable 30 June 2010</b>
<b><i>Executive Directors</i></b>				
James Hamilton	11,000,000	6,000,000	6,000,000	5,000,000
<b><i>Non Executive Directors</i></b>				
Russell Hardwick	5,000,000	2,250,000	2,250,000	2,750,000
Christopher Daws	4,000,000	2,250,000	2,250,000	1,750,000
<b><i>Executives</i></b>				
Nathan Cull	3,400,000	1,400,000	1,400,000	2,000,000

30 June 2009	Balance 1 July 2008	Granted as Compensation	Other changes during the year	Options Exercised	Balance 30 June 2009
<b>Executive Directors</b>					
James Hamilton	4,519,967	4,000,000	-	-	8,519,967
<b>Non Executive Directors</b>					
Russell Hardwick	1,961,634	1,500,000	-	-	3,461,634
Christopher Daws	2,086,634	1,500,000	104,000	-	3,690,634
<b>Executives</b>					
Nathan Cull	868,333	1,200,000	-	-	2,068,333

30 June 2009	Balance 30 June 2009	Total Vested 30 June 2009	Total Exercisable 30 June 2009	Total Unexercisable 30 June 2009
<b>Executive Directors</b>				
James Hamilton	8,519,967	2,519,967	2,519,967	6,000,000
<b>Non Executive Directors</b>				
Russell Hardwick	3,461,634	1,211,634	1,211,634	2,250,000
Christopher Daws	3,690,634	1,440,634	1,440,634	2,250,000
<b>Executives</b>				
Nathan Cull	2,068,333	468,333	468,333	1,600,000

**Number of Shares held by Key Management Personnel:**

The number of ordinary shares in Spitfire Resources Limited held by each Key Management Personnel of the Group during the financial year is as follows:

30 June 2010	Balance 1 July 2009	Received as Compensation	Options Exercised	Net Change Other	Balance 30 June 2010
<b>Executive Directors</b>					
James Hamilton	700,000	-	-	300,000	1,000,000
<b>Non Executive Directors</b>					
Russell Hardwick	225,000	-	-	100,000	325,000
Christopher Daws	700,000	-	-	-	700,000
<b>Executives</b>					
Nathan Cull	265,000	-	-	-	265,000

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

30 June 2009	Balance 1 July 2008	Received as Compensation	Options Exercised	Net Change Other	Balance 30 June 2009
<b>Executive Directors</b>					
James Hamilton	350,000	-	-	350,000	700,000
<b>Non Executive Directors</b>					
Russell Hardwick	175,000	-	-	50,000	225,000
Christopher Daws	550,000	-	-	150,000	700,000
<b>Executives</b>					
Nathan Cull	205,000	-	-	60,000	265,000

**NOTE 6: AUDITORS' REMUNERATION**

	Consolidated	
	2010 \$000	2009 \$000
Remuneration of the Auditor of the parent entity for:		
- Auditing or reviewing the Financial Report	26	25
No other services have been provided by the Auditors.		

**NOTE 7: LOSS PER SHARE**

	Consolidated	
	2010 \$000	2009 \$000
a) Loss used to calculate basic & diluted EPS	(1,781)	(1,391)
Basic loss per share (cents per share)	(1.73)	(1.79)
	<b>Number of shares</b>	<b>Number of shares</b>
b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	102,944,367	77,877,708
At 30 June 2010, 18,829,863 (2009: 35,946,604) share options are non dilutive based on the average market prices of the Company's shares.		
As the Group made a loss for the period, diluted earnings per share is the same as basic earnings per share.		

**NOTE 8: CASH AND CASH EQUIVALENTS**

	Consolidated	
	2010 \$000	2009 \$000
Cash at bank and in hand	121	351
Cash management account	1,127	357
Short-term bank deposits	3,750	4,065
	<b>4,998</b>	<b>4,773</b>

**NOTE 9: TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2010 \$000	2009 \$000
<b>CURRENT</b>		
GST receivable	105	51
Interest receivable	22	27
Other receivables	61	43
	<b>188</b>	<b>121</b>
Refer to Note 26 for risk management policies in place.		

**NOTE 10: CONTROLLED ENTITIES**

**a. Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2010	2009
<b>Subsidiaries of Spitfire Resources Ltd:</b>			
Spitfire Australia (SWW) Pty Ltd	Australia	100%	100%
Spitfire Global Pty Ltd	Australia	100%	100%
Black Rock Energy Pty Ltd	Australia	100%	100%
Bellpiper Pty Ltd	Australia	100%	0%

\* Percentage of voting power is in proportion to ownership.

**b. Acquisition of Controlled Entities**

	<b>Consolidated Acquiree's carrying amount \$000</b>	<b>Fair Value \$000</b>
<p>On 30<sup>th</sup> November 2009 the parent entity acquired 100% of Bellpiper Pty Ltd, with Spitfire Resources Limited entitled to all profits or loss incurred from 30<sup>th</sup> November 2009. The purchase consideration was \$25,000</p>		
<p>Assets and liabilities acquired at acquisition date:</p>		
Receivables	1	1
Exploration and Evaluation assets	12	24
<b>Total</b>	<b>13</b>	<b>25</b>
<p>The assets and liabilities arising from the acquisition are recognised at fair values which are equal to their carrying value at acquisition date.</p>		
<p>Had the results relating to Bellpiper Pty Ltd been consolidated from 1 July 2009, the loss would have been \$7,295 resulting in a consolidated loss of \$1,787,833 for the year ended 30 June 2010</p>		

**NOTE 11: PROPERTY, PLANT AND EQUIPMENT**

	<b>Consolidated</b>	
	<b>2010 \$000</b>	<b>2009 \$000</b>
<b>PLANT AND EQUIPMENT</b>		
At cost	33	32
Accumulated depreciation	(17)	(10)
<b>Total Plant and Equipment</b>	<b>16</b>	<b>22</b>
<b>LEASEHOLD IMPROVEMENTS</b>		
At cost	75	75
Accumulated depreciation	(26)	(14)
<b>Total Leasehold Improvements</b>	<b>49</b>	<b>61</b>
<b>Total Property, Plant and Equipment</b>	<b>65</b>	<b>83</b>

**Movements in Carrying Amounts**

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment \$000	Leasehold Improvements \$000	Total \$000
Balance at 30 June 2008	21	72	93
Additions	9	3	12
Disposals	-	-	-
Depreciation expense	(8)	(14)	(22)
<b>Balance at 30 June 2009</b>	<b>22</b>	<b>61</b>	<b>83</b>
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(6)	(12)	(18)
<b>Balance at 30 June 2010</b>	<b>16</b>	<b>49</b>	<b>65</b>

**NOTE 12: EXPLORATION AND EVALUATION ASSETS**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>NON-CURRENT</b>		
Exploration expenditure capitalised		
- Exploration and evaluation phases	4,506	2,430
Mineral exploration properties		
- At cost	6,314	6,285
Exploration costs previously capitalized, now written off	(472)	-
	<b>10,348</b>	<b>8,715</b>
<p>Recoverability of the carrying amount of exploration assets is dependent upon:</p> <ul style="list-style-type: none"> <li>- The continuance of the Company's rights to tenure of the areas of interest</li> <li>- The results of possible exploration; and</li> <li>- The recoupment of costs through successful development and exploration of the areas of interest, or alternatively, by their sale.</li> </ul> <p><i>Impairment</i></p> <p>Exploration and evaluation expenditure written off during the year relates to :-</p> <ul style="list-style-type: none"> <li>- Expenditure relating to all of the Northern Territory tenements acquired. This is due to low level of current and planned activity to assess the existence or otherwise of economically recoverable reserves.</li> <li>- Expenditure relating to two of the Tasmanian tenements that were relinquished during the year.</li> </ul> <p>Capitalised costs amounting to \$1,440,385 (2009: \$1,504,000) have been included in cash flows from operating activities in the cash flow statement.</p>		

**NOTE 13: TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>CURRENT</b>		
Trade creditors		
Related party creditors	32	39
Other	313	71
Sundry payables and accrued expenses	73	63
	<b>418</b>	<b>173</b>

**NOTE 14: FINANCIAL LIABILITIES**

	<b>Consolidated</b>	
	<b>2010 \$000</b>	<b>2009 \$000</b>
<b>CURRENT</b>		
Lease liability	5	3
	<b>5</b>	<b>3</b>
<b>NON-CURRENT</b>		
Lease liability	-	5
	<b>-</b>	<b>5</b>
Refer to Note 22 for future commitments of all lease liabilities.		

**NOTE 15: PROVISIONS**

	<b>Employee Benefits</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>
Opening balance at 1 July 2008	3	3
Additional provisions	13	13
<b>Closing balance at 30 June 2009</b>	<b>16</b>	<b>16</b>
Opening balance at 1 July 2009	16	16
Additional provisions	4	4
<b>Balance at 30 June 2010</b>	<b>20</b>	<b>20</b>
A provision has been recognised for employee benefits relating to annual leave for employees.		

**Analysis of Total Provisions**

	<b>Consolidated</b>	
	<b>2010 \$000</b>	<b>2009 \$000</b>
Current (annual leave provision)	20	16
Non-current	-	-
	<b>20</b>	<b>16</b>

**NOTE 16: ISSUED CAPITAL**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
115,013,731 (2009: 86,818,347) fully paid ordinary shares	18,205	15,108
Share issue expenses	(662)	(567)
Share options expired	234	-
	<b>17,777</b>	<b>14,541</b>
The Company has authorised share capital amounting to 115,013,731 shares with no par value.		
	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>No.</b>	<b>No.</b>
<b>a. Ordinary shares</b>		
At the beginning of reporting period	86,818,347	70,151,681
Shares issued during the year		
- 20 November 2008 for the acquisition of Black Rock Energy	-	10,000,000
- 8 May 2009 @ 6c pursuant to a placement	-	6,666,666
- 1 July 2009 @ 9c pursuant to a placement	11,194,444	-
- 25 September 2009 for the acquisition of tenements	3,000,000	-
- 21 April 2010 @ 13c pursuant to a placement	14,000,000	-
- 9 June 2010 @ 20c upon the conversion of options	940	-
<b>At reporting date</b>	<b>115,013,731</b>	<b>86,818,347</b>

At the Shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each Shareholder has one vote on a show of hands.

**b. Options**

- i. For information relating to the Spitfire Resources Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year end, refer to Note 23 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 23 Share-based Payments.

c. **Capital Management**

Due to the nature of the Group's activities, being exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programs and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2010 and 30 June 2009 are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
Cash and cash equivalents	4,998	4,773
Trade and other receivables	188	121
Trade and other payables	(418)	(173)
Financial liabilities	(5)	(3)
Provisions	(20)	(16)
Working capital position	4,743	4,702

**NOTE 17: RESERVES**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
<b>Equity settled employee benefits reserve:</b>		
Balance at Beginning of Period	<b>1,187</b>	<b>489</b>
Share Options issued on 8 February 2008	123	521
Share Options issued on 29 April 2008	29	100
Share Options issued on 19 September 2008	7	12
Share Options issued on 21 January 2009	24	15
Share Options issued on 6 March 2009	123	50
Share Options issued on 18 August 2009	33	-
Share Options issued on 27 November 2010	96	-
Share Options issued on 15 December 2010	4	-
Share Options issued on 22 June 2010	1	-
Share Options expired on 30 June 2010	(234)	-
	<b>1,393</b>	<b>1,187</b>

Movements in reserves are set out in the Statement of Changes in Equity.

***Equity settled employee benefits reserve***

The equity settled employee benefits reserve arises on the grant of share options to Employees, Consultants and Directors. Amounts are transferred out of the reserve into issued capital when the options are exercised.

**NOTE 18: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

- (i) The parent entity has provided a \$15,000 bank guarantee to third parties in relation to the performance and obligations in respect to the property lease rental. The guarantees are for the terms of the lease.
- (ii) The entity has provided a \$23,900 bank guarantee to Mineral Resources Tasmania as a security deposit over Tasmanian Exploration Licenses which may be used to remedy damage to private property or to the environment caused by activities if this is not made good by the entity. The security deposit may also be called upon in full or in part if an exploration program is not carried out.
- (iii) The entity has provided a \$17,000 performance bond /bank guarantee to the Department of Mines & Petroleum (W.A) as a security deposit over E46/616 Exploration License which may be used to remedy damage to the environment caused by exploration activities if this is not made good by the entity.

**NOTE 19: PARENT ENTITY DISCLOSURES**

The following details information related to the parent entity, Spitfire Resources Limited, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	2010 \$000	2009 \$000
<b>(a) Financial Position</b>		
<b>Assets</b>		
Current assets	5,019	4,757
Non-current assets	6,387	6,408
<b>Total assets</b>	<b>11,406</b>	<b>11,165</b>
<b>Liabilities</b>		
Current liabilities	93	105
Non-current liabilities	-	5
<b>Total liabilities</b>	<b>93</b>	<b>110</b>
<b>Equity</b>		
Issued capital	17,777	14,541
Reserves:		
Equity settled employee benefits reserve	1,393	1,187
Accumulated losses	(7,857)	(4,673)
<b>Total equity</b>	<b>11,313</b>	<b>11,055</b>
<b>(b) Financial Performance</b>		
Loss for the year	(3,185)	(3,833)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(3,185)</b>	<b>(3,833)</b>
<b>(c) Commitments of the Parent Entity</b>		
<b>Operating lease</b>		
Within one year	55	58
One year or later and no later than five years	-	53
<b>Total</b>	<b>55</b>	<b>111</b>
<b>Finance lease</b>		
Within one year	5	4
One year or later and no later than five years	-	4
<b>Minimum lease payments</b>	<b>5</b>	<b>8</b>
Less future finance charges	-	(1)
<b>Present value of minimum lease payment</b>	<b>5</b>	<b>7</b>
<b>(d) Contingent Liabilities of the Parent Entity</b>		
The parent entity has provided a \$15,000 bank guarantee to third parties in relation to the performance and obligations in respect to the property lease rental. The guarantees are for the terms of the lease.		

## NOTE 20: SEGMENT REPORTING

### Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of exploration commodity since the diversification of the Group's operations inherently have notably different commodity risk profiles. Operating segments are therefore determined on the same basis.

### Types of exploration by project segment

#### (i) Australia – Manganese Exploration

The manganese exploration segment is exploring for Manganese ore at South Woodie Woody in the East Pilbara. Segment assets, including capitalised exploration expenditure are reported on in this segment.

#### (ii) Australia – Coal Exploration

The coal exploration segment includes the Tasmanian coal project which comprises a prospective portfolio of coal exploration properties located in Tasmania. Segment assets including capitalised expenditure are reported on in this segment.

#### (iii) Australia – NT tenements

The NT tenements segment includes at 70% interest in a group of seven Exploration Licence Applications surrounding the Lindeman's Bore Project in the Northern Territory.

In addition the Company has included a Treasury segment that includes the surplus cash of which the majority is invested in Bank term deposits.

### Basis of accounting for purposes of reporting by operating segments

#### Accounting policies adopted

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

#### Segment assets

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

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

#### Segment liabilities

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

#### Unallocated items

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

- Rental income
- Other corporate charges

#### Comparative information

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

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

Consolidated 30 June 2010	Australia – Manganese Exploration \$000	Australia – Coal Exploration \$000	Australia – Copper (NT) Exploration \$000	Australia – Treasury \$000	Unallocated \$000	Consolidated Group \$000
<b>SEGMENT PERFORMANCE</b>						
Finance revenue	-	2	-	206	-	208
Other revenue	-	-	-	-	18	18
<b>Total segment and group revenue</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>206</b>	<b>18</b>	<b>226</b>
<b>Segment net profit/(loss) before tax</b>	<b>(4)</b>	<b>(58)</b>	<b>(426)</b>	<b>206</b>	<b>-</b>	<b>(282)</b>
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>						
Unallocated Items						
- Consulting Fees	-	-	-	-	(446)	(446)
- Salaries	-	-	-	-	(105)	(105)
- Depreciation	-	-	-	-	(18)	(18)
- Other	-	-	-	-	(930)	(930)
<b>Net Profit/(loss) before tax from continuing operations</b>	<b>(4)</b>	<b>(58)</b>	<b>(426)</b>	<b>206</b>	<b>(1,499)</b>	<b>(1,781)</b>
<b>SEGMENT ASSETS</b>						
Segment assets	8,696	1,951	-	4,972	(20)	15,599
<b>Total group assets from continuing operations</b>						<b>15,599</b>
Segment asset increases for the period:						
- Capitalised expenditure	1,104	505	-	-	-	1,609
- Cash	(32)	(1)	-	258	-	225
- Other	139	41	-	-	(107)	73
	<b>1,211</b>	<b>545</b>	<b>-</b>	<b>258</b>	<b>(107)</b>	<b>1,907</b>
<b>SEGMENT LIABILITIES</b>						
Segment liabilities	195	155	-	-	93	443
<b>Total group liabilities from continuing operations</b>						<b>443</b>

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

Consolidated 30 June 2009	Australia – Manganese Exploration \$000	Australia – Coal Exploration \$000	Australia – Copper (NT) Exploration \$000	Australia – Treasury \$000	Unallocated \$000	Consolidated Group \$000
<b>SEGMENT PERFORMANCE</b>						
Finance revenue	1	-	-	321	-	322
Other revenue	-	-	-	-	13	13
<b>Total segment and group revenue</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>321</b>	<b>13</b>	<b>335</b>
<b>Segment net profit/(loss) before tax</b>	<b>(2)</b>	<b>(10)</b>	<b>-</b>	<b>321</b>	<b>-</b>	<b>309</b>
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>						
Unallocated Items						
- Consulting Fees	-	-	-	-	(448)	(448)
- Salaries	-	-	-	-	(97)	(97)
- Depreciation	-	-	-	-	(22)	(22)
- Other	-	-	-	-	(1,133)	(1,133)
<b>Net Profit/(loss) before tax from continuing operations</b>	<b>(2)</b>	<b>(10)</b>	<b>-</b>	<b>321</b>	<b>(1,700)</b>	<b>(1,391)</b>
<b>SEGMENT ASSETS</b>						
Segment assets	7,486	1,406	-	4,714	86	13,692
<b>Total group assets from continuing operations</b>						<b>13,692</b>
Segment asset increases for the period:						
- Capitalised expenditure	1,378	62	-	-	-	1,440
- Cash	17	16	-	(1,883)	-	(1,850)
- Other	15	1,328	-	-	(105)	1,238
	<b>1,410</b>	<b>1,406</b>	<b>-</b>	<b>(1,883)</b>	<b>(105)</b>	<b>828</b>
<b>SEGMENT LIABILITIES</b>						
Segment liabilities	82	6	-	-	109	197
<b>Total group liabilities from continuing operations</b>						<b>197</b>

## NOTE 21: CASH FLOW INFORMATION

	Consolidated	
	2010 \$000	2009 \$000
<b>(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>		
Loss after income tax	(1,781)	(1,391)
Non-cash flows in loss		
- Depreciation	18	23
- Share options expensed	440	698
- Write off of capitalized exploration expenditure	472	-
- Payments for exploration and evaluation	(1,440)	(1,504)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
- (Increase)/decrease in trade and term receivables	(67)	88
- Increase/(decrease) in trade payables and accruals	(1)	(43)
- (Decrease)/increase in provisions	4	13
<b>Cashflow from operations</b>	<b>(2,355)</b>	<b>(2,116)</b>
<b>(b) Acquisition of Entities</b>		
During the year 100% ownership interest in Bellpiper Pty Ltd was acquired. Details of this transaction are:		
Purchase consideration	25	-
Consisting of:		
Cash consideration	25	-
Total consideration	25	-
Assets and liabilities held at acquisition date:		
Receivables	1	-
Exploration and Evaluation assets at fair value	24	-
	25	-
<b>(c) Non-Cash Financing &amp; Investing Activities</b>		
<i>Share issue</i>		
On 25 September 2009 the company issued 3,000,000 fully paid ordinary shares for the acquisition of tenements in the Northern Territory.		

**NOTE 22: COMMITMENTS**

**a) Operating Lease Commitments**

	<b>Consolidated</b>	
	<b>2010</b> <b>\$000</b>	<b>2009</b> <b>\$000</b>
Non-cancellable operating lease contracted for but not capitalised in the financial statements:		
Payable		
- Within one year	55	58
- One year or later and no later than five years	-	53
- Later than five years	-	-
	<b>55</b>	<b>111</b>
<p>The above amounts relate to the property lease for Suite 1, 346 Barker Road, Subiaco which is a non-cancellable lease with a 36 month term expiring on 31 May 2011, with rent payable monthly in advance.</p>		

**b) Finance Lease Commitments**

	<b>Consolidated</b>	
	<b>2010</b> <b>\$000</b>	<b>2009</b> <b>\$000</b>
Payable		
- Within one year	5	4
- One year or later and no later than five years	-	4
- Later than five years	-	-
<b>Minimum lease payments</b>	<b>5</b>	<b>8</b>
Less future finance charges	-	(1)
<b>Present value of minimum lease payments</b>	<b>5</b>	<b>7</b>
<p>The above amounts includes equipment lease with a 36 month term expiring on 31 May 2011.</p>		

c) Exploration Commitments

	Consolidated	
	2010	2009
	\$000	\$000
<p>In order to maintain current rights of tenure to exploration tenements, the Company has the following discretionary exploration expenditure up until the expiry of leases. These obligations are not provided for in the financial statements and are payable:</p>		
- Within one year	1,321	231
- One year or later and no later than five years	533	902
- Later than five years	-	-
	<b>1,854</b>	<b>1,133</b>
<p>If the Company 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.</p>		

**NOTE 23: SHARE BASED PAYMENTS**

<b>Grant date/employees entitled</b>	<b>Number of Instruments</b>	<b>Vesting Conditions</b>	<b>Contractual life of options</b>
Share Options granted to key management pursuant to the Spitfire Employee Share Option Plan on 18 August 2009	1,000,000	50% of the options vest 12 months after the date of issue with the remainder vesting 24 months after the date of issue.	5
Share Options granted to Directors on 27 November 2009	6,000,000	50% of the options vest, and only become exercisable, on the earlier of the weighted average share price for Spitfire ordinary shares being greater than \$0.30 for five consecutive days, or one year after the grant date. The balance of the options vest, and only become exercisable, on the earlier of the weighted average share price for Spitfire ordinary shares being greater than \$0.30 for five consecutive days, or two years after the grant date.	5
Share Options granted to key management personnel pursuant to the Spitfire Employee Share Option Plan on 15 December 2009	200,000	50% of the options vest 12 months after the date of issue with the remainder vesting 24 months after the date of issue.	5
Share Options granted to key management pursuant to the Spitfire Employee Share Option Plan on 22 June 2010	1,000,000	50% of the options vest 12 months after the date of issue with the remainder vesting 24 months after the date of issue.	5

All options granted to key management personnel are ordinary shares in Spitfire Resources Limited, which confer a right of one ordinary share for every option held.

The number and weighted average exercise prices of share options are as follows:

<b>Consolidated</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>
<b>Options outstanding as at 30 June 2008</b>	-	11,000,000
Granted	11.66c	8,300,000
Forfeited	-	-
Exercised	-	-
Expired	-	-
<b>Options outstanding as at 30 June 2009</b>	17.71c	19,300,000
Granted	16.62c	8,200,000
Forfeited	-	-
Exercised	-	-
Expired	20.00c	1,000,000
<b>Options outstanding as at 30 June 2010</b>	<b>17.28c</b>	<b>26,500,000</b>
Options exercisable as at 30 June 2010:	-	14,150,000
Options exercisable as at 30 June 2009:	-	5,000,000

The weighted average remaining contractual life of options outstanding at year end was 2.54 years. The range of exercise prices of outstanding options at reporting date is from 10c to 25c.

Included under employee benefits expense in the income statement is \$439,742 which relates to equity-settled share-based payment transactions (2009: \$698,213).

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes option pricing model, with the following inputs:

<b>2010</b>	<b>18/08/2009</b>	<b>27/11/2009</b>	<b>15/12/2009</b>	<b>22/06/2010</b>
<b>Grant date</b>	<b>Key Management Personnel</b>	<b>Directors</b>	<b>Key Management Personnel</b>	<b>Key Management Personnel</b>
<i>Fair value of options and assumptions</i>				
<b>Fair value at grant date</b>	<b>4.65c</b>	<b>3.62c</b>	<b>3.27c</b>	<b>4.60c</b>
Share price	10.00c	8.90c	8.00c	10.50c
Exercise price	15.00c	16.80c	15.00c	17.50c
Expected volatility (weighted average volatility)	60%	60%	60%	60%
Option life (expected weighted average life)	5	5	5	5
Risk-free interest rate	5.50%	5.50%	5.50%	5.50%

2009			
Grant date	19/09/2008	21/01/2009	6/03/2009
Granted to	Key Management Personnel	Key Management Personnel	Directors
<i>Fair value of options and assumptions</i>			
<b>Fair value at grant date</b>	<b>6.40c</b>	<b>4.68c</b>	<b>2.83c</b>
Share price	14.50c	8.00c	6.00c
Exercise price	22.50c	11.25c	11.25c
Expected volatility (weighted average volatility)	60%	70%	70%
Option life (expected weighted average life)	5	5	5
Risk-free interest rate	6.40%	6.20%	6.20%

**NOTE 24: EVENTS AFTER BALANCE SHEET DATE**

On 16 July 2010 the entity secured a prospective new manganese exploration tenement application located approximately 38km north-west of the Woodie Woodie Manganese Mine and approximately 110km north of Spitfires South Woodie Woodie Project.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year, that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**NOTE 25: RELATED PARTY TRANSACTIONS**

	Consolidated	
	2010 \$000	2009 \$000
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
<b>Transactions with related parties</b>		
<b>EXPENDITURE</b>		
Consultancy fees paid to Goldregis Corporation Pty Ltd (a company associated with Mr. James Hamilton), a related party of Spitfire Resources Limited.	260	260
Consultancy fees paid to Ravenhill Corporate Pty Ltd (a company associated with Mr. Russell Hardwick), a related party of Spitfire Resources Limited.	90	94
<b>REVENUE</b>		
The Company has entered into a sub-lease of its Subiaco office premises to US Nickel (formerly Lumacom Limited). Mr Christopher Daws is a Director of US Nickel. The sub-lease is on normal commercial terms.	18	13

## **NOTE 26: FINANCIAL RISK MANAGEMENT**

### **Significant accounting policies**

Details of the significant accounting policies in respect of financial instruments are disclosed in Note 1 of the financial statements.

### **Financial risk management**

The Board seeks to minimise its exposure to financial risk by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. No formal policies have been put in place in order to hedge the Group and Company's activities to the exposure to currency risk or interest risk, however as the Group enters commercial production this may be considered. No derivatives or hedges were entered into during the period.

### **General objectives, policies and processes**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The Group is exposed through its operations to the following financial risks:

- Liquidity risk;
- Credit risk;
- Foreign exchange risk; and
- Interest rate risk.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### **Liquidity risk**

Prudent liquidity risk management requires the Group to maintain sufficient cash to meet exploration and other commitments and is managed centrally by the Board. The board monitors rolling cash forecasts to manage liquidity risks and to ensure adequate cash reserves are maintained. The exploration programs and budgets are set and agreed by the Board in advance, enabling the Group's cash requirements to be anticipated and managed. The main financial liabilities of the Group at balance date are trade and other payables.

### **Credit risk**

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has made investments and advances of \$1,891,739 into subsidiary companies, recovery of which is dependent on future income generation of those subsidiaries.

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

The Group's maximum exposure to credit risk by class of individual financial instrument is shown in the table below:

	2010		2009	
	Carrying value \$	Maximum exposure \$	Carrying value \$	Maximum exposure \$
Cash and cash equivalents				
- AA Rated	4,998	4,998	4,773	4,773
Trade and other receivables	188	188	121	121
	<b>5,186</b>	<b>5,186</b>	<b>4,894</b>	<b>4,894</b>

### Price Risk

Price risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The Group is currently involved in the exploration for manganese and coal and should economic resources be delineated then the group will be exposed to the particular commodity price risk. There are no hedges in place at balance date.

### Foreign Exchange Risk

The Company has a minimal exposure to foreign exchange risk at this point of its development.

### Interest rate risk

The Company'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:

Consolidated 2010	Floating interest rate \$000	Fixed interest maturing in 1 year or less \$000	Fixed interest maturing over 1 to 5 years \$000	Non- interest bearing \$000	Total \$000
<b>Financial assets</b>					
Cash and cash equivalents	121	4,877	-	-	4,998
Trade and other receivables	-	-	-	188	188
	<b>121</b>	<b>4,877</b>	<b>-</b>	<b>188</b>	<b>5,186</b>
Weighted average interest rate	1.25%	5.23%			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	418	418
Financial liabilities	-	-	-	5	5
	<b>-</b>	<b>-</b>	<b>-</b>	<b>423</b>	<b>423</b>

Consolidated 2009	Floating interest rate \$000	Fixed interest maturing in 1 year or less \$000	Fixed interest maturing over 1 to 5 years \$000	Non- interest bearing \$000	Total \$000
<b>Financial assets</b>					
Cash and cash equivalents	351	4,422	-	-	4,773
Trade and other receivables	-	-	-	121	121
	<b>351</b>	<b>4,422</b>	<b>-</b>	<b>121</b>	<b>4,894</b>
Weighted average interest rate	2.75%	3.65%			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	173	173
Financial liabilities	-	-	-	8	8
	<b>-</b>	<b>-</b>	<b>-</b>	<b>181</b>	<b>181</b>

### Sensitivity Analysis

#### Interest Rate Risk

The Group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. The sensitivity analysis demonstrates the effect on the current financial year results and equity which could result from a change in these risks.

#### *Interest Rate Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

	Consolidated	
	2010 \$000	2009 \$000
Profit		
- Increase in interest rate by 1%	(1,743)	(1,337)
- Decrease in interest rate by 1%	(1,819)	(1,445)
Equity		
- Increase in interest rate by 1%	15,194	13,549
- Decrease in interest rate by 1%	15,118	13,441

**Net Fair Value**

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

	2010		2009	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$000	\$000	\$000	\$000
<b>Financial assets</b>				
Cash and cash equivalents	4,998	4,998	4,773	4,773
Trade and other receivables	188	188	121	121
Other current assets	-	-	-	-
Financial assets	-	-	-	-
	<b>5,186</b>	<b>5,186</b>	<b>4,894</b>	<b>4,894</b>
<b>Financial liabilities</b>				
Trade and other payables	418	418	173	173
Financial liabilities	5	5	8	8
	<b>423</b>	<b>423</b>	<b>181</b>	<b>181</b>

## DIRECTORS' DECLARATION

---

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 32 to 74, are in accordance with the Corporations Act 2001 and:
  - a. Comply with Accounting Standards; and
  - b. Are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as stated in note 1 to the financial statements; and
  - c. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company and consolidated Group.
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
  - a. The financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. The financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. The financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion, there are reasonable grounds to believe that the 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.



**James Hamilton**  
Director

Dated this 17<sup>th</sup> day of September 2010

## Independent Auditor's Report

### To the Members of Spitfire Resources Limited

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

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

Level 1  
12 Kings Park Road  
West Perth WA 6005

PO Box 44  
West Perth WA 6872

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

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

#### Directors Responsibility for the Financial Report

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

#### Auditor's Responsibility

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

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

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

**Independence**

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

**Auditor's Opinion**

In our opinion:

- a. The financial report of Spitfire Resources Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company and the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

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

**Auditor's Opinion**

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

**BENTLEYS**  
Chartered Accountants

**CHRIS WATTS CA**  
Director

DATED at PERTH this 17th of September 2010

Additional Securities Exchange Information as at 16 September 2010

1. Shareholding

a. <b>Distribution of equity security holders</b>	<b>Listed Shares - Number</b>
Category (size of holding)	Ordinary Shares
1 - 1,000	4
1,001 - 5,000	79
5,001 - 10,000	138
10,001 - 100,000	327
100,001 and over	88
	<b>636</b>

b. The number of shareholdings held in less than marketable parcels is 98  
There is no current on-market buy-back.

c. The names of the substantial Shareholders listed in the holding company's register as at 15 September 2010 are:

Shareholder	<b>Number</b>	
	<b>Ordinary</b>	<b>%</b>
Planet Mining Pty Limited	25,000,015	21.74
UOB Kay Hian Private Limited	9,657,489	8.40
Eralloys Holdings AS	8,650,000	7.52
HSBC Custody Nominees	8,118,452	7.06

d. **Voting Rights**

There are a total of 115,013,731 fully paid ordinary shares on issue. At Shareholders' meetings, 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.

e. **Restricted securities or securities subject to voluntary escrow**

2,000,000 Ordinary Fully Paid Shares, held by one holder are subject to voluntary escrow until 25 September 2010.

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

**f. 20 Largest Shareholders – Ordinary Shares**

	<b>Name</b>	<b>Number of Ordinary Fully Paid Shares Held</b>	<b>% Held of Issued Ordinary Capital</b>
1.	Planet Mining Pty Ltd	25,000,015	21.74
2.	UOB Kay Hian Private Ltd	9,657,489	8.40
3.	Eralloys Holdings AS	8,650,000	7.52
4.	HSBC Custody Nominees Australia Ltd	8,118,452	7.06
5.	Crysalis Trading Ltd	4,660,000	4.05
6.	Blackmort Holdings Pty Ltd	4,000,000	3.48
7.	Sea Dragon Trading Ltd	2,700,000	2.35
8.	Citicorp Nominees Pty Ltd	2,662,656	2.32
9.	Elefantino Pty Ltd	2,000,000	1.74
10.	TJE Super Pty Ltd <TJ Evans S/F A/C>	1,696,000	1.47
11.	Smyth John Campbell	1,600,000	1.39
12.	Hansen Investments Limited	1,560,000	1.36
13.	ANZ Nominees Limited	1,390,562	1.21
14.	Weed C J & Brockman J E	1,260,000	1.10
15.	Poole-Johnson Rose Emma	1,235,000	1.07
16.	Mega-Min Resources Pty Ltd <Mega-Min A/C>	1,100,000	0.96
17.	Starland Nominees Pty Ltd	1,100,000	0.96
18.	Borden Holdings Pty Ltd <S/F A/C>	1,000,000	0.87
19.	Hannans Finance Pty Ltd	1,000,000	0.87
20.	BWS Pty Ltd	1,000,000	0.87
	<b>Total</b>	<b>81,390,174</b>	<b>70.79</b>

2. **Company Secretary**

The name of the Company Secretary is Russell Paul Hardwick.

3. **Principal Registered Office**

The address of the principal registered office in Australia is:

Suite 1

346 Barker Rd

Subiaco WA 6008

Telephone +61 8 6382 3700

4. **Registers of securities**

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross WA 6153

Telephone +61 8 9315 2333

5. **Securities Exchange Listing**

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

**ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

6. Unquoted Securities	Unquoted Securities	Number of holders
<b>Share Options</b>		
Options exercisable at \$0.20 on or before 8 February 2013 (2,000,000 held by Mr James Hamilton )	4,500,000	5
Options exercisable at \$0.25 on or before 8 February 2013 (2,000,000 held by Mr James Hamilton)	4,500,000	5
Options exercisable at \$0.20 on or before 9 May 2013 (400,000 held by Mr Nathan Cull)	500,000	3
Options exercisable at \$0.25 on or before 9 May 2013 (400,000 held by Mr Nathan Cull)	500,000	3
Options exercisable at \$0.20 on or before 19 September 2013 (100,000 held by Mr Nathan Cull)	150,000	3
Options exercisable at \$0.25 on or before 19 September 2013 (100,000 held by Mr Nathan Cull)	150,000	3
Options exercisable at \$0.10 on or before 21 January 2014 (held by Mr Nathan Cull)	500,000	1
Options exercisable at \$0.125 on or before 21 January 2014 (held by Mr Nathan Cull)	500,000	1
Options exercisable at \$0.10 on or before 6 March 2014 (2,000,000 held by Mr James Hamilton, 750,000 held by Mr Christopher Daws, 750,000 held by Mr Russell Hardwick)	3,500,000	3
Options exercisable at \$0.125 on or before 6 March 2014 (2,000,000 held by Mr James Hamilton, 750,000 held by Mr Christopher Daws, 750,000 held by Mr Russell Hardwick)	3,500,000	3
Options exercisable at \$0.15 on or before 18 August 2014 (held by Mr Nathan Cull or nominee)	1,000,000	1
Options exercisable at \$0.15 on or before 15 December 2014 (held by two staff members)	200,000	2
Options exercisable at \$0.168 on or before 27 November 2014 (3,000,000 held by Mr James Hamilton, 2,000,000 held by Mr Russell Hardwick, 1,000,000 held by Mr Christopher Daws)	6,000,000	3

8. Schedule of tenements

**SOUTH WOODIE WOODIE MANGANESE PROJECT**

<b>State</b>	<b>Tenement Code</b>	<b>Beneficial Interest (%)</b>
Western Australia	E46/710	80
Western Australia	E46/615	80
Western Australia	E46/616	80
Western Australia	E46/787	100
Western Australia	E46/875 – Application	100
Western Australia	E46/902 – Application	100
Western Australia	E46/893 – Application	100
Western Australia	E45/3207 – Application	100
Western Australia	E45/3208 – Application	100
Western Australia	E45/3209 – Application	100
Western Australia	E45/3210 – Application	100
Western Australia	E45/3730 – Application	100
Western Australia	E46/828 – Application	100
Western Australia	E46/829 – Application	100
Western Australia	E46/830 – Application	100
Western Australia	E46/834 – Application	100
Western Australia	E46/835 – Application	100

**TASMANIAN COAL PROJECT**

<b>State</b>	<b>Tenement Code</b>	<b>Beneficial Interest (%)</b>
Tasmania	EL27/2008	100
Tasmania	EL28/2008	100
Tasmania	EL23/2010 - Application	100

**NORTHERN TERRITORY PROJECT**

<b>State</b>	<b>Tenement Code</b>	<b>Beneficial Interest (%)</b>
Northern Territory	EL27/398	70
Northern Territory	EL27/399	70
Northern Territory	EL27/400	70
Northern Territory	EL27/404	70
Northern Territory	EL27401 – Application	70
Northern Territory	EL27402 – Application	70
Northern Territory	EL27403 – Application	70