



# Adelaide Resources Limited

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ACN 061 503 375

## **ANNUAL FINANCIAL REPORT**

**For the year ended 30 June 2008**

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## **Directors' Report**

The directors present this directors' report and the attached annual financial report of Adelaide Resources Limited for the financial year ended 30 June 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### **Directors**

The names and details of the directors of the company during or since the end of the financial year are:

#### ***Paul J Dowd BSc (Eng) – Chairman***

Paul Dowd brings an impressive set of mining industry skills to Adelaide Resources, gleaned from his experiences within the industry that span more than four decades. He was, until recently, vice president of Newmont Mining Corporation's Australian and New Zealand Operations and managing director of Newmont Australia Limited.

He is currently chairman of the Board of RESA – the SA Mineral Resources & Heavy Engineering Skills Centre, chairman of RESIC – the SA Resources Infrastructure Committee, council member of the PB Australia Pacific Advisory Board, managing director of Phoenix Copper Limited and non-executive director of Buka Gold Limited and Regis Resources Ltd.

Mr Dowd is a member of the South Australian Mining & Petroleum Experts Group and is also a board member of the Sustainable Minerals Institute, the University of Queensland and the University of Nevada, Reno, where he helped develop a course in risk management and is a member of the Mineral Resources Sector Advisory Council of the CSIRO. He also serves as a member of the Advisory Group for the Economic Development Board's Skills and Workforce Development Review, and is a member of the Training and Skills Commission (TSC) and an advisory member – Aboriginal Workforce Development Inter-Ministerial Committee.

#### ***Christopher G Drown BSc (Hons), MAusIMM – Managing Director***

Chris Drown is a geologist with over 20 years experience in the Australian exploration and mining industry. He is a member of the Australasian Institute of Mining and Metallurgy, a member of the Australian Institute of Company Directors and a member of the Geological Society of Australia.

A graduate of the University of Tasmania, Mr Drown worked in underground nickel mines at Western Mining Corporation Limited's Kambalda operations in Western Australia, and filled mining geology roles at Aberfoyle Resources Limited's Hellyer lead-zinc-silver deposit in western Tasmania.

In 1991, he moved from mine geology into exploration searching for base metal and gold deposits in the Northern Territory and South Australia.

Mr Drown was appointed exploration manager of Adelaide Resources shortly after it listed on the ASX and has since played a major role in the company's activities. In March 2005 he accepted an invitation to join the Board of Adelaide Resources as an executive director and in November 2007 became managing director.

#### ***John P Horan FCPA, FCIS – Non-executive Director and Company Secretary***

John Horan is a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Chartered Institute of Secretaries in Australia, a Member of the Finance and Treasury Association Limited and a Member of the Australian Mining and Petroleum Law Association. He has many years experience in the financial, corporate, technical and management areas of the mining industry.

Mr Horan has been a director of a number of listed mining and exploration companies on the Australian Securities Exchange ("ASX"), the Alternative Investment Market ("AIM") on the London Stock Exchange, and the Toronto Stock Exchange ("TSX") in Canada.

Mr Horan was the finance director of Homestake Gold of Australia Limited, now Barrick Gold Corporation, one of Australia's largest gold producers, from 1987 until June 1993. He first joined Homestake in 1978 and was responsible for financial, commercial and corporate management functions prior to 1987 when he played a substantial role in the float of the Australian subsidiary. He also fulfilled key responsibilities in subsequent very large debt and equity capital raisings.

From the early 1960s until the second half of the 1970s he held various financial, accounting, corporate administrative and management positions in Poseidon Limited and CRA Limited, following initial technical experience in CRA's mining operations at Broken Hill.

**John J den Dryver** BE (Mining), MSc, FAusIMM – Non-executive Director (Chairman of Audit Committee)

John den Dryver is a mining engineer with some 30 years experience in operational and corporate management as well as extensive experience in mining project studies and implementation.

In 1982, Mr den Dryver joined the junior explorer North Flinders Mines Limited as the company's mining engineer to become part of the small team that discovered the Granites gold mine in the Tanami Desert in the Northern Territory. He was executive director of North Flinders from 1988 to 1997.

In 1997, after Normandy Mining Limited gained control of North Flinders, Mr den Dryver joined Normandy as executive general manager – technical, leading a team of specialist geologists, mining engineers and metallurgists.

In 2003 he set up his own mining consultancy business and is currently a non-executive director of Helix Resources Limited.

**Keith R Yates** BSc (Hons), FAusIMM – Non-executive Director

Keith Yates is a geologist with over 40 years experience in mineral exploration and mine development for a range of metals throughout Australia and in the Pacific and South-East Asia. He has lived in South Australia for over 30 years during which time he has accumulated a substantial knowledge of the geology and mineral potential of the Gawler Craton.

As a founding director of Adelaide Resources Limited, Mr Yates was the executive chairman from its public listing in 1996 until his retirement in 2007.

During his career he has held board and exploration management positions with a number of Australian mining companies and as senior geologist with an international mining group. In the 1980s he held senior positions with the Poseidon Limited group of companies including executive director of Australian Development Limited and director of Kalgoorlie Lake View Pty Ltd. In this period he was closely associated with the discovery of the rich White Devil gold mine at Tennant Creek, Northern Territory.

Mr Yates is chairman of the South Australian Resources Industry Development Board, a member of the South Australian Mining & Petroleum Experts Group, a member of the South Australian National Parks and Wildlife Council and a past chairman of the Adelaide Branch of the Australasian Institute of Mining and Metallurgy.

**Directorships of other listed companies**

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
P J Dowd	Phoenix Copper Limited	Since 2007
	Buka Gold Limited	Since 2006
	Regis Resources Ltd	Since 2006
J P Horan	Marengo Mining Limited	Since 2003
	Golden China Resources Corporation	From 2006 to 2007
	Michelago Limited	From 1995 to 2006
J J den Dryver	Helix Resources Limited	Since 2004
	Intrepid Mines Limited (Formerly NuStar Mining Corporation)	From 2003 to 2007

**Principal Activities**

The principal continuing activity of the consolidated entity is the exploration for gold, copper, mineral sands, uranium and other economic mineral deposits.

## Financial Results

The net result of operations for the year was a loss after income tax of \$887,701 (2007: \$3,788,956).

## Dividends

No dividends were paid or declared since the start of the financial year, and the directors do not recommend the payment of dividends in respect of the financial year.

## Review of Operations

### a) Overview

During the year the consolidated entity carried out exploration on its tenements with the objective of identifying gold, copper, mineral sands, uranium and other economic mineral deposits. It also sold the Warramboos iron ore project to Iron Road Limited, a company which listed on the Australian Stock Exchange in June 2008.

### b) Review of Operations

The consolidated entity maintained an active exploration program during the year with operations conducted in South Australia and the Northern Territory. It also contributed its joint venture share to prefeasibility studies of the Tripitaka zircon deposit in the Eucla Basin of South Australia.

Direct exploration and evaluation expenditure was \$1.95 million, which included \$0.61 million incurred on the Tripitaka prefeasibility study (PFS). Additional expenditure was incurred on the company's tenements by parties holding or earning an interest in joint ventures.

The PFS for Tripitaka was nearing completion at year end. Elements of the study include upgrading the mineral resource from inferred to indicated category, exploration for an underground water supply, and metallurgical testwork. Additional studies include mine design, haul road route selection, and power, communications and workforce housing considerations. Mining lease permitting, native title agreement issues, and environmental studies are still being conducted.

The PFS is scheduled for completion in the second half of calendar 2008 and will provide the basis for a decision to proceed to a definitive feasibility study.

Exploration for copper and gold continued principally at the Rover Project near Tennant Creek in the Northern Territory. Programs of reverse circulation and diamond drilling were completed at the Rover 4 prospect, with encouraging intersections returned. Intersections included 15 metres at 2.07% copper, 2 metres at 20.0g/t gold, and 4 metres at 2.8g/t gold.

Exploration for uranium in South Australia occurred on three projects. Joint Venturer, Quasar Resources Limited, completed a drilling program to test for sediment hosted "roll front" style uranium deposits in palaeochannels on the Eyre Peninsula. Downhole logging detected gamma anomalies at "redox" boundaries in a number of holes with uranium daughter products likely to be sourcing the gamma responses.

RAB/aircore drilling on the company's wholly owned Eyre Peninsula basement uranium project encountered significant uranium anomalism at the Ulysses and KO11S prospects.

Radiometric scanning and assaying of historical diamond drill core from the Moonta Project returned numerous strongly anomalous uranium assays. A number of prospects have been identified for further investigation.

The company's Warramboos Iron Project on Eyre Peninsula was sold to Iron Road Limited, a company that listed on the Australian Securities Exchange in June 2008. Iron Road Limited is an iron ore focussed company with Warramboos its flagship project.

The company received 21 million shares in Iron Road Limited in consideration for the Warramboos sale. It is intended that this shareholding be distributed to Adelaide Resources Limited shareholders by way of an in-specie return of capital, subject to the receipt of favourable Australian Tax Office rulings dealing with the proposed distribution.

During the year the consolidated entity raised \$1.58 million through a shareholder share purchase plan. Cash on hand at year-end was \$3.66 million.

A detailed Review of Operations and Chairman's Message are contained elsewhere in the Annual Report.

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

During the financial year there was no significant change in the state of affairs of the consolidated entity.

### **Subsequent Events**

A general meeting of the company's shareholders, held on 12 August 2008, approved the in-specie distribution of the 21 million shares the company holds in Iron Road Limited.

The distribution was approved subject to the receipt of a private ruling on the tax consequences for the company of the in-specie distribution, and a class order in relation to the tax consequences for the shareholders of Adelaide Resources Limited of the in-specie distribution (collectively the "tax ruling") from the Australian Tax Office ("ATO"). If the terms and conditions of the tax ruling are unfavourable, the in-specie distribution will not proceed. As at the date of this report the tax ruling had not been received from the ATO.

Subsequent to the financial year end, the share price on the Australian Securities Exchange for Iron Road Limited has fallen. If the shares were recorded at their market price as at the date of this report, the recorded value would decrease by \$3,780,000.

There are no other matters or circumstances occurring subsequent to the end of the financial year that have 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.

### **Environmental Developments**

The consolidated entity carries out exploration activities on its properties in South Australia and in the Northern Territory. No mining activity has been conducted by the consolidated entity on its properties. The consolidated entity's exploration operations are subject to environmental regulations under the various laws of South Australia, the Northern Territory, and the Commonwealth. While its exploration activities to date have had a low level of environmental impact, the consolidated entity has adopted a best practice approach in satisfaction of the regulations of relevant government authorities.

### **Future Developments**

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

### **Remuneration Report**

This report outlines the remuneration arrangements in place for directors and other key management personnel of the company and its wholly owned subsidiaries.

Where this report refers to the 'Date of Grant' of options, the date mentioned is the date on which those options were agreed to be issued (whether conditionally or otherwise).

#### *Director and other key Management Personnel Details*

The following persons acted as directors of the company during or since the end of the financial year:

P J Dowd (Non-executive Chairman)  
C G Drown (Managing Director)  
J P Horan (Non-executive Director)  
J J den Dryver (Non-executive Director)  
K R Yates (Non-executive Director)

On 5 November 2007 K R Yates retired as executive chairman. P J Dowd was appointed non-executive chairman (previously non-executive director) and C G Drown was appointed managing director (previously exploration director).

Key management personnel of the Group only comprise the directors named above.

*Relationship between the Remuneration Policy and Company Performance*

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth to June 2008

	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>30 June 2004*</b>
Revenue	307,538	345,986	225,872	255,886	429,183
Net loss before tax	881,666	3,735,515	1,506,998	417,369	382,599
Net loss after tax	887,701	3,788,956	1,536,998	449,109	382,599

\* Adelaide Resources Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004 which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Adelaide Resources Limited's previous accounting policies permitted under Australian accounting standards as applicable at that time.

	<b>30 June 2008</b>	<b>30 June 2007</b>	<b>30 June 2006</b>	<b>30 June 2005</b>	<b>30 June 2004</b>
Share price at beginning of the year	\$0.54	\$0.38	\$0.31	\$0.22	\$0.14
Share price at end of year	\$0.16	\$0.54	\$0.38	\$0.31	\$0.22
Basic earnings per share (i)	\$(0.0110)	\$(0.0514)	\$(0.0229)	\$(0.0073)	\$(0.0067)
Diluted earnings per share (i)	\$(0.0110)	\$(0.0514)	\$(0.0229)	\$(0.0073)	\$(0.0067)

Adelaide Resources Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004 which resulted in various changes to its accounting policies from that date. The basic and diluted earnings per share for the year ended 30 June 2004 were calculated in accordance with Adelaide Resources Limited previous accounting policies as permitted under Australian accounting standards as applicable at that time.

No dividends have been declared during the five years ended 30 June 2008 and the directors do not recommend the payment of a dividend in respect of the year ended 30 June 2008.

There is no link between the company's performance and the setting of remuneration except as discussed below in relation to options for directors.

*Remuneration Philosophy*

The performance of the Group depends on the quality of its directors and other key management personnel and therefore the Group must attract, motivate and retain appropriately qualified industry personnel. The Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract and retain high calibre directors and other key management personnel;
- link executive rewards to shareholder value (by the granting of share options);
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

There is currently no policy or monitoring of key management personnel's limiting their risk in relation to issued options.

### *Remuneration Policy*

Due to its size, the company does not have a remuneration committee. The compensation of directors is reviewed by the Board with the exclusion of the director concerned. The compensation of other key management personnel is reviewed by the Board.

The Board assesses the appropriateness of the nature and amount of remuneration of such persons on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from retention of high quality directors and other key management personnel. External advice on remuneration matters is sought whenever the Board deems it necessary.

The remuneration of the directors and other key management personnel is not dependent on the satisfaction of a performance condition. Share options have been issued to key management personnel in prior years. These options do not have any performance conditions. The directors have decided that the exclusion of performance conditions is appropriate, after consideration of industry practice.

### *Non-executive Director Remuneration*

The Board seeks to set remuneration of non-executive directors at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is appropriate at this stage of the company's development.

Currently, as non-executive chairman, P J Dowd is entitled to receive \$70,000 per annum exclusive of the statutory superannuation. J J den Dryver and K R Yates are each entitled to receive \$35,000 per annum exclusive of the statutory superannuation. J P Horan is entitled to receive \$35,000 per annum exclusive of the statutory superannuation, plus the amounts set out below in the company's consultancy agreement with an entity associated with him. Previously, P J Dowd and J J den Dryver were each entitled to receive \$35,000 per annum exclusive of statutory superannuation and J P Horan was entitled to receive \$25,000 per annum exclusive of statutory superannuation, plus the amounts set out below in the company's consultancy agreement with an entity associated with him.

In addition, non-executive directors are entitled to be paid reasonable travelling, accommodation and other expenses incurred as a consequence of their attendance at meetings of directors and otherwise in the execution of their duties as directors.

### *Managing Director Remuneration*

The company aims to reward the managing director with a level and mix of remuneration commensurate with his position and responsibilities within the company to:

- align the interests of the managing director with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Currently the company has a services agreement with an entity associated with C G Drown, details of which are set out below.

### *Previous Executive Chairman and Executive Director*

Previously the company had service agreements with entities associated with K R Yates and C G Drown, details of which are set out below.

### Summary of amounts paid to Key Management Personnel

The table below discloses the compensation of the key management personnel of the Group during the year.

2008	Short-term employee benefits Salary & Fees (i) \$	Post employment superannuation \$	Sub total \$	Share-based payments options (ii) \$	Total \$	Percentage of total remuneration for the year that consists of options %
P J Dowd	58,334	-	58,334	-	58,334	-
C G Drown	218,644	-	218,644	-	218,644	-
J P Horan	151,246	2,850	154,096	-	154,096	-
J J den Dryver	47,798	6,300	54,098	-	54,098	-
K R Yates	88,378	2,165	90,543	-	90,543	-
2008 Total	564,400	11,315	575,715	-	575,715	

(i) Includes consulting fees paid to directors.

(ii) Share options do not represent cash payments to key management personnel and share options granted may or may not ultimately be exercised by the key management personnel.

2007	Short-term employee benefits Salary & Fees (i) \$	Post employment superannuation \$	Sub total \$	Share-based payments options (ii) \$	Total \$	Percentage of total remuneration for the year that consists of options %
K R Yates	222,750	-	222,750	-	222,750	-
J P Horan	136,930	2,250	139,180	-	139,180	-
C G Drown	191,400	-	191,400	-	191,400	-
J J den Dryver	50,474	-	50,474	-	50,474	-
P J Dowd	30,625	-	30,625	131,072	161,697	81%
2007 Total	632,179	2,250	634,429	131,072	765,501	

(i) Includes consulting fees paid to directors.

(ii) Share options do not represent cash payments to key management personnel and share options granted may or may not ultimately be exercised by the key management personnel.

No key management personnel appointed during the year received a payment as part of his consideration for agreeing to hold the position.

### Service Agreements

The consolidated entity entered into service agreements with an entity associated with C G Drown for a term of three years from 5 November, 2007 and a consultancy agreement with an entity associated with J P Horan for a term of two years from 1 October 2007. For the year ended 30 June 2007 the consolidated entity had service agreements with entities associated with K R Yates, J P Horan and C G Drown.

The agreement with an entity associated with K R Yates was terminated on his retirement as executive chairman (5 November 2007), and C G Drown's agreement with an entity associated with him was re-negotiated on his appointment as managing director (5 November 2007).

Should any of the above agreements be terminated by the company earlier than their expiry date, a contingency exists for the contracted amount payable to the end of their terms. The entities associated with C G Drown and J P Horan may terminate their agreements with three months notice. As at 30 June 2008, the consolidated entity had a contingent liability in relation to these agreements of \$538,846 (2007: \$65,154).

Details of the current services and consultancy agreements are set out below:

2008

Director	Terms
C G Drown	Daily rate of \$950 for a minimum of 218 days per annum
J P Horan	Daily rate of \$960 for a minimum of 90 days per annum

2007

Director	Terms
K R Yates	Daily rate of \$900 for a minimum of 200 days per annum
J P Horan	Daily rate of \$880 for a minimum of 90 days per annum
C G Drown	Daily rate of \$725 for a minimum of 228 days per annum

#### Share Options held by Directors

During the financial year, the following share options were on issue:

Options series	Grant date	Expiry date	Grant date fair value	Vesting date
DO November 2005	15 November 2005	14 November 2010	\$0.3048	15 November 2005
DO November 2006	21 November 2006	14 November 2010	\$0.2621	21 December 2006
ESOP December 2002	13 December 2002	12 December 2007	*	13 January 2003
ESOP December 2003	23 December 2003	22 December 2008	*	23 January 2004

“DO” means director share options and “ESOP” means share options issued under the employee share option plan. Shares issued under ESOP were issued to the person prior to the person being appointed a director.

\* Not applicable as options were issued and vested before 1 January 2005.

During the year ended 30 June 2008 no share options were granted to key management personnel.

During the year, the following key management personnel exercised options that were granted to them as part of their compensation.

Name	Number of options exercised	Number of ordinary shares of Adelaide Resources Limited	Amount paid \$	Amount unpaid \$
C G Drown	450,000	450,000	76,500	-

The following table summaries the value of options granted, exercised or lapsed during the year that relate to key management personnel:

	Options granted value at grant date \$	Options exercised value at exercise date \$	Options lapsed value at time of lapse \$
P J Dowd	-	-	-
C G Drown	-	72,000	-
J P Horan	-	-	-
J J den Dryver	-	-	-
K R Yates	-	-	-

#### Value of options – basis of calculation

- Value of options granted at grant date is calculated by multiplying the fair value of options at grant date by the number of options granted during the financial year.
- Value of options exercised at exercise date is calculated by multiplying the fair value of options at the time they are exercised (calculated as the difference between exercise price and the Australian Securities Exchange last sale price on the day that the options were exercised) by the number of options exercised during the financial year.
- Value of options lapsed at the lapsed date is calculated by multiplying the fair value of options at the time they lapsed multiplied by the number of options lapsed during the financial year.

The total value of options included in compensation for the financial year is calculated in accordance with Accounting Standard AASB 2 “Share-based Payment”. Options granted during the financial year are recognised in compensation over their vesting period.

#### Directors’ Shareholdings

The following table sets out each director’s relevant interest in shares in the company as at the date of this report.

Directors	Fully paid ordinary shares Number	Options to acquire ordinary shares Number
P J Dowd	-	500,000
CG Drown	839,130	525,000
J P Horan	1,793,130	1,000,000
J J den Dryver	-	500,000
K R Yates	5,743,408	1,000,000
	8,375,668	3,525,000

*The above table includes shares held by related parties of directors.*

#### Meetings of Directors

The number of meetings of the company’s Board of Directors attended by each director during the year ended 30 June 2008 was:

2008	Meetings held while in office	Meetings attended
P J Dowd	13	12
C G Drown	13	13
J P Horan	13	13
J J den Dryver	13	13
K R Yates	13	13

During the year the company established an Audit Committee. The members of this committee comprise J J den Dryver (Chairman) and P J Dowd. The committee has only met subsequent to year end.

#### Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor’s behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

#### **Auditors Independence Declaration**

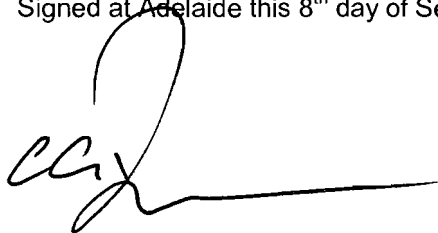
The auditor's independence declaration is included on page 11 of the financial report.

#### **Indemnification of Officers and Auditors**

During the year the company arranged insurance cover and paid a premium for directors in respect of indemnity against third party liability. At the Annual General Meeting of the company held on 17 November 1997 shareholders resolved to extend the indemnification for a period of seven years after a director ceases to hold office. In accordance with the terms and conditions of the insurance policy, the amount of the premium paid has not been disclosed on the basis of confidentiality, as is permitted under Section 300 (9) of the Corporations Act 2001.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred by an officer or auditor.

Signed at Adelaide this 8<sup>th</sup> day of September 2008 in accordance with a resolution of the directors.



**C G Drown**  
Director



**J P Horan**  
Director

The Board of Directors  
Adelaide Resources Limited  
PO Box 1210  
UNLEY BC, SA 5061

8 September 2008

Dear Board Members

## Adelaide Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Adelaide Resources Limited.

As lead audit partner for the review of the financial statements of Adelaide Resources Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, the only contravention of:

- (i) the auditor independence requirements of the Corporations Act 2001 ("the Act") in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review;

is set out below.

During the current financial year, Deloitte Touche Tohmatsu's quality control system identified that due to the auditor rotation requirements of the Act, the review auditor in relation to the audit of Adelaide Resources Limited for the financial year ended 30 June 2007 was not eligible to undertake that role.

All reasonable steps have now been undertaken to ensure compliance with the auditor rotation requirements and the individual has played no further role in relation to the audit of Adelaide Resources Limited.

Accordingly I consider that the independence of Deloitte Touche Tohmatsu in respect to the review of the financial statements of Adelaide Resources Limited for the year ended 30 June 2008 has not been impaired.

Yours sincerely

  
DELOITTE TOUCHE TOHMATSU



Jody Burton  
Partner  
Chartered Accountants

**Income statement for the financial year ended 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	4(a)	(307,538)	(275,930)	(307,038)	(275,930)
Other income	4(b)	-	(70,056)	-	-
Exploration expense written off	4(b)	176,665	2,775,068	-	-
Doubtful debts allowance	4(b)	-	-	1,616,919	2,045,969
Administration expenses		335,368	645,648	335,368	645,648
Corporate consulting expenses		187,447	178,961	187,447	178,961
Company promotion		66,654	88,960	66,654	88,960
Salaries and wages		106,118	116,885	106,118	116,885
Directors fees		146,328	90,625	146,328	90,625
Occupancy expenses		72,947	54,282	72,947	54,282
Share based remuneration		97,677	131,072	97,677	131,072
<b>Loss before income tax</b>		881,666	3,735,515	2,322,420	3,076,471
Tax expense/(income)	5	6,035	53,441	(426,041)	251,154
<b>Net Loss</b>		887,701	3,788,956	1,896,379	3,327,625
Earnings Per Share					
Basic (cents per share) – Loss	27	1.10	5.14		
Diluted (cents per share) – Loss	27	1.10	5.14		

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

**Balance sheet as at 30 June 2008**

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		3,657,746	4,425,088	3,647,246	4,415,088
Trade and other receivables	6	160,280	84,314	160,280	84,314
Other financial assets	7	252,980	284,533	252,980	284,533
<b>TOTAL CURRENT ASSETS</b>		<b>4,071,006</b>	<b>4,793,936</b>	<b>4,060,506</b>	<b>4,783,935</b>
<b>NON-CURRENT ASSETS</b>					
Exploration and evaluation expenditure	8	4,788,874	3,328,041	-	-
Shares in Iron Road Limited	30	7,665,000	-	7,665,000	-
Shares in controlled entity		-	-	10,001	10,001
Plant and equipment	9	72,650	40,004	72,650	40,004
Other receivables	10	-	-	-	-
Deferred tax assets	5(b)	-	-	1,430,488	998,412
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,526,524</b>	<b>3,368,045</b>	<b>9,178,139</b>	<b>1,048,417</b>
<b>TOTAL ASSETS</b>		<b>16,597,530</b>	<b>8,161,980</b>	<b>13,238,645</b>	<b>5,832,352</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	11	701,437	563,353	701,437	563,353
Provisions	12	11,604	12,391	11,604	12,391
<b>TOTAL CURRENT LIABILITIES</b>		<b>713,041</b>	<b>575,744</b>	<b>713,041</b>	<b>575,744</b>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	13	34,775	30,382	34,775	30,382
Other liabilities	14	20,579	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>55,354</b>	<b>30,382</b>	<b>34,775</b>	<b>30,382</b>
<b>TOTAL LIABILITIES</b>		<b>768,395</b>	<b>606,126</b>	<b>747,816</b>	<b>606,126</b>
<b>NET ASSETS</b>		<b>15,829,135</b>	<b>7,555,854</b>	<b>12,490,829</b>	<b>5,226,226</b>
<b>EQUITY</b>					
Issued capital	16	18,349,580	16,604,722	18,349,580	16,604,722
Reserves	17	8,407,177	991,053	8,407,177	991,053
Accumulated losses	18	(10,927,622)	(10,039,921)	(14,265,928)	(12,369,549)
<b>TOTAL EQUITY</b>		<b>15,829,135</b>	<b>7,555,854</b>	<b>12,490,829</b>	<b>5,226,226</b>

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

**Statement of recognised income and expense the year ended 30 June 2008**

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Available-for-sale investments:				
Valuation gain/(loss) taken to equity	7,318,447	3,197	7,318,447	3,197
<b>Net income recognised directly in equity</b>	<b>7,318,447</b>	<b>3,197</b>	<b>7,318,447</b>	<b>3,197</b>
Loss for the period	(887,701)	(3,788,956)	(1,896,379)	(3,327,625)
<b>Total recognised income and expense for the period</b>	<b>6,430,746</b>	<b>(3,785,759)</b>	<b>5,422,068</b>	<b>(3,324,428)</b>

*The above statement of recognised income and expense should be read in conjunction with the accompanying notes.*

## Cash flow statement for the year ended 30 June 2008

	Inflows/(Outflows)			
	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash flows relating to operating activities</b>				
Payments to suppliers and employees	(1,249,332)	(827,769)	(1,249,332)	(827,769)
Other receipts	4,967	-	4,967	-
<b>Net operating cash flows (Note (a))</b>	<b>(1,244,365)</b>	<b>(827,769)</b>	<b>(1,244,365)</b>	<b>(827,769)</b>
<b>Cash flows relating to investing activities</b>				
Interest received	297,245	275,617	296,745	275,617
Payments for exploration and evaluation expenditure	(1,524,607)	(1,954,584)	-	-
Less: Reimbursed from co-venturers	-	-	-	-
Sale of tenement	-	20,000	-	-
State government grant received	20,579	30,000	-	-
Payments for plant and equipment	(55,017)	(34,323)	(55,017)	(34,323)
Payment for shares in subsidiary	-	-	-	(10,000)
Proceeds on maturity of investments	-	-	-	-
Funding of controlled entity	-	-	(1,504,028)	(1,904,583)
<b>Net investing cash flows</b>	<b>(1,261,800)</b>	<b>(1,663,290)</b>	<b>(1,262,300)</b>	<b>(1,673,289)</b>
<b>Cash flows relating to financing activities</b>				
Proceeds from share issues	1,758,940	3,545,800	1,758,940	3,545,800
Payments for capital raising costs	(20,117)	(178,136)	(20,117)	(178,136)
<b>Net financing cash flows</b>	<b>1,738,823</b>	<b>3,367,664</b>	<b>1,738,823</b>	<b>3,367,664</b>
<b>Net (decrease) / increase in cash</b>	<b>(767,342)</b>	<b>876,605</b>	<b>(767,842)</b>	<b>866,606</b>
<b>Cash at beginning of financial year</b>	<b>4,425,088</b>	<b>3,548,483</b>	<b>4,415,088</b>	<b>3,548,482</b>
<b>Cash at end of financial year</b>	<b>3,657,746</b>	<b>4,425,088</b>	<b>3,647,246</b>	<b>4,415,088</b>
Note (a): Reconciliation of loss for the period to net cash flow from ordinary activities.				
Loss for the period	(887,701)	(3,788,956)	(1,896,379)	(3,327,625)
Interest revenue	(297,245)	(275,617)	(296,745)	(275,617)
Share based remuneration	97,677	131,072	97,677	131,072
Other income	-	(70,056)	-	-
Depreciation	22,370	17,338	22,370	17,338
Exploration written off	176,665	2,775,068	-	-
Impairment of receivables	-	-	1,616,919	2,045,969
(Increase) decrease in receivables	(75,966)	(20,471)	(75,966)	(20,471)
(Increase) decrease in deferred tax asset	6,035	53,441	(426,041)	251,154
Increase/(decrease) in payables	(289,806)	339,663	(289,806)	339,662
Increase/(decrease) in provisions	3,606	10,749	3,606	10,749
Net operating cash flows	<b>(1,244,365)</b>	<b>(827,769)</b>	<b>(1,244,365)</b>	<b>(827,769)</b>

### Non-cash investing and financing activities

During the year the company and the consolidated entity sold the Warrambo Iron Project for 21 million shares in Iron Road Limited. This transaction is not reflected in the cash flow statement.

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

## Notes to the Financial Statements for the Financial Year Ended 30 June 2008

### 1. General information

Adelaide Resources Limited (the company) is a listed public company, incorporated in Australia and operating in Australia.

Adelaide Resources Limited's registered office and its principal place of business are as follows:

<b>Registered office</b>	<b>Principal place of business</b>
69 King William Road	69 King William Road
Unley	Unley
South Australia 5061	South Australia 5061

### 2. Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

Various other Standards and Interpretations were on issue but were not yet effective at the date of authorisation of the financial report. The issue of these Standards and Interpretations do not affect the Group's present policies and operations. The directors anticipate that the adoption of these Standards and Interpretations in future periods will not materially effect the amounts recognised in the financial statements of the Company or the Group but may change the disclosure presently made in the financial statements of the Company or the Group.

### 3. Significant accounting policies

#### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 8th September 2008.

#### Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

In the application of the Group's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**a) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, cash in banks and bank deposits.

**b) Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits, expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to accumulated benefit superannuation plans are expensed when incurred.

**c) Exploration and Evaluation Expenditure**

Exploration and evaluation expenditures in relation to each separate area of interest, are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- i) the rights to tenure of the area of interest are current; and
- ii) at least one of the following conditions is also met:
  - the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale: or
  - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploration drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are relate directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances (as defined in AASB 6 “Exploration for and Evaluation of Mineral Resources”) suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount. The recoverable amount of the exploration and evaluation assets (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment, reclassified to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

#### **d) Financial assets**

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit and loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories; 'held to maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit and loss'.

##### ***Held-to-maturity investments***

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

##### ***Available-for-sale financial assets***

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined based on quoted market prices. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly on the profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payment is established.

##### ***Loans and Receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

##### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying

amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

**e) Goods and service tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense or:
- ii) for receivables and payables which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

**f) Impairment of assets (other than exploration and evaluation)**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to

the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**g) Income tax**

***Current tax***

Current tax is calculated by references to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

***Deferred tax***

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacting by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

***Current and deferred tax for the period***

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

***Tax consolidation***

The company and all its wholly-owned Australian resident entity are part of a tax-consolidated group under Australian taxation law. Adelaide Resources Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).



(referred to as 'the Group' in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

## **l) Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

### ***Sale of goods***

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### ***Dividend and interest revenue***

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is that rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## **m) Share-based payments**

Equity-settled share-based payments granted after 7 November 2002 that vest on or after 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

**n) Government grants**

Government grants are assistance by government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attached to them and the grant will be received. Government grants whose primary condition is to assist with exploration activities are recognised as deferred income in the balance sheet and recognised as income on a systematic basis when the related exploration and evaluation is written off.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis. Government grants receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income in the period in which it becomes receivable.

**o) Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising from acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>4. LOSS FROM OPERATIONS</b>				
a) <b>Revenue from continuing operations consisted of the following items</b>				
Interest income:				
Bank deposits	279,394	254,942	278,894	254,942
Income securities	23,177	20,988	23,177	20,988
	302,571	275,930	302,071	275,930
Other	4,967	-	4,967	-
	307,538	275,930	307,038	275,930
b) <b>Loss for the year includes the following gains and losses</b>				
<b>Other income</b>				
Government grant	-	70,056	-	-
<b>Other expenses</b>				
Costs associated with the proposed listing of Eyre Energy Limited	-	327,442	-	327,442
Depreciation of plant and equipment	22,370	17,338	22,370	17,338
Exploration write-offs	176,665	2,775,068	-	-
Operating lease rental expenses	72,947	54,272	72,947	54,272
Allowance for doubtful debts:				
Subsidiary	-	-	1,616,919	2,045,969
Employee benefit expense:				
Post employment benefits:				
Accumulated benefit superannuation plans	30,034	51,759	30,034	51,759
Share based payments:				
Equity settled share-based payments (i)	39,866	131,072	39,866	131,072
Other employee benefits	747,818	696,221	747,818	696,221
	817,718	879,052	817,718	879,052
Less amounts capitalised in exploration and evaluation expenditure	(337,959)	(361,509)	(337,959)	(361,509)
	479,759	517,543	407,759	517,543

- (i) Share based payments relate to share options granted during the year to employees. Share options do not represent cash payments to employees and share options granted may or may not be exercised by the employees.

## 5. INCOME TAX

### (a) Income tax recognised in profit or loss

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current tax expense	-	-	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	6,035	53,441	(426,041)	251,154
Total tax expense/(income)	6,035	53,441	(426,041)	251,154

The prima facie income tax expense on the loss before income tax reconciles to the tax expense/(income) in the financial statements as follows:

Loss from continuing operations	(881,666)	(3,735,515)	(2,322,420)	(3,076,471)
Income tax income calculated at 30%	(264,500)	(1,120,655)	(696,726)	(922,942)
Allowance for subsidiary receivable	-	-	485,076	613,791
Share based payments	29,303	39,322	29,303	39,322
Other	541	3,807	691	3,807
Prior year tax losses recognised	(444,604)	-	(444,604)	-
Previously recognised tax losses now not recognised	-	292,205	-	292,205
Current year tax losses not recognised	685,295	838,762	200,219	224,971
Tax expense (income)	6,035	53,441	(426,041)	251,154

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

### (b) Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade and other receivables	6,475	-	6,475	-
Exploration and evaluation expenditure	(1,436,663)	(998,412)	-	-
Eyre Energy IPO costs	57,208	-	57,208	-
Capital raising costs	55,240	73,449	55,240	73,449
Trade and other payables	4,050	63,134	4,050	63,134
Employee benefits	13,914	12,832	13,914	12,832
Other liabilities	6,174	-	-	-
	(1,293,602)	(848,997)	136,887	149,415
Tax value of losses carried forward	1,293,602	848,997	1,293,602	848,997
Net deferred tax assets / (liabilities)	-	-	1,430,489	998,412

### (c) Unrecognised deferred tax assets:

A deferred tax asset has not been recognised in respect of the following item:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Tax Losses-revenue	2,653,610	2,412,919	1,369,119	1,613,504

A deferred tax asset has not been recognised in respect of the above tax losses because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefit.

**(d) Movement in recognised temporary differences and tax losses**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Opening balance	-	-	998,412	1,196,125
Recognised in equity	6,035	53,441	6,035	53,441
Recognised in income	(6,035)	(53,441)	426,041	(251,153)
Closing balance	-	-	1,430,489	998,412

**Tax consolidation**

**Relevance of tax consolidation to the consolidated entity**

The company and its wholly-owned Australian resident entities are in a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Adelaide Resources Limited.

**Nature of tax funding arrangement**

Entities within the tax-consolidated group have entered into a tax funding arrangement with the head entity. Under the terms of the tax funding arrangement, Adelaide Resources Limited and its wholly owned Australian resident entities have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the-consolidated group.

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>6. CURRENT TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	-	-	-	-
Interest receivable	21,584	16,258	21,584	16,258
Other receivables	138,696	68,056	138,696	68,056
	160,280	84,314	160,280	84,314
<b>7. OTHER CURRENT FINANCIAL ASSETS</b>				
Available for sale at fair value				
Income securities	252,980	284,533	252,980	284,533
<b>8. EXPLORATION AND EVALUATION EXPENDITURE</b>				
Costs brought forward	3,328,041	4,027,140	-	-
Expenditure incurred during the year	1,952,498	2,095,969	-	-
	5,280,539	6,123,109	-	-
Leases sold	(315,000)	(20,000)	-	-
Expenditure written off	(176,665)	(2,775,068)	-	-
	4,788,874	3,328,041	-	-

Expenditure written off relates to exploration and evaluation expenditure associated with tenements or parts of tenements that have been surrendered \$176,665 (2007: \$318,352) and write down of certain tenements to their recoverable amount \$Nil (2007: \$2,456,716).

The recoverability of the carrying value of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

	<b>Consolidated</b>	<b>Company</b>
	\$	\$
<b>9. PLANT AND EQUIPMENT</b>		
Gross carrying amount		
Balance at 1 July 2006	128,492	128,492
Additions	34,324	34,324
Balance at 30 June 2007	162,816	162,816
Additions	55,017	55,017
Disposals	(11,116)	(11,116)
Balance at 30 June 2008	206,717	206,717
Accumulated Depreciation		
Balance at 1 July 2006	(105,474)	(105,474)
Depreciation expense	(17,338)	(17,338)
Balance at 30 June 2007	(122,812)	(122,812)
Disposals	11,116	11,116
Depreciation Expense	(22,370)	(22,370)
Balance at 30 June 2008	(134,066)	(134,066)
Net book value		
Balance at 30 June 2007	40,004	40,004
Balance at 30 June 2008	72,651	72,651

	<b>Consolidated</b>		<b>Company</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
<b>10. NON-CURRENT RECEIVABLES</b>				
Amount due from subsidiary	-	-	7,886,106	6,269,187
Allowance for doubtful debt	-	-	(7,886,106)	(6,269,187)
	-	-	-	-
<b>11. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES</b>				
Trade payables and accruals	701,437	563,353	701,437	563,353
<b>12. CURRENT LIABILITIES – PROVISIONS</b>				
Employee benefits	11,604	12,391	11,604	12,391

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>13. NON-CURRENT LIABILITIES – PROVISIONS</b>				
Employee benefits	34,775	30,382	34,775	30,382
<b>14. NON-CURRENT LIABILITIES – OTHER</b>				
Deferred income (government grant)	20,579	-	-	-
<b>15. EMPLOYEE BENEFITS</b>				
The aggregate employee benefits liability recognised in and included in the financial statements is as follows				
Provision for employee benefits				
Current (Note 12)	11,604	12,391	11,604	12,391
Non-current (Note 13)	34,775	30,382	34,775	30,382
	46,379	42,773	46,379	42,773
<b>16. ISSUED CAPITAL</b>				
Issued share capital:				
83,156,035 fully paid ordinary shares (2007: 77,060,960)	18,349,580	16,604,722	18,349,580	16,604,722

Movement in issued shares for the year:

	2008		2007	
	No.	\$	No.	\$
Balance at beginning of financial year	77,060,960	16,604,722	69,580,960	13,183,617
Issued at 31 cents	5,100,075	1,580,940	-	-
Issued at 50 cents	-	-	7,000,000	3,500,000
Conversion of options at 6 cents	-	-	280,000	16,800
Conversion of options at 13 cents	-	-	50,000	6,500
Conversion of options at 15 cents	-	-	150,000	22,500
Conversion of options at 17 cents	700,000	119,000	-	-
Conversion of options at 20 cents	295,000	59,000	-	-
Costs associated with the issue of shares	-	(20,117)	-	(178,135)
Related income tax	-	6,035	-	53,441
Balance at end of financial year	83,156,035	18,349,580	77,060,960	16,604,722

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid shares carry one vote per share and carry the right to dividends.

## 17. RESERVES

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Employee equity-settled benefits	1,082,197	984,520	1,082,197	984,520
Available-for-sale revaluation	7,324,980	6,533	7,324,980	6,533
	8,407,177	991,053	8,407,177	991,053

(a) Employee equity-settled benefits reserve				
Balance at beginning of the financial year	984,520	853,448	984,520	853,448
Share based payment	97,677	131,072	97,677	131,072
Balance at end of the financial year	1,082,197	984,520	1,082,197	984,520

The employee equity-settled benefits reserve arises on the grant of share options to employees, consultants and executives under the Employee Share Option Plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share based payments made under the plan are shown in note 19 to the financial statements.

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
(b) Available-for-sale revaluation reserve				
Balance at beginning of the financial year	6,533	3,336	6,533	3,336
Valuation gain –Shares in Iron Road Limited	7,350,000	-	7,350,000	-
Valuation (loss)/gain – other financial assets	(31,553)	3,197	(31,553)	3,197
Balance at end of the financial year	7,324,980	6,533	7,324,980	6,533

The available-for-sale revaluation reserve arises on the revaluation of the available-for-sale financial assets. Where a revalued financial asset is sold, that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss.

## 18. ACCUMULATED LOSSES

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance at beginning of financial year	(10,039,921)	(6,250,965)	(12,369,549)	(9,041,924)
Net Loss	(887,701)	(3,788,956)	(1,896,379)	(3,327,625)
Balance at end of financial year	(10,927,622)	(10,039,921)	(14,265,928)	(12,369,549)

## 19. SHARE OPTION PLAN

The consolidated entity has an ownership-based compensation plan for executives, employees and consultants. In accordance with the provisions of the Employee Share Option Plan, as approved by shareholders at an annual general meeting, directors may issue options to purchase shares in the company to executives, employees, and consultants, at an issue price determined by the market price of ordinary shares at the time the option is granted. Other than C G Drown and J J den Dryver, no directors participate in the Employee Share Option Plan. Mr Drown and Mr den Dryver were granted certain share options prior to their appointments as directors.

In accordance with the terms of the Employee Share Option Plan, options vest at grant date and may be exercised at any time from the date of their issue to the date of their expiry.

Share options are not listed, carry no rights to dividends and no voting rights.

The following share based payment arrangements were in existence during the financial year.

Options – Series	Number	Grant Date	Expiry Date	Exercise Price	Fair value at grant date
<b>Employee Share Option Plan</b>					
December 2002	700,000	13/12/2002	12/12/2007	\$0.17	*
December 2003	520,000	23/12/2003	22/12/2008	\$0.20	*
December 2007	200,000	20/12/2007	19/12/2012	\$0.35	0.1993
March 2008	500,000	31/03/2008	30/03/2013	\$0.30	0.1156
<b>Director Options</b>					
November 2005	2,800,000	15/11/2005	14/11/2010	\$0.55	\$0.3048
November 2006	500,000	21/11/2006	14/11/2010	\$0.55	\$0.2621

\* Not applicable as options were issued and vested before 1 January 2005. No amount was recorded when these were issued. Consideration received on the exercise of these options shall be recognised in issued capital.

The weighted average of fair value of options granted during the year is \$0.1395 (2007: \$0.2621) per option. Options were valued using the Black-Scholes model using the following inputs:

	Option Series	
	December 2007	March 2008
Grant date share price	33.5 cents	19.0 cents
Exercise price	35.0 cents	30.0 cents
Calculated volatility	65.1%	81.1%
Option expiry	19 December 2012	30 March 2013
Risk free interest rate	6.23%	6.23%

The following reconciles the outstanding share options granted under the Plan at the beginning and end of the financial year:

Share Option Plan	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of financial year	4,520,000	0.451	4,500,000	0.402
Granted during the financial year	700,000	0.314	500,000	0.550
Exercised during the financial year (i)	( 995,000)	0.179	(480,000)	0.095
Lapsed during the financial year	-	-	-	-
Balance at end of the financial year (ii)	4,225,000	0.492	4,520,000	0.451

(i) Options exercised

The following share options granted under the scheme were exercised during the financial year:

<u>2008</u>	No.	Grant Date	Exercise Date	Exercise Price	Share price at exercise date
December 2003	100,000	23/12/2003	23/07/2007	\$0.20	0.52
December 2003	100,000	23/12/2003	27/07/2007	\$0.20	0.52
December 2003	50,000	23/12/2003	30/07/2007	\$0.20	0.53
December 2002	450,000	13/12/2002	12/12/2007	\$0.17	0.33
December 2002	250,000	13/12/2002	12/12/2007	\$0.17	0.33
December 2003	45,000	23/12/2003	12/12/2007	\$0.20	0.33
	<u>995,000</u>				

(ii) Options outstanding at end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of \$0.492 (2007: \$0.451) and a weighted average remaining contractual life of 969 days (2007: 990 days).

## 20. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of Adelaide Resources Limited during the year were:

- P J Dowd (Non-executive chairman)
- C G Drown (Managing director)
- J P Horan (Non-executive director and company secretary)
- J J den Dryver (Non-executive director)
- K R Yates (Non-executive director)

The aggregate compensation of key management personnel of the consolidated entity and the company is set out below:

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	564,400	632,179	564,400	632,179
Post employment benefits	11,315	2,250	11,315	2,250
Share-based payments (i)	-	131,072	-	131,072
	<u>575,715</u>	<u>765,501</u>	<u>575,715</u>	<u>765,501</u>

- (i) Share based payments relate to share options granted during the year to key management personnel. Share options do not represent cash payments to key management personnel and share options granted may or may not be exercised by the key management personnel

The consolidated entity has applied the exemption under Corporations Amendments Regulations 2005 which exempts listed companies from providing compensation disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 "Related Party Disclosures". These Compensation disclosures are provided in the "Remuneration Report" of the Directors' Report and designated as "Audited".

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>21. REMUNERATION OF AUDITORS</b>				
Auditing the financial report	24,750	24,435	24,750	24,435
Accounting advice	8,500	-	8,500	-
Investigating Accountant's report	-	18,500	-	18,500
Tax return preparation and advice	25,500	8,000	25,500	8,000
	58,750	60,455	58,750	60,455

The auditor of Adelaide Resources Limited is Deloitte Touche Tohmatsu.

## 22. RELATED PARTY DISCLOSURES

### a) Equity interests in related parties

#### *Equity interests in subsidiaries*

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 28 to the financial statements.

#### *Interests in joint ventures*

Details of interests in joint ventures are disclosed in Note 23 to the financial statements.

### b) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 20 and the Remuneration Report of the Directors' Report.

### c) Transactions with key management personnel

Other than as disclosed in the Remuneration Report of the Directors' Report, there were no transactions with key management personnel or their personally related entities during the year ended 30 June 2008 (2007: NIL).

### d) Transactions within wholly owned group

The ultimate parent entity in the wholly-owned group is Adelaide Resources Limited. Amounts receivable from the controlled entities are disclosed in Note 10 to the financial statements. During the financial year Adelaide Resources Limited provided accounting and administrative services at no cost to the controlled entities and the advancement of interest free advances. Tax losses have been transferred to Adelaide Resources Limited for no consideration.

### e) Equity holdings of key management personnel

#### (i) Fully paid ordinary shares issued by Adelaide Resources Limited

2008	Balance 1/7/07	Net Changes	Balance 30/6/08	Balance held Nominally
P J Dowd	-	-	-	-
C G Drown	373,000	366,130 *	839,130	-
J P Horan	1,777,000	16,130 *	1,793,130	-
J J den Dryver	-	-	-	-
K R Yates	5,727,278	16,130 *	5,743,408	-

\* The net change includes the issue of 16,130 shares by the company as a result of participating in the Share Purchase Plan, which was available to all shareholders.

2007	Balance 1/7/06	Net Changes	Balance 30/6/07	Balance held Nominally
K R Yates	5,727,278	-	5,727,278	-
J P Horan	1,777,000	-	1,777,000	-
C G Drown	73,000	300,000	373,000	-
J J den Dryver	-	-	-	-
P J Dowd	-	-	-	-

(ii) Options to acquire fully paid ordinary shares issued by Adelaide Resources Limited

2008	Balance 1/7/07	Granted	Exercised	Balance 30/6/08	Balance held Nominally	Vested and exercisable
P J Dowd	500,000	-	-	500,000	-	500,000
C G Drown	975,000	-	450,000	525,000	-	525,000
J P Horan	1,000,000	-	-	1,000,000	-	1,000,000
J J den Dryver	500,000	-	-	500,000	-	500,000
K R Yates	1,000,000	-	-	1,000,000	-	1,000,000

2007	Balance 1/7/06	Granted	Exercised	Balance 30/6/07	Balance held Nominally	Vested and exercisable
K R Yates	1,000,000	-	-	1,000,000	-	1,000,000
J P Horan	1,000,000	-	-	1,000,000	-	1,000,000
C G Drown	1,275,000	-	300,000	975,000	-	975,000
J J den Dryver	500,000	-	-	500,000	-	500,000
P J Dowd	-	500,000	-	500,000	-	500,000

### 23. JOINTLY CONTROLLED ASSETS

The consolidated entity had interests in unincorporated joint ventures at 30 June 2008 as follows:

	Percentage Interest 2008	Percentage Interest 2007
<b>South Australia</b>		
Moonta Porphyry Joint Venture (Note a) – Copper/Gold Exploration	90%	90%
Kimba-Verran Joint Venture (Note a) – Copper/Gold Exploration	90%	90%
Colona Joint Venture (Note b) - Mineral Sands Exploration	49%	49%
Eyre Peninsula Uranium Joint Venture (Note c) – Uranium Exploration	100%	100%

#### Notes:

- (a) The consolidated entity has an option to purchase the remaining 10% at any time for a consideration of \$200,000 cash or the equivalent of \$200,000 in Adelaide resources Limited shares.
- (b) The consolidated entity has the option of contributing its 49% share of ongoing expenditure, or electing not to contribute to future work programs and to progressively dilute its interest to a minimum of 30% free carried until completion of a bankable feasibility study, or alternatively reverting directly to a 30% interest free carried to completion of a bankable feasibility study supporting a decision to mine.
- (b) Under the terms of this joint venture agreement, Quasar Resources Pty Ltd is required to spend \$3,000,000 over four years to earn a 60% interest, with a minimum of \$750,000 to be spent per year over the term of the joint venture, including a minimum 70 hole drilling program in 2007.

After Quasar Resources Pty Ltd earns its 60% interest, the consolidated entity may elect to contribute and holds its equity position, contribute or dilute on a program by program basis, or immediately revert to a 25% equity in the joint venture, free carried to a decision to mine. If the consolidated entity chooses the dilution path, its interest may not be diluted below 25%, at which time the interest will be free carried through to a decision to mine. If the consolidated entity elects not to contribute to mine development, it can opt to sell or revert to a 2% revenue based royalty.

The amount included in mining tenements, exploration and evaluation (Note 8) includes \$1,218,967 (2007: \$522,107) relating to the above joint ventures.

## 24. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

### (a) Exploration Expenditure Commitments

The consolidated entity has certain obligations to perform exploration work and expend minimum amounts of money on such works on mineral exploration tenements.

These obligations will vary from time to time, subject to statutory approval. The terms of current and future joint ventures, the grant or relinquishment of licences and changes to licence areas at renewal or expiry, will alter the expenditure commitments of the company.

Total expenditure commitments at balance date in respect of minimum expenditure requirements not provided for in the financial statements are approximately:

	2008 \$	2007 \$
Not later than one year:	1,809,000	1,104,000
Later than one year but not later than two years:	1,844,750	1,104,000
Later than two years but not later than five years:	6,074,250	3,262,000

### (b) Rover Project – Northern Territory

Under an agreement entered into with Newmont Gold Exploration Pty Ltd (“Newmont”) on 28 February 2005, Adelaide Exploration Limited acquired a 100% interest in the Rover Project (Exploration Licences 7739, 8921, and Exploration Licence Application 25512) located near Tennant Creek, Northern Territory, on the following terms.

- A minimum of \$400,000 to be spent on exploration activities within 18 months of approval being received from the Central Land Council. This obligation had been met by December 2005.
- A net smelter return royalty to Newmont ranging from 1.5% to 2.5% after production, and
- The grant of an option to Newmont to buy back a 70% interest should a resource of more than 2 million gold ounces be discovered, by paying Adelaide Exploration Limited the lesser of \$A20 million or three times the expenditure by Adelaide Exploration Limited from the date of execution of the agreement.

### (c) Newcrest Mining Royalty Deed

By a Royalty Deed dated 13 February 2002 the consolidated entity is obliged to pay to Newcrest Mining Limited a royalty of 1.5% of the gross proceeds received from the sale of refined minerals, less allowable deductions, mined from certain tenements on the Eyre Peninsula, South Australia.

### (d) Service Agreements

The consolidated entity entered into service agreements with an entity associated with C G Drown for a term of three years from 5 November 2007 and a consultancy agreement with an entity associated with J P Horan for a term of two years from 1 October 2007. For the year ended 30 June 2007 the consolidated entity had service agreements with entities associated with K R Yates, J P Horan and C G Drown.

Should any of the above agreements be terminated by the company earlier than their expiry date, a contingency exists for the contracted amount payable to the end of their terms. The entity associated with C G Drown and J P Horan may terminate their agreements with three months notice. As at 30 June 2008, the consolidated entity had a contingent liability in relation to these agreements of \$538,846 (2007: \$65,154).

Details of the current services and consultancy agreements are set out below:

2008

Director	Terms
C G Drown	Daily rate of \$950 for a minimum of 218 days per annum
J P Horan	Daily rate of \$960 for a minimum of 90 days per annum

2007

Director	Terms
K R Yates	Daily rate of \$900 for a minimum of 200 days per annum
J P Horan	Daily rate of \$880 for a minimum of 90 days per annum
C G Drown	Daily rate of \$725 for a minimum of 228 days per annum

**(e) Native Title**

Native Title claims have been made with respect to tenements in South Australia in which Adelaide Resources Limited has interests. The consolidated entity is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the company or its projects.

**(f) Bank Guarantee**

As at 30 June 2008, the consolidated entity has given a bank guarantee of \$50,000 (2007: \$50,000) to the Central Land Council as a performance bond.

**(g) Operating Lease**

Operating lease relates to the lease of office space with a lease term of 4 years, with an option to extend for a further 4 years. The operating lease agreement contains a market review clause in the event that the Group exercises its option to renew. "The Group does not have an option to purchase the leased asset at the expiry of the lease period.

***Non-cancellable operating lease commitments***

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Not longer than 1 year	70,752	-	70,752	-
Longer than 1 year and not longer than 5 years	157,106	-	157,106	-
Longer than 5 years	-	-	-	-
	227,858	-	227,858	-

## 25. FINANCIAL INSTRUMENTS

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 16, 17 and 18 respectively.

Due to the nature of the Group's activities (exploration) the directors believe that the most advantageous way to fund activities is through equity. The Group's exploration activities are monitored to ensure that adequate funds are available.

### Categories of financial instruments

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Financial assets</b>				
Cash and cash equivalents	3,657,746	4,425,088	3,647,246	4,415,088
Loans and receivables	160,280	84,314	160,280	84,314
Available-for-sale financial assets	7,917,980	284,533	7,917,980	284,533
<b>Financial liabilities</b>				
Amortised cost	701,437	563,353	701,437	563,353

### Interest rate risk management

The company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's and company's net profit would increase/decrease by \$20,207 and 20,155 respectively (2007: increase/decrease by \$19,934 and \$19,909 respectively). This is mainly attributable to interest rates on bank deposits.

The groups sensitivity to interest rates has not significantly changed from the prior year.

### Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather trading purposes. The Group does not actively trade these investments.

### Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

At reporting date, if the equity prices had been 5% pa higher or lower:

- net profit for the year ended 30 June 2008 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired; and

- other equity reserves would increase/decrease by \$395,899 (2007: increase/decrease by \$14,227) for the Group and Company, mainly as a result of the changes in fair value of available-for-sale shares.

The group's sensitivity to equity prices has increased during the current year mainly due to the group's holding in Iron Road Limited.

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from activities.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves.

### Liquidity and interest risk tables

The following table details the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Consolidated and Company	
	Weighted average effective interest rate %	Less than one year \$
<b>2008</b>		
Non-interest bearing	-	701,437
<b>2007</b>		
Non-interest bearing	-	563,353

### Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

### Quoted prices

Financial assets in this category include income notes and shares.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values:

## 26. SEGMENT INFORMATION

The consolidated entity operates in the mineral exploration industry in Australia.

## 27. EARNINGS PER SHARE

	Consolidated	
	2008 Cents per share	2007 Cents per share
Basic earnings per share – loss	(1.10)	(5.14)
Diluted earnings per share – loss	(1.10)	(5.14)

Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	\$	\$
Earnings	(887,701)	(3,788,956)
Earnings used in the calculation of basic and diluted earnings per share agree directly to net loss in the income statement.		
	Number	Number
Weighted average number of ordinary shares	80,405,658	73,785,179

The number of ordinary shares used in the calculation of diluted earnings pre share is the same as the number used in the calculation of basic earnings per share, as share options are not considered dilutive.

## 28. CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest	
		2008 %	2007 %
<b>Parent Entity</b>			
Adelaide Resources Limited (i)	Australia	100%	100%
<b>Subsidiaries</b>			
Adelaide Exploration Limited (ii)	Australia	100%	100%
Eyre Energy Limited (ii)	Australia	100%	100%

(i) Head entity in tax consolidated group

(ii) Members of tax consolidated group

## 29. ACQUISITION OF SUBSIDIARY

During the year ended 30 June 2007, Eyre Energy Limited was incorporated and became a wholly owned subsidiary of Adelaide Resources Limited on the issuing of shares for \$10,000.

Name(s) of businesses acquired	Principal Activity	Date of Incorporation	Proportion of shares acquired	Cost of Acquisition
Eyre Energy Limited	Exploration	18 May 2007	100%	\$10,000

### **30. SHARES IN IRON ROAD LIMITED**

On 18 February 2008 the company announced that it had executed a sale agreement with Iron Road Limited to vend the Warramboe Iron Project into that company. Consideration for the sale was 21 million shares in Iron Road Limited. Under the sale agreement with Iron Road Limited the company agreed to undertake an in-specie distribution of the 21 million shares it received to the company's shareholders, subject to shareholders' approval.

A general meeting of the company's shareholders, held on 12 August 2008, approved the in-specie distribution of the 21 million shares the company holds in Iron Road Limited.

The distribution was approved subject to the receipt of a private ruling on the tax consequences for the company of the in-specie distribution, and a class order in relation to the tax consequences for the shareholders of Adelaide Resources Limited of the in-specie distribution (collectively the "tax ruling") from the Australian Tax Office ("ATO"). If the terms and conditions of the tax ruling are unfavourable the in-specie distribution will not proceed. As at the date of this report the tax ruling had not been received from the ATO.

Shares in Iron Road Limited were valued at 30 June 2008 based on the market price on the Australian Stock Exchange as at that date, with the resulting increase in value being recorded in the available-for sale revaluation reserve note 17(b). No tax consequence was recorded as the company is anticipating a favourable tax ruling from the ATO.

Subsequent to the financial year end, the share price share on the Australian Securities Exchange for Iron Road Limited has fallen. If the shares were recorded at the market price as at the date of this report, the recorded value would decrease by \$3,780,000.

### **31. SUBSEQUENT EVENT**

Other than the matters disclosed in note 30 above, there are no other matters or circumstances 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.

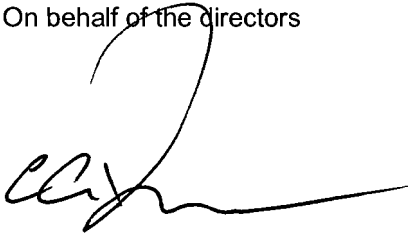
## Directors' Declaration

The directors declare that:

- (a) 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;
- (b) In the directors' opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and consolidated entity; and
- (c) The directors have been given the declaration required by Section 295A of the Corporation Act 2001.

Signed in accordance with a resolution of the directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors



**C G Drown**  
Director



**J P Horan**  
Director

Adelaide, South Australia  
8th September 2008

## **Independent Auditor's Report to the Members of Adelaide Resources Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Adelaide Resources Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, 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 set out on pages 12 to 40.

#### *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 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

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

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

## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## *Auditor's Opinion*

In our opinion:

- (a) the financial report of Adelaide Resources Limited 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 3.


## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 4 to 9 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Adelaide Resources Limited for the year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU

  
Jody Burton  
Partner  
Chartered Accountants  
Adelaide, 8 September 2008