



**SPITFIRE RESOURCES  
LIMITED**

ABN: 40 125 578 743

*Financial Report for the  
Year ended 30 June 2008*

## ***CORPORATE DIRECTORY***

### ***DIRECTORS & OFFICERS***

James Hamilton (Managing Director/Chairman)  
Christopher Daws (Non Executive Director)  
Russell Hardwick (Non Executive Director/Company Secretary)

### ***PRINCIPAL & REGISTERED OFFICE***

Suite 1  
346 Barker Road  
Subiaco WA 6008

### ***AUDITORS***

Bentleys  
Level 1  
12 Kings Park Road  
West Perth WA 6005

### ***BANKERS***

Commonwealth Bank  
432 Hay Street  
Subiaco WA 6008

Following the successful listing of your Company on the Australian Securities Exchange in December 2007, I am pleased to report that Spitfire Resources has moved quickly to implement the key elements of its growth strategy – laying the foundations for our future direction over the next 18 months.

Shortly after listing, the Company appointed an experienced geological manager to lead our exploration efforts. The recruitment of Mr Nathan Cull, formerly with Manganese producer Consolidated Minerals Limited, has greatly enhanced our geological team's understanding of the formation of Manganese deposits in the East Pilbara region of Western Australia.

Moreover, Nathan's detailed knowledge of the region has assisted our team in refining our exploration strategy and selecting the most proven techniques to search for these orebodies.

Armed with this knowledge, we moved quickly to expand our asset base by pegging four large, new tenements covering a total area of 899km<sup>2</sup> to the south of our existing landholding. This significant addition to our exploration portfolio makes us one of the biggest landholders in the region and reflects our confidence in the potential of this largely under-explored mineralised belt to yield significant new Manganese discoveries.

In March 2008, Spitfire made its first foray onto the global Manganese stage by undertaking a share placement to the Norwegian-based industrial, trading and metals group, Tinfos AS. At the time of writing, Tinfos was the subject of a takeover offer by large French mining group and specialty metals producer, Eramet.

Spitfire's potential future association with Eramet, subject to completion of this transaction, represents a major positive for your Company as it dramatically increases the range of development options and specialty skill sets available to us should our exploration be successful.

Reciprocal visits by Spitfire's management to Paris and by an Eramet executive to South Woodie Woodie to discuss our work plans have further reinforced the goodwill and strong spirit of cooperation between the two companies, as well as our shared optimism towards the South Woodie Woodie Project.

Spitfire's first drilling campaign at South Woodie Woodie in May and June 2008 was most encouraging despite being terminated early by heavy, unseasonal rains.

In essence, the program demonstrated the following key points to our geological team:

- Our geological package at South Woodie Woodie is very similar to that which hosts the world-class Woodie Woodie mining centre to the north;
- In-situ Manganese exists on the property with 60% of the holes drilled intersecting anomalous Manganese – the highest intercept being 14.4% Mn; and
- Lower grade Manganese occurring as pyrolusite can be beneficiated into a high-grade (+45% Mn) lump product.

The challenge for your Company in the next 18 months is to bring this asset fully to account by maintaining an appropriate level of exploration pressure. Should a significant discovery be made on our tenements, we are confident that a substantial market re-rating will follow given the extremely tight fundamentals for high-grade Manganese.

Despite the fall in pricing for some resource commodities in recent months, global demand for high-grade Manganese ore has rarely been higher. At time of printing, the Manganese price was at record levels, reflecting continued strong demand and unprecedented tightness of supply. Several respected independent commodity market analysts expect this to continue into the foreseeable future.

Notwithstanding these excellent Manganese pricing fundamentals and our steady exploration build-up at South Woodie Woodie, your Board has been cognisant of the need to diversify our commodity and project risk.

After examining many opportunities both in Australia and offshore, in May 2008 we announced a conditional agreement to acquire four thermal Coal properties in Tasmania from the privately owned company, Black Rock Energy Pty Ltd, for a consideration comprising the issue of shares in Spitfire.

Although by world Coal resource standards the potential tonnages at these projects are considered small, the attraction of the Black Rock projects is their excellent location relative to power, road, rail and port infrastructure, as well as the vast amount of historical drilling data available. The most advanced project, Langloh, already has a JORC Code compliant in-situ inferred black Coal resource of 10 million tonnes and is an immediate drill target.

Given the world's rapidly growing requirement for all forms of energy, Spitfire is now well positioned to benefit by pursuing a niche production opportunity in the rapidly growing thermal Coal sector for minimal entry cost. Upon granting of the exploration tenements, we intend to establish a field camp near Langloh, which is located approximately 40km outside Hobart. We will also recruit a dedicated exploration geologist for this project in order to fast track our exploration programs and increase the JORC Code compliant resource base.

As with the strategic partnering relationships we have developed in Manganese, Spitfire will also identify specialist Coal and power groups with a potential interest in becoming involved in our Tasmanian opportunity and assisting us to fund and develop these projects as they are progressively de-risked and advanced towards production.

In conclusion, I am confident that, with a clearly defined strategy for advancing our projects and exploration activities gathering momentum on two major operational fronts, Spitfire is well placed for a particularly active and rewarding 12 months.

I would like to take this opportunity to thank my fellow Directors and our team of outstanding employees and consultants for their hard work in getting Spitfire "airborne" so quickly – it's their commitment and passion that represents the lifeblood of the Company.



**James Hamilton**  
**Executive Chairman**

### **South Woodie Woodie**

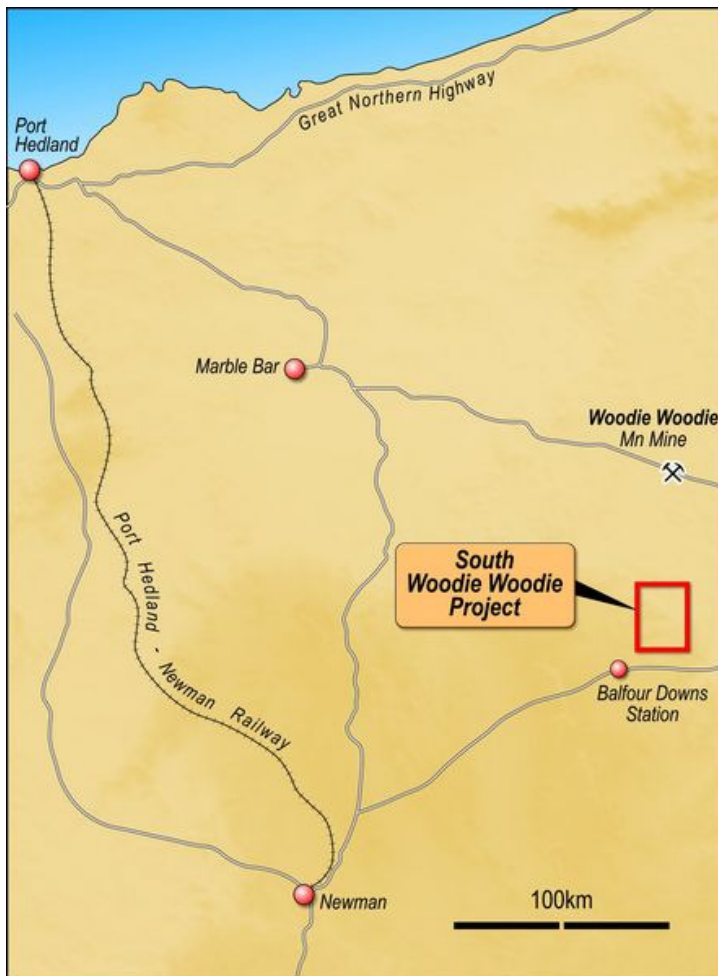
The South Woodie Woodie Project is located approximately 1,200km north of Perth and 230km north-east of Newman in the East Pilbara Manganese province of Western Australia.

Prior to its acquisition by Spitfire Resources Limited (“Spitfire” or the “Company”), the project was formerly owned and managed by AIM-listed Churchill Mining Plc (“Churchill”).

The project area consists of three granted Exploration Licences covering an irregularly shaped north-south trending area about 40km long and up to 15km wide. These tenements lie approximately 50km along strike and to the south of the Woodie Woodie Manganese Mining Centre, operated by Consolidated Minerals Limited.

Spitfire has an 80% interest in these three licences with an option to purchase the remaining 20% for A\$3 million in cash or shares and by spending A\$1.5 million on exploration within 18 months from its listing date.

In February 2008, the Company announced that it had significantly expanded its ground holding in the East Pilbara region by lodging applications for four strategic tenements covering a total area of approximately 899km<sup>2</sup>, located approximately 13km south east of the northern project area. Upon grant these tenements will be owned 100% by Spitfire.



*The South Woodie Woodie Project is located approximately 50km along strike and to the south of the Woodie Woodie Manganese Mining Centre.*

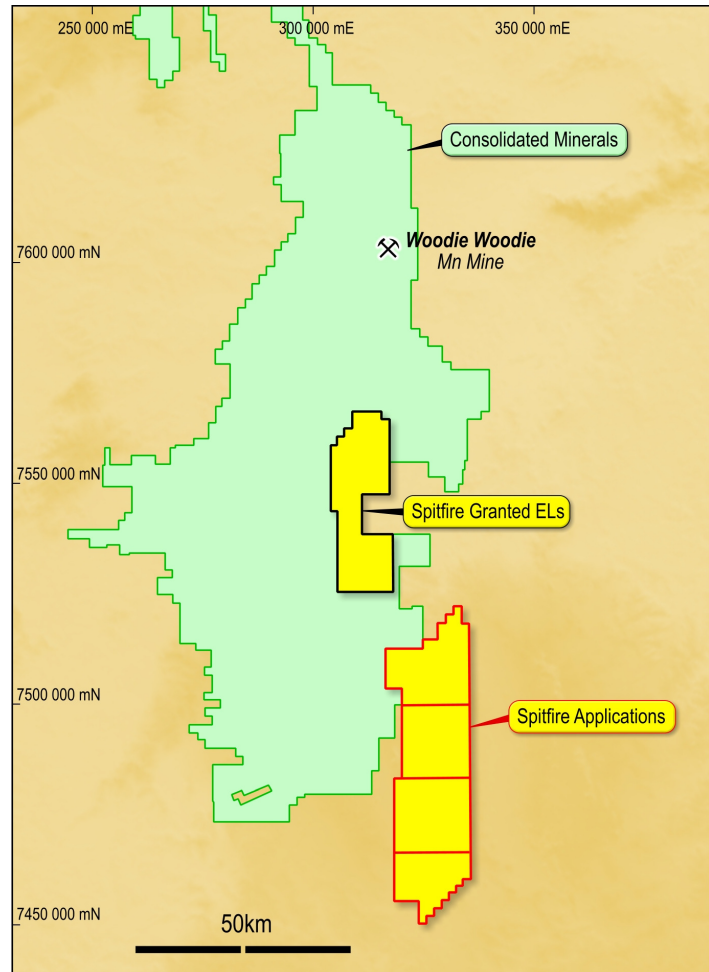
## REVIEW OF OPERATIONS

Prior to Spitfire's acquisition of the South Woodie Woodie Project, Churchill pursued an exploration program based on a new conceptual model for Manganese mineralisation, drawing on the extensive use of geophysical techniques to search for "blind" deposits ie. those that do not outcrop.

To this end, Churchill flew airborne magnetic and radiometric surveys over the entire project area in 2006 and then followed this with a heli-borne Versatile Time-Domain Electro-Magnetic (VTEM) survey of the northern part of the land holding. Fourteen high priority targets were selected for dipole-dipole Induced Polarisation (IP) surveys.

In early 2007 Spitfire re-interpreted this IP work and identified seven targets for drill testing. Six targets were selected on the basis of geophysical anomalism with the seventh target representing a Manganese occurrence discovered earlier in the year. Heritage clearance was obtained to allow drilling to proceed at all seven targets.

***Shortly after listing Spitfire Resources expanded its ground position by applying for new tenements covering approximately 899 square kilometres.***



Spitfire commenced drilling on 26 April and drilled 16 vertical holes for a total of 2,227m. Abrasive rock types, balling clays, and high ground water inflows constrained penetration rates. The program was further hampered by unseasonal rains and had to be terminated ahead of schedule, with one target area and many follow-up holes not drilled. These holes will be considered for priority follow-up in the next drilling campaign scheduled for October 2008.



***First drilling at South Woodie Woodie commenced in April 2008.***

## REVIEW OF OPERATIONS

Manganiferous material was intersected at five of the six target areas drilled and 10 out of the 16 holes drilled recorded Manganese intercepts ranging from one to 12m in thickness.

### Significant results are summarised below:

Hole ID	Depth From	Depth To	Interval (m)	Mn (%)
WWS030	0	3	3	5.68
WWS030	25	27	2	4.94
WWS031	4	6	2	5.58
WWS032	8	11	3	4.77
WWS033	10	13	3	4.43
WWS034	1	8	7	6.88
WWS035	31	38	7	2.73
WWS037	30	39	9	2.39
WWS039	109	111	2	5.48
WWS040	140	142	2	5.39
WWS041	80	89	9	2.54
WWS041	120	121	1	3.09
WWS041	145	154	9	3.11
WWS041	167	179	12	6.53*
WWS041	187	190	3	3.31

\* includes 2m at 13.7% Mn and 2m at 14.4% Mn.

Drill hole WWS041 - the final hole in the program - is considered to be particularly significant, returning an intersection of 12m of anomalous Manganese grades. The ore zones occur as apparent broad zones of mineralisation, interbedded with chert. The follow-up drill hole to WWS041 was abandoned due to rain and will be continued in the upcoming drill round.



*Drill chip sampling: hole WWS041 returned an intersection of 12 metres of anomalous Manganese grades.*

### Metallurgical Test Work

Five samples taken from hole WWS041 (from 168 to 173m) were submitted for Heavy Media Separation (HMS) test work at Amdel Mineral Laboratories. This process works on the same principle as the beneficiation process used to remove contaminants from mined ores.

## REVIEW OF OPERATIONS

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The assays returned from the test work are summarised below:

<b>WWS041 Intercept</b>	<b>Mn %</b>	<b>Fe %</b>	<b>SiO<sub>2</sub> %</b>	<b>S %</b>	<b>P %</b>
<b>168-169m</b>	49.5	9.3	0.8	0.008	0.04
<b>169-170m</b>	47.3	9.21	4.87	0.004	0.045
<b>170-171m</b>	37.8	8.78	20.7	0.007	0.041
<b>171-172m</b>	37.3	3.34	30.9	0.008	0.021
<b>172-173m</b>	44.8	9.22	9.24	0.009	0.041

The results confirm the geological logs in that the Manganese ore zones exist as broad, high-grade zones of mineralisation, which are easily upgradeable to export quality product specifications.

It is also worth noting that the concentrations of deleterious elements (sulphur and phosphorous) are exceptionally low. The Manganese occurs predominantly as pyrolusite and is of sufficient hardness to produce a quality lump product. These characteristics are highly desirable for steel makers.

### Conclusions and Upcoming Activities

Spitfire's maiden drilling campaign has confirmed the presence of Bangermall Basin lithologies at South Woodie Woodie. Of significance is the fact that these units are mineralised in exactly the same manner as the Woodie Woodie deposits. The recent drilling has yielded important evidence regarding thickness trends within a sequence overlying the Carawine Dolomite. This has narrowed the field of view for the mapping and upcoming drilling campaigns.

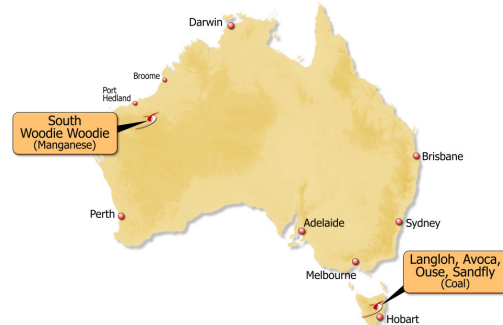


*Spitfire Resources' Exploration Manager Nathan Cull with a surface sample of Manganese ore.*

Subsequent to the unseasonal rains during the June Quarter of 2008, Spitfire has re-established its field camp and now has a team of experienced geologists conducting reconnaissance mapping in the southern areas of the project. Once this target delineation program is complete, the Company will seek the necessary heritage approvals before commencing its second round of drilling.

**Tasmanian Coal**

In May 2008, Spitfire announced that it had moved to diversify its asset portfolio and commodity base after entering into an agreement to acquire Black Rock Energy Pty Ltd (“Black Rock”), a privately owned company whose assets include an advanced thermal Coal project and a prospective portfolio of Coal exploration properties located in the Derwent Valley, north-west of Hobart in Tasmania.



*In May Spitfire announced that it had planned to diversify into Coal exploration via the purchase of four properties from Black Rock Energy Pty Ltd.*

Spitfire reached conditional agreement with the shareholders of Black Rock to acquire all of its issued capital. Black Rock’s assets comprise applications for the advanced Langloh Coal Project, which has an existing 10 million tonne in-situ thermal Coal resource, the Avoca Coal Project, the Ouse Coal Project and the Sandfly Coal Project.

The proposed acquisition provides Spitfire with an opportunity to significantly expand the existing JORC Code compliant Coal resource at Langloh within a rapid timeframe as the basis for a potential niche thermal Coal export business in Tasmania. It also provides an attractive pipeline of exploration opportunities in the region for additional thermal Coal deposits.

The Langloh Project, which was drilled in the early 1980s, is favourably located with respect to infrastructure and has multiple deep-sea port options, the closest of which is Hobart, located approximately 45km to the south east. Historical and recent analysis of the Coal suggests that it is of medium calorific value, potentially suitable for export markets in Asia.

**Material Acquisition Terms**

Spitfire reached conditional agreement to acquire 100% of the issued shares in Black Rock for a consideration comprising of the following two stages:

### Stage One:

The issue of 10,000,000 ordinary Spitfire shares to the vendor shareholders of Black Rock (Stage 1) for 100% interest in Black Rock conditional on:

- The granting of the Exploration Licences for the Langloh and Avoca projects and confirmation of the applications for the Ouse and Sandfly projects; and
- Receipt by both Spitfire and Black Rock of all and any consents and regulatory approvals (including those required by the Corporations Act and/or the ASX) in respect of the final transaction, including shareholder approval for the issue of Spitfire shares to the Black Rock shareholders.

At the completion of Stage 1, Black Rock shareholders would be required to enter into voluntary escrow agreements with regard to 100% of the issued vendor shares for a period of 12 months from the date of issue of the Stage 1 shares.

### Stage Two:

The issue of a further 10,000,000 ordinary Spitfire shares to the vendor shareholders of Black Rock (Stage 2) or a payment of A\$2,000,000 in cash (or a combination of both) at Spitfire's election upon:

- The delineation, at any time within two years after the date of the share sale agreement, of a "JORC Code compliant in-situ inferred Coal resource" of not less than 25 million tonnes of black bituminous Coal either within one of the tenements or across all of the tenements combined.

## Project Background

The assets that are subject to acquisition are the following tenement applications:

- The Langloh (Hamilton) Coal Project – EL 28/2008;
- The Avoca Coal Project – EL 27/2008;
- The Ouse (Langloh North) Coal Project – EL 38/2008; and
- The Sandfly (Kaoota) Coal Project – EL 39/2008

### The Langloh Coal Project – EL 28/2008

The Langloh Coal Project comprises tenement applications covering an area of 103km<sup>2</sup> in the Derwent Valley region of Tasmania. The project area was extensively 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.



*The Langloh Coal deposit today.*



*Langloh being drilled in the early eighties.*

The drilling covered an area 7.25km long by 4.5km wide and delineated three seams averaging 3.6m in cumulative width. The seams lie within 45m of the surface and dip gently to the south-east. The deposit remains open both along strike and at depth. Mining One Pty Ltd has estimated an existing 10 million tonne JORC Code compliant in-situ inferred black Coal resource.

Historical analysis of the Coal indicates that it is of medium calorific value (~5,600kcal/kg) with low sulphur and phosphorus. The Langloh Project area adjoins a working open pit Coal mine operated by The Cornwall Coal Company Pty Ltd (Cornwall Coal), owner of the Fingal Coal Mine, - Tasmania's only other operating Coal mine.



The Langloh Project is well served by infrastructure, with the project area transected by a major power line between Hobart and the west coast. It lies approximately 15km from the Derwent Valley railway and 2km from the town of Hamilton.

The Project has three deepwater port options, all of which can accommodate large vessels and are served by rail links namely:

- Hobart, approximately 45km from the site;
- Bell Bay, which can accommodate Panamax sized (40-60,000 tonnes) vessels; and
- Burnie.

*Core samples from early eighties drilling at Langloh.*

**The Avoca Coal Project – EL 27/2008**

Coal has been mined in the area surrounding Avoca almost continually since 1923. The historically worked seams were of significant thickness - up to 3.6m in places. Extensive exploration was conducted in the region by Western Mining Corporation (Tas) Pty Ltd in 1977, Shell Company of Australia in 1980 and by the Avoca Transport Company Pty Ltd in the late 1980s.

### **The Ouse Coal Project EL 38/2008**

Ouse has been identified as being an area of significant exploration potential. The Coal-bearing stratigraphy at Ouse is believed to be similar to that of the Langloh area. In 1964, a six hole drill program to test the area's potential was recommended by the previous tenement holder but the drilling was not undertaken.

### **The Sandfly Coal Project EL 39/2008**

The Sandfly (Kaoota) Coal field consists of Triassic Coal measures containing a number of seams up to 2m thick. Previous small scale mining has occurred at the project intermittently between 1881 and 1971. A total of 11 drill holes were drilled by the Department of Mines between 1895 and 1973, and a further five drill holes completed by Capricorn Mining Limited.

### **Exploration Potential**

Based on recent modeling (non-JORC Code compliant) completed by Black Rock Energy in 2008 and the historical drilling and sampling information, Spitfire has determined an initial Exploration Target range for the combined Black Rock tenement portfolio of an additional 35 to 45 million tonnes\* of bituminous thermal Coal.

*\* 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 Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.*

### **Tasmanian Mining Overview**

Tasmania is highly regarded worldwide for its supportive approach to exploration and new mine development and was rated first in the world for the 'workability' of its environmental policy by the 2005 Fraser Institute Survey. Tasmania has numerous world-class deposits of gold, nickel, iron ore and lead-zinc-silver but currently has only two relatively small operating Coal mines despite significant reserves known to exist within the State.

With its excellent infrastructure, skilled workforce and relatively high unemployment levels, Spitfire believes that Tasmania offers an attractive environment for the development of a niche thermal Coal export operation.

### **Summary and Outlook**

Upon granting of the Exploration Licences, the Company intends to move quickly to establish an Exploration Office and commence an extensive program of resource definition extension and exploration drilling during the fourth quarter of 2008, with the objective of expanding the current JORC Code compliant resource across the Black Rock tenement portfolio during 2009.



The Company has already had preliminary discussions with geological groups, drillers and mining contractors about their availability. The Company is also targeting potential strategic partners such as existing Coal producers or end-users to help progress and fund the exploration.

***Bell Bay: One of a number of port options that will be considered in the future.***

Prices for high-quality thermal export Coal from Australia have more than quadrupled in the past three years from around US\$40/tonne in 2005 to over US\$160/tonne at the time of printing. Significantly, some analysts are predicting that prices will remain strong at around the US\$100/tonne level through to the end of this decade and beyond, underpinned by surging energy demand in China, India and elsewhere in Asia.

*The technical information in this report, including drilling results, regarding South Woodie Woodie was compiled by Mr. N. Cull who is a Member of the Australian Institute of Geoscientists. Mr. Cull is Exploration Manager for Spitfire Resources Ltd, and consents to the inclusion in this type of report of the information as presented. He has sufficient experience relevant to the style of mineralisation 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.'*

*The information in this report that relates to a JORC compliant in situ inferred black Coal resource of 10 million tonnes is based on information prepared for Black Rock Energy Pty Ltd by Mining One Pty Ltd. The report was prepared by Rob Gaulton (MAusIMM), a consultant affiliated with Mining One Pty Ltd, who has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and who qualifies as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Rob Gaulton (MAusIMM) and Mining One Pty Ltd consent to the inclusion in this report of the matters based on their 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 2007 to 30 June 2008. 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:

<b>Name, qualifications and independence status</b>	<b>Experience, special responsibilities and other Directorships</b>
James Hamilton MAICD Chairman & Managing Director	Mr Hamilton has 16 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. Mr Hamilton has been a Director of AIM-listed Churchill Mining Plc since 2005.
Russell Hardwick BBus, ACIS CPA, MAICD Non Executive Director	Mr Hardwick is a Certified Practising Accountant with 15 years experience in a variety of private and public companies. Most recently he has served as Company Secretary for an AIM-listed minerals exploration company and an ASX-listed publishing company.
Christopher Daws Associate Diploma in Applied Science (Environmental Technology) MAICD, SA Fin Non Executive Director	Mr Daws has a strong background in finance and economics having spent 10 years involved in Australian equities markets and has worked within some of the largest broking organisations in the world. Mr Daws is an Affiliate Member of the Securities Institute of Australia. 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.
Paul Mazak (Non Executive Chairman, Resigned 17 June 2008)	Mr Mazak is the Managing Director of Churchill Mining Plc. Mr Mazak has been responsible for leading and managing financial investment consulting and governmental teams across the globe. Mr Mazak resigned in June 2008 as Non Executive Chairman to focus fully on his commitments in Indonesia for Churchill Mining Plc.

### 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 eight 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 (while they were a Director). During the financial year, six 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>
Paul Mazak	6	5	-	-
James Hamilton	6	6	-	-
Russell Hardwick	6	6	1	1
Christopher Daws	6	6	1	1

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 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 of relevant segment/s; 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.

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. Non Executive 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 consolidated Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the Employee Option Plan.

### **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 March 2008 and is for a period of three years. 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 either the balance of the consultancy fee that would have been paid to the consultant until expiry of the term and that has not yet been paid to the consultant, or 12 months standard consulting fees, whichever is greater.

The Company has entered into an employment agreement with Mr Nathan Cull to fulfil the role of Exploration Manager on a continuing basis. The agreement specifies the duties, obligations and key responsibilities of the role. The agreement requires the provision of four weeks notice if Mr Cull resigns which may be worked or paid in lieu at the sole discretion of the Company. The Company may terminate the employment agreement by providing one month's written notice or making payment in lieu of notice, based on Mr Cull'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.

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 January 2008 and is for a period of three years. 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.

## DIRECTORS' REPORT

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 either the balance of the consultancy fee that would have been paid to the consultant until expiry of the term and that has not yet been paid to the consultant, or 12 months standard consulting fees, whichever is greater.

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.

### 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 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 Executive Share Option Plan (ESOP), it provides for key management personnel to receive options over ordinary shares for no consideration.

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 for the 2008 financial year:

	Short Term Benefits		Long Term Benefits			Proportion of remuneration performance related	Value of options as proportion of remuneration
	Salaries or Director Fees	Consulting Fees	Options	Post Employment Superannuation	Total		
	\$	\$	\$	\$	\$	%	%
<b>Executive Directors</b>							
James Hamilton	18,333	174,166	376,600	-	569,099	0%	66.17%
<b>Non Executive Directors</b>							
Paul Mazak	18,333	87,500	141,225	-	247,058	0%	57.16%
Russell Hardwick	18,333	92,312	141,225	-	251,870	0%	56.07%
Christopher Daws	18,333	-	141,225	-	159,558	0%	88.51%
<b>Executives</b>							
Nathan Cull	95,288	-	75,320	8,576	179,184	0%	42.04%

There was no remuneration paid in the prior year.

## DIRECTORS' REPORT

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

Grant Date	Option Life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend Yield
8 February 2008	5	\$0.0992	\$0.20	\$0.18	60%	6.38%	-
	5	\$0.0891	\$0.25	\$0.18	60%	6.38%	-
29 April 2008	5	\$0.0992	\$0.20	\$0.18	60%	6.38%	-
	5	\$0.0891	\$0.25	\$0.18	60%	6.38%	-

### 4.4 Share-based compensation

The Company has adopted the Spitfire Employee Share Option Incentive Plan, which was approved by shareholders at the April 2008 Annual 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 Employee Share Option Incentive 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 Employee Share Option Incentive 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 are set out in the following table. When exercisable, each option is convertible into one ordinary share of Spitfire Resources Limited.

## DIRECTORS' REPORT

	Number of options granted during 2008	Grant Date	Fair value per option at grant date	Exercise price per option	Expiry Date	Number of options vested during 2008
<b>Executive Directors</b>						
James Hamilton	2,000,000	8 February 2008	\$0.0992	\$0.20	8 February 2013	Nil
	2,000,000	8 February 2008	\$0.0891	\$0.25	8 February 2013	Nil
<b>Non Executive Directors</b>						
Russell Hardwick	750,000	8 February 2008	\$0.0992	\$0.20	8 February 2013	Nil
	750,000	8 February 2008	\$0.0891	\$0.25	8 February 2013	Nil
Christopher Daws	750,000	8 February 2008	\$0.0992	\$0.20	8 February 2013	Nil
	750,000	8 February 2008	\$0.0891	\$0.25	8 February 2013	Nil
Paul Mazak	750,000	8 February 2008	\$0.0992	\$0.20	8 February 2013	Nil
	750,000	8 February 2008	\$0.0891	\$0.25	8 February 2013	Nil
<b>Executives</b>						
Nathan Cull	400,000	29 April 2008	\$0.0992	\$0.20	9 May 2013	Nil
	400,000	29 April 2008	\$0.0891	\$0.25	9 May 2013	Nil

No employee plan options were forfeited or cancelled during the 2008 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 year	% forfeited in year	Financial years in which grant vests
<b>Executive Directors</b>					
James Hamilton	2,000,000	8 February 2008	Nil	Nil	June 08/09
	2,000,000	8 February 2008	Nil	Nil	June 09/10
<b>Non Executive Directors</b>					
Russell Hardwick	750,000	8 February 2008	Nil	Nil	June 08/09
	750,000	8 February 2008	Nil	Nil	June 09/10
Christopher Daws	750,000	8 February 2008	Nil	Nil	June 08/09
	750,000	8 February 2008	Nil	Nil	June 09/10
Paul Mazak	750,000	8 February 2008	Nil	Nil	June 08/09
	750,000	8 February 2008	Nil	Nil	June 09/10
<b>Executives</b>					
Nathan Cull	400,000	29 April 2008	Nil	Nil	June 08/09
	400,000	29 April 2008	Nil	Nil	June 09/10

**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:

	Granted in year \$	Value of options exercised \$	Lapsed in year \$
<b>Executive Directors</b>			
James Hamilton	376,600	-	-
<b>Non Executive Directors</b>			
Russell Hardwick	141,225	-	-
Christopher Daws	141,225	-	-
Paul Mazak	141,225	-	-
<b>Executives</b>			
Nathan Cull	75,320	-	-
<b>Total</b>	<b>875,595</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:

	Ordinary shares Number	Options over ordinary shares Number
<b>Executive Directors</b>		
James Hamilton	550,000	4,519,967
<b>Non Executive Directors</b>		
Russell Hardwick	175,000	1,961,634
Christopher Daws	600,000	2,086,634
Paul Mazak	250,000	1,986,634

**6. SHARE OPTIONS**

**Options granted to Directors and officers of the Company**

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following Directors:

	Number of options granted	Exercise price	Expiry Date
<b>Executive Directors</b>			
James Hamilton	2,000,000	\$0.20	8 February 2013
	2,000,000	\$0.25	8 February 2013
<b>Non Executive Directors</b>			
Paul Mazak	750,000	\$0.20	8 February 2013
	750,000	\$0.25	8 February 2013
Russell Hardwick	750,000	\$0.20	8 February 2013
	750,000	\$0.25	8 February 2013
Christopher Daws	750,000	\$0.20	8 February 2013
	750,000	\$0.25	8 February 2013

All options were granted during the 2008 financial year. No options have been granted since the end of the financial year.

**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
9 May 2013	\$0.20	500,000
	\$0.25	500,000
30 June 2010	\$0.20	24,381,672

All options expire on either their expiry date, or the date of termination of the employee's employment, whichever is earlier.

**Shares issue on exercise of options**

During the financial year, the Company issued 1,666 ordinary shares as a result of the exercise of options at an exercise price of \$0.20 per share. There have been no other shares issued since the end of the financial year.

**7. CORPORATE GOVERNANCE STATEMENT**

As an integral part of its listing on the Australian Securities Exchange, 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.

**Board Composition**

The skills, experience and expertise relevant to the position of each Director who is in office at the date of printing the annual report and their term of office are detailed in the Directors' report.

The names of the Directors and period of office at the date of printing the annual report is:

<b>Board of Directors</b>	<b>Date of appointment</b>
James Hamilton	29 May 2007
Russell Hardwick	29 May 2007
Christopher Daws	29 May 2007

The name of the independent Director of the Company is Christopher Daws.

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 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.

Independent Directors have the right to seek independent professional advice in the furtherance of their duties as Directors at the Company's expense. Written approval must be obtained from the Chairman prior to incurring any expense on behalf of the Company.

**Trading Policy**

The Company's policy regarding Directors and employees trading in its securities is set by the Board. 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.

**Audit Committee**

The names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee are included in the Directors' report.

### **Risk Management**

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.

### **Remuneration Committee**

The matters normally dealt with by a remuneration committee are dealt with by the full Board.

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)

### **Explanations for departures from the Recommendations**

The primary role of the Board is the protection and enhancement of long-term shareholder value. The Board is accountable to shareholders for the performance of the Company. It directs and monitors the business and affairs of the Company on behalf of shareholders and is responsible for the Company's overall corporate governance.

After due consideration, the Company conducts its operations as a listed entity in accordance with the Recommendations, other than in relation to the matters specified:

## DIRECTORS' REPORT

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.</p> <p>The Board considers that 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 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.</p> <p>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 following the resignation of Mr Mazak during the year. 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>

**DIRECTORS' REPORT**

Recommendation	Notification of Departure	Explanation of Departure
<p>Recommendation 2.4 The Board should establish a Nomination Committee</p>	<p>The Board is considering whether 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 is newly listed and 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>
<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 8.2 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 Paul Mazak, 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>

## **8. PRINCIPAL ACTIVITIES**

The principal activities of the Group during the course of the 2007/2008 financial year were to explore the South Woodie Woodie Manganese project and to examine other opportunities in Australia and offshore.

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

The Group incurred a loss for the year of \$832,041 (2007: \$10,401). The Company remains well funded with cash of \$6.6 million at 30 June 2008. Further information is included in the Review of Operations.

### **Financial Position**

The net assets of the consolidated Group have increased to \$12,492,250 as at 30 June 2008. This increase has largely resulted from the following factors:

- Acquisition of 80% of the South Woodie Woodie project; and
- Successfully listing on the Australian Securities Exchange after raising \$6,000,000.

The Group's working capital, being current assets less current liabilities, has improved from (\$9,647) in 2007 to \$6,421,244 in 2008.

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 parent entity occurred during the financial year:

- On 12 December 2007, the Company successfully listed on the Australian Securities Exchange after issuing 30 million shares and raising \$6,000,000;
- On 28 February 2008, the Company increased its East Pilbara land holding by applying for a further 899 square kilometres of prospective Manganese ground;
- On 17 March 2008, the Company secured Norway's Tinfos AS as a strategic shareholder, raising \$1,730,000 via a share placement; and
- On 20 May 2008, the Company successfully completed a non-renounceable entitlements options issue and raised a further \$233,833.

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**

There has not been any 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.

**12. LIKELY DEVELOPMENTS**

The recently announced conditional acquisition of 100% of the issued capital of Black Rock Energy Pty Ltd is likely to be finalised in the 2008/2009 financial year.

Further information regarding the likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

**13. 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.

**14. NON-AUDIT SERVICES**

During the year Bentleys, the Company's auditor, in addition to their statutory duties also prepared an Investigating Accountants Report in relation to the prospectus.

**15. PROCEEDINGS ON BEHALF OF COMPANY**

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

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

**16. AUDITORS INDEPENDENCE DECLARATION**

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 28.

**17. 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 s 298 (2) of the Corporations Act 2001.

This report is made with a resolution of the Directors:



**James Hamilton**  
**Managing Director**

Dated at Perth this 22<sup>nd</sup> day of September 2008

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 2008 and in accordance with the provisions of the Corporations Act 2001.

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

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

Yours faithfully



**BENTLEYS**  
Chartered Accountants



**CHRIS WATTS**  
Director

DATED at PERTH this 22nd day of September 2008

**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated Group		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Continuing operations</b>					
Revenue		-	-	-	-
Cost of Sales		-	-	-	-
<b>Gross profit/(loss)</b>		-	-	-	-
Depreciation expense		(2)	-	(2)	-
Consulting expenses		(483)	(5)	(483)	(5)
Occupancy costs		(17)	-	(17)	-
Travel expenses		(44)	-	(44)	-
Administrative expenses		(566)	(5)	(563)	(5)
<b>Results from operating activities</b>		<b>(1,112)</b>	<b>(10)</b>	<b>(1,109)</b>	<b>(10)</b>
Finance income/interest	2	280	-	279	-
<b>Net Finance income</b>		<b>280</b>	<b>-</b>	<b>279</b>	<b>-</b>
<b>Loss before income tax</b>		<b>(832)</b>	<b>(10)</b>	<b>(830)</b>	<b>(10)</b>
Income tax expense	5	-	-	-	-
<b>Loss from continuing operations</b>		<b>(832)</b>	<b>(10)</b>	<b>(830)</b>	<b>(10)</b>
<b>Attributable to:</b>					
Equity holders of the Company		(832)	(10)	(830)	(10)
<b>Loss for the period</b>		<b>(832)</b>	<b>(10)</b>	<b>(830)</b>	<b>(10)</b>
<b>Loss per share</b>					
Basic loss per share	8	(2.13c)	-	(2.13c)	-
Diluted loss per share	8	(2.13c)	-	(2.13c)	-

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

**BALANCE SHEET AS AT 30 JUNE 2008**

	Note	Consolidated Group		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>ASSETS</b>					
Cash and cash equivalents	9	6,623	-	6,597	-
Trade and other receivables	10	149	-	1,003	-
Other current assets	11	12	11	12	11
<b>Total current assets</b>		<b>6,784</b>	<b>11</b>	<b>7,612</b>	<b>11</b>
Financial assets	12	-	-	5,000	-
Property, plant and equipment	14	93	-	93	-
Exploration & evaluation assets	15	5,986	-	-	-
<b>Total non-current assets</b>		<b>6,079</b>	<b>-</b>	<b>5,093</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>12,863</b>	<b>11</b>	<b>12,705</b>	<b>11</b>
<b>LIABILITIES</b>					
Trade and other payables	16	356	9	199	9
Financial liabilities	17	3	12	3	12
Provisions	18	3	-	-	-
<b>Total current liabilities</b>		<b>362</b>	<b>21</b>	<b>202</b>	<b>21</b>
Financial liabilities	17	8	-	8	-
<b>Total non-current liabilities</b>		<b>8</b>	<b>-</b>	<b>8</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>370</b>	<b>21</b>	<b>210</b>	<b>21</b>
<b>NET ASSETS</b>		<b>12,493</b>	<b>(10)</b>	<b>12,495</b>	<b>(10)</b>
<b>EQUITY</b>					
Issued capital	19	12,846	-	12,846	-
Reserves	20	489	-	489	-
Accumulated losses		(842)	(10)	(840)	(10)
<b>Total equity attributable to equity holders of the Company</b>		<b>12,493</b>	<b>(10)</b>	<b>12,495</b>	<b>(10)</b>
<b>TOTAL EQUITY</b>		<b>12,493</b>	<b>(10)</b>	<b>12,495</b>	<b>(10)</b>

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Company	Note	Issued Capital \$000	Option reserve \$000	Accumulated Losses \$000	Total equity \$000
<b>Balance at 1 July 2006</b>		-	-	-	-
Loss for the period		-	-	(10)	(10)
Total recognised income and expense		-	-	(10)	(10)
Issue of ordinary shares		-	-	-	-
<b>Balance at 30 June 2007</b>		-	-	(10)	(10)
<b>Balance at 1 July 2007</b>		-	-	(10)	(10)
Loss for the period		-	-	(830)	(830)
Total recognised income and expense		-	-	(840)	(840)
Issue of ordinary shares	19	13,408	-	-	13,408
Issue of share options	20	-	234	-	234
Share based payments	20	-	255	-	255
Share issue expenses		(562)	-	-	(562)
<b>Balance at 30 June 2008</b>		<b>12,846</b>	<b>489</b>	<b>(840)</b>	<b>12,495</b>

Consolidated	Note	Issued Capital \$000	Option reserve \$000	Accumulated Losses \$000	Total equity \$000
<b>Balance at 1 July 2006</b>		-	-	-	-
Loss for the period		-	-	(10)	(10)
Total recognised income and expense		-	-	(10)	(10)
Issue of ordinary shares		-	-	-	-
<b>Balance at 30 June 2007</b>		-	-	(10)	(10)
<b>Balance at 1 July 2007</b>		-	-	(10)	(10)
Loss for the period		-	-	(832)	(832)
Total recognised income and expense		-	-	(842)	(842)
Issue of ordinary shares	19	13,408	-	-	13,408
Issue of share options	20	-	234	-	234
Share based payments	20	-	255	-	255
Share issue expenses		(562)	-	-	(562)
<b>Balance at 30 June 2008</b>		<b>12,846</b>	<b>489</b>	<b>(842)</b>	<b>12,493</b>

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash flows from operating activities</b>					
Cash paid to suppliers and employees		(826)	(12)	(786)	(12)
Payments for exploration and evaluation		(587)	-	-	-
Interest received		227	-	227	-
<b>Net cash used in operating activities</b>	22	<b>(1,186)</b>	<b>(12)</b>	<b>(559)</b>	<b>(12)</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(23)	-	(23)	-
Stamp Duty on tenement acquisition		(263)	-	-	-
Loan received from related party		-	12	-	12
Loan to subsidiaries		-	-	(916)	-
<b>Net cash (used in)/from investing activities</b>		<b>(286)</b>	<b>12</b>	<b>(939)</b>	<b>12</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		8,330	-	8,330	-
Proceeds from issue of share options		234	-	234	-
Expense of share issue		(467)	-	(467)	-
Proceeds from borrowings		30	-	30	-
Repayment of borrowings		(32)	-	(32)	-
<b>Net cash from financing activities</b>		<b>8,095</b>	<b>-</b>	<b>8,095</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		6,623	-	6,597	-
Cash and cash equivalents at 1 July 2007		-	-	-	-
<b>Cash and cash equivalents at 30 June 2008</b>	9	<b>6,623</b>	<b>-</b>	<b>6,597</b>	<b>-</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 2008 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 (AASBs) (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) 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.

**(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 from 10 October 2007. Prior to this, the Group was a member of a separate tax consolidated group. Members of the tax consolidated group intend to enter into a tax sharing arrangement which will allow for the allocation of income tax expense to the wholly owned controlled entities on a pro-rata basis. The arrangement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Spitfire Resources Limited.

**(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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement 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**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**(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.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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 on 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 an impairment has arisen. Impairment losses are recognised in the income statement.

**(p) Change in Accounting Policy**

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

<b>AASB Amendment</b>	<b>Standards Affected</b>	<b>Outline of Amendment</b>	<b>Application Date of Standard</b>	<b>Application Date for Group</b>
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5 Non-current Assets Held for Sale and Discontinued Operations AASB 6 Exploration for and Evaluation of Mineral AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets AASB 1023 General Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1 January 2009	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

AASB Amendment	Standards Affected	Outline of Amendment	Application Date of Standard	Application Date for Group
	AASB 1038 Life Insurance Contracts			
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above.	1 January 2009	1 July 2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 111 Construction Contracts AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1 January 2009	1 July 2009
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above.	1 January 2009	1 July 2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1 January 2009	1 July 2009
AASB 101	AASB 101 Presentation of Financial Statements	As above.	1 January 2009	1 July 2009

**(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***

No provision for impairment of receivables has been made at 30 June 2008.

***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 or 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.

The financial report was authorised for issue on 19 September 2008 by the board of directors.

**NOTE 2: FINANCE INCOME**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Interest income on bank deposits	280	-	279	-
<b>Total finance income</b>	<b>280</b>	<b>-</b>	<b>279</b>	<b>-</b>

**NOTE 3: LOSS FOR THE YEAR**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>a) Expenses</b>				
Rental expense on operating leases				
- Minimum lease payments	17	-	17	-
<b>b) Significant expenses</b>				
Consulting Fees	483	5	483	5
Director Fees	73	-	73	-
Legal Fees	38	-	38	-
Resources Investigation costs	77	-	77	-
Salaries and Wages	203	-	203	-

**NOTE 4: BUSINESS AND GEOGRAPHICAL SEGMENTS**

Spitfire Resources Limited has one business segment being Manganese exploration in Western Australia.

**NOTE 5: INCOME TAX EXPENSE**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Major components of income tax expense for the years ended 30 June 2008 and 2007 are:				
Current tax expense	-	-	-	-
Deferred tax expense	-	-	-	-
Total Tax expense	-	-	-	-
Spitfire Resources Limited and its 100% owned controlled entities have formed a tax consolidated group from 10 October 2007. Prior to this, the Group was a member of a separate tax consolidated group. 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 2008 and 2007 is as follows:				
Accounting Loss before income tax	(832)	(10)	(830)	(10)
Accounting loss attributable to a prior tax consolidated group	140	10	139	10
Accounting loss before income tax	<b>(692)</b>	-	<b>(691)</b>	-
At the statutory income tax rate of 30%	(207)	-	(207)	-
Add:				
Non-deductible expenses	75	-	75	-
Less:				
Temporary differences and tax losses not brought to account	166	-	166	-
Capital raising costs	(34)	-	(34)	-
Income tax expense	-	-	-	-
Effective income tax rate of 0%	0%	0%	0%	0%

<b>Recognised deferred tax assets and liabilities</b>				
Deferred tax assets and liabilities are attributable to the following:				
Exploration expenditure	1,796	-	-	-
Prepaid expenditure	1	-	1	-
Accrued interest	16	-	16	-
Sundry payables	(7)	-	(4)	-
Tax losses	(1,969)	-	(1,969)	-
Business related costs	(3)	-	(3)	-
Unrecognised deferred tax assets	166	-	1,959	-
Tax (assets) liabilities	-	-	-	-
Set off of tax	-	-	-	-
Net tax (assets) liabilities	-	-	-	-
<b>Unrecognised Deferred Tax Assets</b>				
Tax Losses	166	-	1,959	-
	<b>166</b>	-	<b>1,959</b>	-

**NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION**

Names and positions held of consolidated and parent entity key management personnel in office at any time during the 2007/2008 financial year are:

<b>Key Management Person</b>	<b>Position</b>
James Tyson Hamilton	Managing Director
Paul Gerard Mazak (Resigned 17 June 2008)	Executive Chairman
Russell Paul Hardwick	Non Executive Director/Company Secretary
Christopher John Daws	Non Executive Director
Nathan Andrew Cull	Exploration Manager

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

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

	Balance 1 July 2007	Granted as Compensation	Options Exercised*	Net Change Other*
<b>Executive Directors</b>				
James Hamilton	-	4,000,000	-	519,967
<b>Non Executive Directors</b>				
Paul Mazak	-	1,500,000	-	486,634
Russell Hardwick	-	1,500,000	-	461,634
Christopher Daws	-	1,500,000	-	586,634
<b>Executives</b>				
Nathan Cull	-	800,000	-	68,333

During April 2008 the company issued a prospectus for a non-renounceable entitlements issue of 23,383,338 options on the basis of one option for every three (3) shares held by shareholders on 16 April 2008 at an issue price of 1 cent per option. This offer was fully underwritten by the directors of the company. This resulted in the grant of options to key management personnel as at the issue date.

	Balance 30 June 2008	Total Vested 30 June 2008	Total Exercisable 30 June 2008	Total Unexercisable 30 June 2008
<b>Executive Directors</b>				
James Hamilton	4,519,967	519,967	519,967	4,000,000
<b>Non Executive Directors</b>				
Paul Mazak	1,986,634	486,634	486,634	1,500,000
Russell Hardwick	1,961,634	461,634	461,634	1,500,000
Christopher Daws	2,086,634	586,634	586,634	1,500,000
<b>Executives</b>				
Nathan Cull	868,333	68,333	68,333	68,333

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

	Balance 1 July 2007	Received as compensation	Options Exercised	Net Change Other	Balance 30 June 2008
<b>Executive Directors</b>					
James Hamilton	-	-	-	350,000	350,000
<b>Non Executive Directors</b>					
Paul Mazak	-	-	-	250,000	250,000
Russell Hardwick	-	-	-	175,000	175,000
Christopher Daws	-	-	-	550,000	550,000
<b>Executives</b>					
Nathan Cull	-	-	-	205,000	205,000

**NOTE 7: AUDITORS' REMUNERATION**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Remuneration of the auditor of the parent entity for:				
- Auditing or reviewing the financial report	11	4	11	4
- Prospectus - Investigating Accountants Report	6	-	6	-
No other services have been provided by the Auditors.				

**NOTE 8: LOSS PER SHARE**

	Consolidated Group	
	2008 \$000	2007 \$000
Basic loss per share (cents per share)	(2.13) cents	-
Diluted loss per share (cents per share)	(2.13) cents	-
a) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	39,100,241	-
b) Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	39,100,241	-
<p>There is no comparative loss per share shown as the Company was incorporated in May 2007 and there were only minimal transactions for the period ending June 2007.</p> <p>At 30 June 2008 34,381,672 share options are non dilutive based on the average market prices of the Company's shares.</p> <p>As the Group made a loss for the period, diluted earnings per share is the same as basic earnings per share.</p>		

**NOTE 9: CASH AND CASH EQUIVALENTS**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Cash at bank and in hand	343	-	317	-
Cash management account	1,780	-	1,780	-
Short-term bank deposits	4,500	-	4,500	-
	<b>6,623</b>	<b>-</b>	<b>6,597</b>	<b>-</b>

The effective interest rate on short-term bank deposits was 8.05%. These deposits have an average maturity of 92 days.

**NOTE 10: TRADE AND OTHER RECEIVABLES**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>CURRENT</b>				
GST receivable	89	-	34	-
Interest receivable	53	-	53	-
Loan receivable	-	-	916	-
Other receivables	7	-	-	-
	<b>149</b>	<b>-</b>	<b>1,003</b>	<b>-</b>

**NOTE 11: OTHER CURRENT ASSETS**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>CURRENT</b>				
Prepayments	12	11	12	11
	<b>12</b>	<b>11</b>	<b>12</b>	<b>11</b>

**NOTE 12: FINANCIAL ASSETS**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Unlisted investments, at cost				
- Shares in controlled entities	-	-	5,000	-
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>-</b>

**NOTE 13: CONTROLLED ENTITIES**

	Country of Incorporation	Percentage Owned (%)*	
		2008	2007
<b>Subsidiaries of Spitfire Resources Ltd:</b>			
Spitfire Australia (SWW) Pty Ltd	Australia	100%	-
Spitfire Indonesia Nickel Pty Ltd	Australia	100%	-

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

**Incorporation of Controlled Entities**

On 12 July 2007 Spitfire Indonesia Nickel Pty Ltd was incorporated as a 100% subsidiary of Spitfire Resources Limited.

On 19 July 2007 Spitfire Resources (SWW) Pty Ltd was incorporated as a 100% subsidiary of Spitfire Resources Limited

**NOTE 14: PROPERTY, PLANT AND EQUIPMENT**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>PLANT AND EQUIPMENT</b>				
At cost	23	-	23	-
Accumulated depreciation	(2)	-	(2)	-
	21	-	21	-
<b>Total Property, Plant and Equipment</b>	<b>21</b>	<b>-</b>	<b>21</b>	<b>-</b>
<b>LEASEHOLD IMPROVEMENTS</b>				
At cost	72	-	72	-
Accumulated depreciation	-	-	-	-
	72	-	72	-
<b>Total Leasehold Improvements</b>	<b>72</b>	<b>-</b>	<b>72</b>	<b>-</b>
<b>Total Property, Plant and Equipment</b>	<b>93</b>	<b>-</b>	<b>93</b>	<b>-</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	Leasehold Improvements	Total
	\$000	\$000	\$000
<b>Consolidated Group:</b>			
Balance at 30 June 2007	-	-	-
Additions	23	72	95
Disposals	-	-	-
Depreciation expense	(2)	-	(2)
Balance at 30 June 2008	<b>21</b>	<b>72</b>	<b>93</b>
<b>Parent Entity:</b>			
Balance at 30 June 2007	-	-	-
Additions	23	72	95
Disposals	-	-	-
Depreciation expense	(2)	-	(2)
Balance at 30 June 2008	<b>21</b>	<b>72</b>	<b>93</b>

**NOTE 15: EXPLORATION AND EVALUATION ASSETS**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>NON-CURRENT</b>				
Exploration expenditure capitalised				
- Exploration and evaluation phases	986	-	-	-
Mining exploration properties				
- At cost	5,000	-	-	-
<b>Total exploration expenditure</b>	<b>5,986</b>	<b>-</b>	<b>-</b>	<b>-</b>
Recoverability of the carrying amount of exploration assets is dependent upon:				
<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 future exploration; and</li> <li>- The recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.</li> </ul>				
Capitalised costs amounting to \$587,000 (2007: Nil) have been included in cash flows from operating activities and \$263,000 has been included in cash flows from investing activities in the cash flow statement.				

**NOTE 16: TRADE AND OTHER PAYABLES**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>CURRENT</b>				
Trade creditors	334	-	172	-
Sundry payables and accrued expenses	22	9	27	9
	<b>356</b>	<b>9</b>	<b>199</b>	<b>9</b>

**NOTE 17: FINANCIAL LIABILITIES**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>CURRENT</b>				
Lease liability	3	-	3	-
Short-term borrowings	-	12	-	12
	<b>3</b>	<b>12</b>	<b>3</b>	<b>12</b>
<b>NON-CURRENT</b>				
Lease liability	8	-	8	-
	<b>8</b>	<b>-</b>	<b>8</b>	<b>-</b>

**NOTE 18: PROVISIONS**

	Employee Benefits	Other	Total
	\$000	\$000	\$000
<b>Consolidated Group</b>			
Opening balance at 1 July 2007	-	-	-
Additional provisions	3	-	3
Balance at 30 June 2008	<b>3</b>	<b>-</b>	<b>3</b>
<b>Parent Entity</b>			
Opening balance at 1 July 2007	-	-	-
Additional provisions	-	-	-
Balance at 30 June 2008	<b>-</b>	<b>-</b>	<b>-</b>

**Analysis of Total Provisions**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Current (annual leave provision)	3	-	-	-
Non-current	-	-	-	-
	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTE 19: ISSUED CAPITAL**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
70,151,681 (2007: 1) fully paid ordinary shares	13,408	-	13,408	-
Share issue expenses	(562)	-	(562)	-
	<b>12,846</b>	<b>-</b>	<b>12,846</b>	<b>-</b>
	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	No.	No.	No.	No.
<b>a. Ordinary shares</b>				
At the beginning of reporting period	5	5	5	5
Shares issued during the year				
- 3 October 2007 for the acquisition of tenements	25,000,000	-	25,000,000	-
- 10 October 2007 @ 10c to seed investors	4,750,010	-	4,750,010	-
- 19 October 2007 @ 10c to seed investors	1,250,000	-	1,250,000	-
- 12 December 2007 @ 20c pursuant to the Prospectus	30,000,000	-	30,000,000	-
- 17 March 2008 @ 15.5c for the provision of consultancy services	500,000	-	500,000	-
- 20 March 2008 @ 18.5c pursuant to a placement	8,650,000	-	8,650,000	-
- 10 June 2008 @ 20c upon the conversion of options	1,666	-	1,666	-
At reporting date	<b>70,151,681</b>	<b>5</b>	<b>70,151,681</b>	<b>5</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>b. Options</b>				
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 24 Share-based Payments.			
ii.	For information relating to share options issued to key management personnel during the financial year, refer to Note 24 Share-based Payments.			
<b>c. Capital Management</b>				
Management controls the capital of the Group in order to provide shareholders with the opportunity of future returns and ensure that the Group can fund its exploration programs and continue as a going concern. The Group has only minimal debts being normal equipment leases. There are no externally imposed capital requirements. There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.				

**NOTE 20: RESERVES**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Equity settled employee benefits reserve	255	-	255	-
Issue of share options (20c) expiry 30 June 2010	234	-	234	-
	<b>489</b>	<b>-</b>	<b>489</b>	<b>-</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 under the Employee Share Option Plan. Amounts are transferred out of the reserve into issued capital when the options are exercised.

**NOTE 21: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Estimates of the potential financial effect of contingent liabilities that may become payable:				
- Bank guarantee for operating lease (i)	15	-	15	-
(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 leases.				

## NOTE 22: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>				
Loss after income tax	(832)	(10)	(830)	(10)
Non-cash flows in loss				
- Depreciation	2	-	2	-
- Share issue in lieu of consulting fees	77	-	77	-
- Share options expensed	169	-	169	-
- Payments for exploration and evaluation	(587)	-	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		-		-
- (Increase)/decrease in trade and term receivables	(150)	(11)	(86)	(11)
- Increase/(decrease) in trade payables and accruals	135	9	109	9
<b>Cashflow from operations</b>	<b>(1,186)</b>	<b>(12)</b>	<b>(559)</b>	<b>(12)</b>
<b>Non-cash Financing and Investing Activities</b>				
<i>Share issue:</i>				
In October 2007 the Company issued 25,000,000 fully paid ordinary shares for the purchase of 80% of the South Woodie Woodie Manganese project.				

**NOTE 23: COMMITMENTS**

**a) Operating Lease Commitments**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Non-cancellable operating lease contracted for but not capitalised in the financial statements:				
Payable				
- Within one year	61	-	61	-
- One year or later and no later than five years	117	-	117	-
- Later than five years	-	-	-	-
	<b>178</b>	<b>-</b>	<b>178</b>	<b>-</b>
<p>The above amounts include a 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 and an equipment lease with a 36 month term expiring on 31 May 2011.</p>				

**b) Exploration Commitments**

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$000	\$000	\$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>				
Payable				
- Within one year	89	-	-	-
- One year or later and no later than five years	151	-	-	-
- Later than five years	-	-	-	-
	<b>240</b>	<b>-</b>	<b>-</b>	<b>-</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 24: SHARE BASED PAYMENTS**

Grant date/employees entitled	Number of Instruments	Vesting Conditions	Contractual life of options
Options grant to Directors on 8 February 2008	8,500,000	50% of the options vest 12 months after the date of issue with the remainder vesting 24 months after the date of issue.	5
Options grant to senior personnel on 29 April 2008	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
Options grant on 8 February 2008 for the provision of consultancy and investor relations services	500,000	50% of the options vest 12 months after the date of issue with the remainder vesting 24 months after the date of issue.	5
Options grant on 10 October 2007 as part of prospectus	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.	2.72

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.

On the 17<sup>th</sup> March 2008 the Company issued 500,000 shares for the provision of consultancy and investor relations services. The fair value was measured based on the value of the shares issued which was determined to be \$77,500. This amount has been included in the Income Statement during the year ending 30 June 2008.

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

Consolidated Group	Weighted average exercise price 2008	Number of options	Weighted average exercise price 2007	Number of options
Outstanding at 1 July 2007	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Granted during the period	22.28c	11,000,000	-	-
Outstanding at 30 June 2008	22.28c	11,000,000	-	-
Exercisable at 30 June 2008	-	-	-	-
<b>Parent Entity</b>				
Outstanding at 1 July 2007	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Granted during the period	22.28c	11,000,000	-	-
Outstanding at 30 June 2008	22.28c	11,000,000	-	-
Exercisable at 30 June 2008	-	-	-	-

On 3 October 2007 25,000,000 fully paid ordinary shares were issued to Planet Mining Pty Ltd for the purchase of an 80% interest in the South Woodie Woodie Project.

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:

	Key management personnel 2008	Key management personnel 2007
<i>Fair value of options and assumptions</i>		
<b>Fair value at grant date</b>	<b>9.42c</b>	-
Share price	18c	-
Exercise price	22.5c	
Expected volatility (weighted average volatility)	60%	-
Option life (expected weighted average life)	5	-
Risk-free interest rate	6.38%	-

**NOTE 25: EVENTS AFTER BALANCE SHEET DATE**

There has not been any 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 26: RELATED PARTY TRANSACTIONS**

	Consolidated Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$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>				
Consultancy fees paid to Goldregis Corporation Pty Ltd (a company associated with Mr. James Hamilton), a related party of Spitfire Resources Limited.	174	-	174	-
Consultancy fees paid to Direct Invest Group Limited (a company associated with Mr. Paul Mazak), a related party of Spitfire Resources Limited.	88	-	88	-
Consultancy fees paid to Ravenhill Corporate Pty Ltd (a company associated with Mr. Russell Hardwick), a related party of Spitfire Resources Limited.	92	-	92	-
<b>Other Related Parties</b>				
Loans made by the Company to wholly owned subsidiaries.	-	-	916	-
On 5 October 2007, Spitfire Australia (SWW) Pty Ltd entered into a tenement sale agreement with Planet Mining Pty Ltd whilst it was a 100% subsidiary of Planet Mining Pty Ltd.				
Mr James Hamilton and Mr Paul Mazak were Directors of both Planet Mining Pty Ltd and Spitfire Australia (SWW) Pty Ltd. This agreement was completed prior to the Spitfire Groups fundraising and subsequent listing on the Australian Securities Exchange ("ASX").				

## **NOTE 27: 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**

The liquidity risk of each Group entity is managed centrally by the Board. The investment budgets and work plans are set locally and agreed by the Board annually in advance, enabling the Group's cash requirements to be anticipated.

### **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 made investments and advances of \$916,000 into subsidiary companies during the year, recovery of which is dependent on future income generation of those subsidiaries.

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

	2008		2007	
	Carrying value	Maximum exposure	Carrying value	Maximum exposure
	\$	\$	\$	\$
Cash and cash equivalents	6,623	6,623	-	-
Trade and other receivables	149	149	-	-
	<b>6,772</b>	<b>6,772</b>	-	-

The Risk Management Committee monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties.

### 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:

<b>Consolidated Group 2008</b>	<b>Floating interest rate \$000</b>	<b>Fixed interest maturing in 1 year or less \$000</b>	<b>Fixed interest maturing over 1 to 5 years \$000</b>	<b>Non- interest bearing \$000</b>	<b>Total \$000</b>
<b>Financial assets</b>					
Cash and cash equivalents	281	6,340	-	2	6,623
Trade and other receivables	-	-	-	149	149
Other current assets	-	-	-	12	12
Financial assets	-	-	-	-	-
	<b>281</b>	<b>6,340</b>	<b>-</b>	<b>163</b>	<b>6,784</b>
Weighted average interest rate	2.75%	7.32%			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	356	356
Financial liabilities	-	-	-	11	11
	<b>-</b>	<b>-</b>	<b>-</b>	<b>367</b>	<b>367</b>

<b>Parent Entity 2008</b>	<b>Floating interest rate \$000</b>	<b>Fixed interest maturing in 1 year or less \$000</b>	<b>Fixed interest maturing over 1 to 5 years \$000</b>	<b>Non- interest bearing \$000</b>	<b>Total \$000</b>
<b>Financial assets</b>					
Cash and cash equivalents	257	6,340	-	-	6,597
Trade and other receivables	-	-	-	1,003	1,003
Other current assets	-	-	-	12	12
Financial assets	-	-	-	5,000	5,000
	<b>257</b>	<b>6,340</b>	<b>-</b>	<b>6,015</b>	<b>12,612</b>
Weighted average interest rate	2.75%	7.32%			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	199	199
Financial liabilities	-	-	-	11	11
	<b>-</b>	<b>-</b>	<b>-</b>	<b>210</b>	<b>210</b>

<b>Consolidated Group 2007</b>	<b>Floating interest rate \$000</b>	<b>Fixed interest maturing in 1 year or less \$000</b>	<b>Fixed interest maturing over 1 to 5 years \$000</b>	<b>Non- interest bearing \$000</b>	<b>Total \$000</b>
<b>Financial assets</b>					
Cash and cash equivalents	-	-	-	-	-
Trade and other receivables	-	-	-	-	-
Other current assets	-	-	-	11	11
Financial assets	-	-	-	-	-
	-	-	-	<b>11</b>	<b>11</b>
Weighted average interest rate					
	-	-			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	9	9
Financial liabilities	-	-	-	12	12
	-	-	-	<b>21</b>	<b>21</b>

<b>Parent Entity 2007</b>	<b>Floating interest rate \$000</b>	<b>Fixed interest maturing in 1 year or less \$000</b>	<b>Fixed interest maturing over 1 to 5 years \$000</b>	<b>Non- interest bearing \$000</b>	<b>Total \$000</b>
<b>Financial assets</b>					
Cash and cash equivalents	-	-	-	-	-
Trade and other receivables	-	-	-	-	-
Other current assets	-	-	-	11	11
Financial assets	-	-	-	-	-
	-	-	-	<b>11</b>	<b>11</b>
Weighted average interest rate					
	-	-			
<b>Financial liabilities</b>					
Trade and other payables	-	-	-	9	9
Financial liabilities	-	-	-	12	12
	-	-	-	<b>21</b>	<b>21</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 2008, 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 Group		Parent Entity	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Change in profit				
- Increase in interest rate by 1%	39	-	39	-
- Decrease in interest rate by 1%	(39)	-	(39)	-
Change in equity				
- Increase in interest rate by 1%	39	-	39	-
- Decrease in interest rate by 1%	(39)	-	(39)	-

**Net Fair Value**

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

	2008		2007	
	Carrying Amount \$000	Net Fair Value \$000	Carrying Amount \$000	Net Fair Value \$000
<b>Financial assets</b>				
Cash and cash equivalents	6,623	6,623	-	-
Trade and other receivables	149	149	1	1
Other current assets	12	12	11	11
Financial assets	-	-	-	-
	<b>6,784</b>	<b>6,784</b>	<b>12</b>	<b>12</b>
<b>Financial liabilities</b>				
Trade and other payables	356	356	9	9
Financial liabilities	11	11	12	12
	<b>367</b>	<b>367</b>	<b>21</b>	<b>21</b>

## DIRECTORS' DECLARATION

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The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 29 to 64, are in accordance with the *Corporations Act 2001* and:
  - a. Comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. Give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company and consolidated Group.
  
2. The Chief Executive Officer and Chief 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.



**Director**

Dated this 22<sup>nd</sup> day of September 2008

## Independent Audit Report

### To the Members of Spitfire Resources Limited

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

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 15 to 18 of the directors' report and not in the financial report.

#### Directors Responsibility for the Financial Report

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

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

#### Auditor's Responsibility

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

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

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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 Spitfire Resources Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1
- c. the remuneration disclosures that are contained in pages 15 to 18 of the directors' report comply with Accounting Standard AASB 124.

**BENTLEYS**  
Chartered Accountants

**CHRIS WATTS**  
Director

DATED at PERTH this 22nd day of September 2008

Additional Securities Exchange Information as at 1 September 2008.

1. Shareholding

a. Distribution of equity security holders	Listed Shares and Options - Number	
	Ordinary Shares	20c (30 June 2010) Share Options
Category (size of holding)		
1 - 1,000	1	8
1,001 - 5,000	72	166
5,001 - 10,000	130	87
10,001 - 100,000	269	90
100,001 and over	58	19
	530	370

Distribution of equity security holders	Unlisted Options - Number				
	20c (30 June 2010) Share options	20c (8 Feb 2013) Share options	25c (8 Feb 2013) Share options	20c (9 May 2013) Share options	25c (9 May 2013) Share options
Category (size of holding)					
1 - 1,000	-	-	-	-	-
1,001 - 5,000	-	-	-	-	-
5,001 - 10,000	-	-	-	-	-
10,001 - 100,000	-	-	-	2	2
100,001 and over	1	5	5	1	1
	1	5	5	3	3

- b. The number of shareholdings held in less than marketable parcels is 19.
- c. The names of the substantial shareholders listed in the holding company's register as at 1 September 2008 are:

Shareholder	Number	
	Ordinary	%
Planet Mining Pty Ltd	25,000,015	35.64
Tinfos AS	8,650,000	12.33
ANZ Nominees Ltd	4,965,550	7.08

d. Voting Rights

There is a total of 70,151,681 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. 20 Largest Shareholders - Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Planet Mining Pty Ltd	25,000,015	35.64
2. Tinfos AS	8,650,000	12.33
3. ANZ Nominees Limited	4,965,550	7.08
4. Hexagon Capital Limited	2,770,000	3.95
5. Citicorp Nominees Limited	2,144,450	3.06
6. HSBC Custody Nominees Aust Limited	957,129	1.36
7. Foreign Dimensions Pty Ltd	900,000	1.28
8. Sea Dragon Trading Ltd	900,000	1.28
9. Moongold Pty Ltd	600,000	0.86
10. National Nominees Limited	527,567	0.75
11. Mega-Min Resources Pty Ltd <Mega-Min A/C>	515,000	0.73
12. Mirabaud & Cie Pty Ltd	500,000	0.71
13. Biancolla Ltd	500,000	0.71
14. James Tyson Hamilton <Hamilton Family A/C>	450,000	0.64
15. Wade & Gay Routledge <The Wade Routledge S/F A/C>	425,000	0.61
16. Shirley Edna Smith	375,800	0.54
17. Merrill Lynch Aust Nominees Pty Ltd	367,000	0.52
18. Rodney & Irma Long	358,411	0.51
19. Leftone Nominees Pty Ltd	350,000	0.50
20. Bryan David Oliver	312,000	0.44
<b>Total</b>	51,567,922	73.5

## ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

### f. 20 Largest Holders - Unlisted 20c share options (expiry 30 June 2010)

	<b>Name</b>	<b>Number of Unlisted Share Options Held</b>	<b>% Held of Issued Ordinary Capital</b>
1.	Planet Mining Pty Ltd	8,333,338	35.64
2.	Tinfos AS	2,883,333	12.33
3.	Citicorp Nominees Limited	2,333,331	9.98
4.	HSBC Custody Nominees Aust Limited	837,247	3.58
5.	Moongold Pty Ltd	586,633	2.51
6.	James Tyson Hamilton <Hamilton Family A/C>	519,967	2.22
7.	Cornerstone Advisors Pty Ltd	483,332	2.07
8.	Carmel Maria Bob	403,301	1.72
9.	Russell Hardwick <Russell Hardwick Family A/C>	403,301	1.72
10.	Jacobs Corporation Pty Ltd	400,000	1.71
11.	Mirabaud & Cie Pty Ltd	333,332	1.43
12.	Sea Dragon Trading Limited	299,999	1.28
13.	Hexagon Capital Limited	223,333	0.96
14.	John Percival & Josephine Gregan	223,333	0.96
15.	Phan Vinh	168,329	0.72
16.	Pendel Pty Ltd	150,000	0.64
17.	Rodney & Irma Long	139,666	0.60
18.	Wade & Gay Routledge <The Wade Routledge S/F A/C>	108,333	0.46
19.	Bryan David Oliver	104,000	0.44
20.	Canaccord Capital (Australia) Pty Ltd	100,000	0.43
	<b>Total</b>	<b>19,034,108</b>	<b>81.41</b>

2. The name of the Company Secretary is Russell Paul Hardwick.

3. 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 are held at the following address:

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.

6. **Unquoted Securities**

**Ordinary Shares**

- 28,000,015 Ordinary Fully Paid Shares are held by 20 holders. Planet Mining Pty Ltd holds 25,000,015 representing 35.64% of the total ordinary shares on issue.

**Options over Unissued Shares**

- A total of 11,000,000 options are on issue.
- 1,000,000 options are on issue to one holder.
- 9,000,000 options are on issue to five holders. Mr James Hamilton holds 4,000,000 Director options representing 44.45% of the total Director's options on issue.
- 1,000,000 options are on issue to employees under the Spitfire Resources Limited Employee Option Plan.

**7. Cash usage**

Since the date of listing on the ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of the ASX in a manner which is consistent with its business objectives.

**8. Schedule of tenements**

Country	Code	Name	Holder	Beneficial interest (%)	Area (ha)
Australia	E46/710	Wandanya	Spitfire Australia (SWW) Pty Ltd	80	16
Australia	E46/615	Wandanya	Spitfire Australia (SWW) Pty Ltd	80	31
Australia	E46/616	Wandanya	Spitfire Australia (SWW) Pty Ltd	80	29
Australia	E45/3207 - Application	Woorra Woorra	Spitfire Australia (SWW) Pty Ltd	100	90
Australia	E45/3208 - Application	Woorra Woorra	Spitfire Australia (SWW) Pty Ltd	100	81
Australia	E45/3209 - Application	Woorra Woorra	Spitfire Australia (SWW) Pty Ltd	100	90
Australia	E45/3210 - Application	Woorra Woorra	Spitfire Australia (SWW) Pty Ltd	100	60