

**AUSTRAL AFRICA RESOURCES LIMITED**  
(Formerly New World Alloys Limited)

**ABN 36 060 774 227**

**FINANCIAL STATEMENTS**

**30 JUNE 2008**

# AUSTRAL AFRICA RESOURCES LIMITED

## CORPORATE DIRECTORY

### DIRECTORS

Lindsay Colless Non-Executive Chairman  
Ian Cornelius Non-Executive Director  
Gerard Zytkow Executive Director

### COMPANY SECRETARY

Karen Brown

### AUDITORS

Rothsay Chartered Accountants  
Level 18, Norwich House  
6 O'Connell Street  
Sydney NSW 2000  
Tel: +61 (0)2 8815 5400  
Fax: +61 (0)2 8815 5401

### REGISTERED OFFICE AND HEAD OFFICE

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### SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000  
Tel: +61 (0)8 9323 2000  
Fax: +61 (0)8 9323 2033

### STOCK EXCHANGE LISTINGS

#### HOME LISTING

Austral Africa Resources Limited securities are listed on  
Australian Securities Exchange Limited (ASX)  
Level 2, Exchange Plaza  
2 The Esplanade  
Perth WA 6000  
ASX Share Code: AAF (Formerly NWA)

#### OTHER LISTING

Austral Africa Resources Limited securities are listed on  
Frankfurt Stock Exchange Limited (FSX)

Share Code: 212119

# AUSTRAL AFRICA RESOURCES LIMITED

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## **AUSTRAL AFRICA RESOURCES LIMITED REVIEW OF OPERATIONS**

### **REVIEW OF OPERATIONS**

During the current financial year the Company operations in the Democratic Republic of Congo (DRC) continued to suffer from the on going problems of ore supply, the supply and price of coke; which have changed the economic fundamentals of the business model. In the previous financial year ended 2007 the Company suffered some severe setbacks from its copper smelting activities in the DRC which resulted in a change of management in December 2006 and the new Board placing the furnaces on care and maintenance until new arrangements for funding and furnace management were initiated. After the successful operations during 2006, the supply of ore became erratic and with prices rising for ore, coke and transport, the economics changed dramatically.

As a result of negotiations, the Company procured a deal with Sino-Asia Mining & Resources Plc (SAMR), a London based group, to take over the operations and provide finances to re-start the Nova operations and to manage the project. Shareholder approval for that transaction was given on 14 August 2007. SAMR held a shareholder meeting on 20 August 2007 to enable it to complete the transaction.

Ahead of completion of the acquisition SAMR loaned (secured by a floating charge over shares that AAF owns in Nova) GBP 750,000 (A\$1,740,000) to Nova to allow operations to continue in the DRC. Copper smelting operations recommenced at the Lubumbashi site producing blister copper for Nova's own account, with additional tonnage produced under toll treatment arrangements.

The high price of copper and exceptional demand for high grade ore in the Congo continued to present difficulties for Nova to control feedstock ore supply. Chinese operators have taken over a number of furnace smelting operations and have monopolised the ore supply from artesian miners. Coke prices increased dramatically and the supply became unreliable; both these matters changed the dynamics of the business model. Accordingly, SAMR deferred its listing on the Alternative Investment Market (AIM) of the London Stock Exchange and did not complete the purchase of the furnace business and handed back the business to AAF.

On 25 August 2008 a General Meeting of AAF shareholders approved the acquisition of SAMR's 75% interest in two granted and two applications for mineral exploration concessions located in the Katanga province in the DRC, and the loan settlement; by the issue of 200 million shares in the capital of AAF at a deemed issue price of 1 cent each (Consideration Shares) to SAMR. SAMR advised that it intends to distribute the Consideration Shares in-specie to its shareholders. Going forward AAF will concentrate on exploration of its concessions in the DRC and continue to seek new mineral exploration opportunities in Australia and Africa.

### **Nova Mining Sprl**

AAF is the sole owner of Nova Mining Sprl ("Nova"), a copper resource and smelting facility located in Lubumbashi, the capital city of Katanga Province in the Democratic Republic of Congo ("DRC"). The Nova copper project was established on a 25,000 m<sup>2</sup> industrial site in Lubumbashi during 2003/2004 with two blast furnaces and associated plant, extensive warehouse and administrative facilities to operate the smelter.

During the financial year ended 30 June 2006, Nova emerged as the largest independent copper smelter in Katanga province; producing 3,191 tons of 95% grade copper metal for the year. Consistent improvements to the smelter performance compensated for the diminishing copper ore grades that resulted from international demand for unprocessed copper ore. The high LME copper prices that evolved were a bonus to Nova revenues, but created an unrealistic demand for unprocessed ore that deprived Nova from benefiting from increased margins at the smelter.

The development strategy of the Nova project has focussed on (a) the acquisition of JV mineral resource properties to supply smelter operations, (b) the introduction of ore concentrators to enhance quality of furnace feedstock, (c) the increase of furnace smelting capacity. The 2006 financial year ended with Nova directors signing options to JV on 4 mineral resource properties, ordering the first ore concentrator due for delivery in October and construction of 2 new furnaces. In addition, Nova purchased more trucks and mining equipment to strengthen the operation by diminishing its reliance on contractors.

Nova commissioned Furnace #3 in August 2006, boosting output capacity to 450 tonnes per month of blister copper. The performance of Nova's blast furnaces is directly related to feedstock grade, where the monthly average dropped from 33% in September 2005 to 23% in September 2006. This grade slump resulted in production de-rating of each furnace from 200 to 150 tonnes of blister copper per month. Commissioning of Nova's first concentrator which was due in November 2006, was intended to correct feedstock quality back above 30% and enhance the Company's ability to access greater quantities of lower grade material at more realistic prices.

## **AUSTRAL AFRICA RESOURCES LIMITED REVIEW OF OPERATIONS**

However, due to somewhat unforeseen circumstances, the concentrator did not materialise, the grade and supply of ore deteriorated and the costs escalated. All the Company's cash reserves were depleted by the end of 2006, production ceased and the plant was put on care and maintenance whilst the Board sought alternative financing and management opportunities.

In August 2007 the Company approved the transfer of two of its subsidiaries located in the Democratic Republic of Congo, Nova Mining Sprl ("Nova") and Macro Mining Sprl ("Macro") which in turn owns 80% of Phoenix Resources Sprl ("Phoenix") to Sino-Asia Mining and Resources plc (SAMR).

In November 2007 after due diligence by SAMR, some issues in the acquisition required restructuring; in essence AAF agreed that SAMR acquire the DRC copper operations and four exploration concessions in the DRC. Ahead of completion of the acquisition SAMR loaned to Nova sufficient funds to allow operations to continue in the DRC. Copper smelting operations recommenced at the Lubumbashi site producing blister copper for Nova's own account, with additional tonnage produced under toll treatment arrangements

March 2008, the Company received notice that SAMR had abandoned its proposed AIM listing, and would not be proceeding with the purchase of the Nova Smelting and furnace business in the DRC. Accordingly the board of AAF took back the furnace business and operates the furnaces' on a toll treatment basis as well as treating some proprietary ore in the short term. The board has decided to sell off the furnace business as a going concern and negotiations are proceeding.

### **Smelting Technologies ("Smeltech")**

Austral Africa Resources Limited is the sole owner of Smeltech, a Johannesburg based engineering and manufacturing business, which provides both key logistical support and engineered equipment (including furnaces), to the Company's Nova operations and others in the mining industry.

### **Batchelor Joint Venture – Northern Territory, Australia**

By way of an Agreement with Ausmet Resources Limited ("Ausmet") dated 20 February 2004, the Company formed a Joint Venture to explore the area known as the Batchelor Tenements in the Northern Territory.

Ausmet was to earn a 60% interest in the tenements, by sole funding \$600,000 of exploration costs within a 4 year period. During the 2006 year, Ausmet assigned this interest to Korab Resources Limited, which listed on the Australian Stock Exchange ("ASX").

In September 2007 after an amended Agreement the Company agreed to sell its interest in these tenements to Korab and a new company Uranium Australia. The consideration received was \$900,000 in cash plus a 5% net smelter royalty return interest in the tenements. Korab also took over responsibility for rehabilitation.

### **Other Activities**

There were no equity issues during the current financial year. Equity funds raised during the previous financial year of \$3,756,645 combined with \$900,000 received in September 2007 from the sale of the Batchelor Tenements, has been sufficient to meet the running costs at Nova and the operations of the Company's head office in Perth during the year.

There has been no changes in the Board of Austral Africa Resources Limited during the financial year, however both Mr Colless and Mr Zytchow were re-elected as Directors at the Company's Annual General Meeting. At this meeting Rothsay Chartered Accountants were elected as auditors replacing RSM Bird Cameron Partners who will continue to assist the Company with some taxation services.

In January 2008 the Company officially changed its name from New World Alloys Limited to Austral Africa Resources Limited and the ASX Limited securities exchange code was changed from NWA to AAF. Ms Karen Brown replaced Mr David McArthur as Secretary of the Company as he resigned on the 13 March 2008.

### **Future Prospects and Goals**

The company goals for the forthcoming year are to ensure the South African operations are managed efficiently and maintain the Nova Mining operations. Whilst continuing to operate the furnaces on a toll treatment basis, as well as treating some proprietary ore and continue negotiations to sell the furnaces as a going concern.

The Company currently holds four granted mineral exploration concessions in the Katanga province along with the additional four concessions as a result of the agreement with SAMR, provides AAF with an exciting opportunity to explore the Katanga copper belt in the DRC. The Company is actively seeking new exploration opportunities as well as considering its many options in the DRC and other parts of Africa and Australia.

## AUSTRAL AFRICA RESOURCES LIMITED DIRECTORS' REPORT

Your directors present their report of Austral Africa Resources Limited ("the Company") and its controlled entities for the financial year ended 30 June 2008.

### DIRECTORS

The names of directors in office at any time during or up to the date of this report were:

**Lindsay Arthur Colless, CA, FCID, *Independent Non-Executive Chairman***

Lindsay Colless, aged 63, was appointed as a Non-Executive Director on 14 December 2006.

Lindsay is a Chartered Accountant with 15 years experience in the profession and a further 31 years experience in commerce, mostly in the mineral and petroleum exploration industry in the capacities of financial controller, company secretary and director.

*Directorships held in other listed entities:*

Atom Energy Ltd – Non-Executive Chairman (April 2007 to April 2008)

Newland Resources Ltd - Director (April 1997 to present)

**Ian Raymond Cornelius, *Independent Non-Executive Director***

Ian (Inky) Cornelius, aged 67, was appointed as a Non-Executive Director on 31 October 2003.

Ian worked for many years in the Western Australian Mines Department, then as Mining Titles Officer of a multi-national mining corporation, before going into business as a tenement consultant. He has had many years experience in the resources industry, and has had much success in the exploration of many mineral deposits.

*Directorships held in other listed entities:*

Alkane Resources Ltd – Non-Executive Director (June 1986 to present)

Pancontinental Oil and Gas NL – Director (October 1992 to present)

Montezuma Mining Company Ltd – Director (August 2006 to present)

**Gerard Zytow, *B SocSci (Industrial Psychology), Executive Director/CEO***

Gerard Zytow, aged 60, was appointed as an Executive Director on 21 September 2005, and is the Regional Manager of The Company's operations in Africa.

Gerard has considerable experience with DRC based activities over many years, both socially and in a business capacity exporting equipment to the DRC, over a ten year period.

Gerard was instrumental in the establishment and development of the Nova operation since his engagement in July 2003.

Gerard is a director of all subsidiary companies based in Africa.

**AUSTRAL AFRICA RESOURCES LIMITED  
DIRECTORS' REPORT**

**DIRECTORS**

There was no change in the Directors of the Company during or since the end of the financial year.

**COMPANY SECRETARY**

Mr David McArthur resigned as Company Secretary of the Company on the 13 March 2008 and Ms Karen Brown was appointed in his place effective immediately.

Ms Brown (48) is an honours graduate in economics from the University of Western Australia and is a director of Mineral Administration Services Pty Ltd which provides company secretarial, accounting, treasury and financial services to a number of listed public companies primarily in the resources sector.

**DIRECTORS' INTERESTS IN EQUITY INSTRUMENT**

Relevant interests of the directors in the shares and unlisted options of the Company, as notified by the directors to the Australian Securities Exchange in accordance with s205G (1) of the Corporations Act 2001, as at the date of this report, are:

**Shares**

Directors	Balance at beginning of period	Purchased/ issued	Sales	Net Change Other *	Balance at end of period
I Cornelius	8,824,476	-	-	(3,394,612)	5,429,864
L Colless	200,000	-	-	-	200,000
G Zytkow	6,943,756	7,693,756	(6,943,756)	-	7,693,756

\* Net Change Other refers to an effective 50% net reduction in the director's shareholding previously registered in the name of a director related entity. That company went into liquidation during the financial year and 100% of its shareholding in Austral Africa Resources Limited were distributed 50% to each of that company's shareholders; thereby effectively reducing the director's shareholding by 50%.

**Options**

Directors	Balance at beginning of period	Purchased/ issued	Converted/ Expired	Sold	Balance at end of period
I Cornelius	-	-	-	-	-
L Colless	-	-	-	-	-
G Zytkow	1,735,939	-	<sup>(1)</sup> (1,735,939)	-	-

(1) Options Exercisable at 10 cents expired on 1 March 2008.

**PRINCIPAL ACTIVITY**

The principal activities of the consolidated entity constituted by Austral Africa Resources Limited and the entities it controlled during the financial year consisted of mineral ore processing, production and operation of the Company's copper smelter in the Democratic Republic of Congo "DRC" (Nova Copper Project).

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

# AUSTRAL AFRICA RESOURCES LIMITED

## DIRECTORS' REPORT

### OPERATING AND FINANCIAL REVIEW

#### Operating Overview

A review of the operations is included in **pages 4 to 5** in this report.

#### Operating Results

The net loss of the consolidated entity for the financial year after income tax was \$1,902,478 (2007: loss of \$4,967,392).

During the financial year Austral Africa Resources Limited's primary activities were production and operation of its Nova copper smelting operation in Lubumbashi in the Democratic Republic of Congo ("DRC"). The operations in Lubumbashi have been operating up to two furnaces on a toll treatment basis as well as treating ore on a proprietary basis.

### SUMMARY OF MATERIAL TRANSACTIONS

On 14 June 2007 the Company gives notice of intention to sell its interest in Nova Mining Sprl and Macro Mining Sprl (which in turn owns 80 percent of Phoenix Resources Sprl) to Sino-Asia Mining & Resources plc (SAMR) for the issue of 166,666,667 shares in SAMR at a deemed issue price of 2 pence each, (approximately \$8 million). At the time of transfer Austral Africa Resources Limited ("AAF") was to hold 87% of SAMR.

On 11 July 2007 the Company entered into a new agreement with Korab Resources Ltd and its subsidiary Uranium Australia Pty Ltd over the Batchelor project held by the Company's subsidiary Savanna Mineral Resources Pty Ltd whereby Uranium Australia Pty Ltd would acquire a 90% interest in the tenements in consideration for \$200,000 cash and 1.6 million shares in Uranium Australia Pty Ltd.

On 21 August 2007 the Company approved the transfer of two of its subsidiaries located in the Democratic Republic of Congo, Nova Mining Sprl ("Nova") and Macro Mining Sprl ("Macro") which in turn owns 80% of Phoenix Resources Sprl ("Phoenix") for the issue of 166,666,667 shares in Sino-Asia Mining & Resources plc (SAMR) at a deemed issue price of 2 pence each.

On 10 September 2007 the Company amended the agreement with Korab Resources made on 11 July 2007 such that Savanna Resources would receive \$900,000 plus a 5 percent net smelter return royalty for 100 percent of the Batchelor project instead of \$200,000 plus 1.6 million shares in Uranium Australia Pty Ltd.

On 22 November 2007 after due diligence by Sino-Asia Mining and Resources plc ("SAMR") some issues required the acquisition to be restructured; SAMR & AAF agreed that AAF transfer the assets of its subsidiary Nova to another subsidiary Macro and SAMR would acquire AAF's interest in Macro. Thereby acquiring; the DRC copper operations; two exploration concessions held by Macro in the DRC; and Phoenix a subsidiary of Macro which also holds two exploration concessions in the DRC. Ahead of completion of the acquisition SAMR loaned (secured by a floating charge over shares that AAF owns in Nova) GBP 750,000 (A\$1,740,000) to Nova to allow operations to continue in the DRC. Copper smelting operations recommenced at the Lubumbashi site producing blister copper for Nova's own account, with additional tonnage produced under toll treatment arrangements.

On 28 November 2007 at the Annual General Meeting the following resolutions were passed: Mr Zytkow & Mr Colless were re-elected as directors; Rothsay Chartered Accountants were elected as replacement Auditors; the Company's name be changed to Austral Africa Resources Limited and a new constitution adopted.

On 18 January 2008 ASX Limited was advised that after approval by shareholders and the Australian Securities & Investment Commission the Company name changed from New World Alloys Limited to Austral Africa Resources Limited with the new stock exchange code "AAF".

The Company also changed its registered office to 129 Edward Street, Perth WA 6000.

On 11 March 2008 the Company received notice that SAMR had abandoned its proposed listing on the Alternative Investment Market of the London Stock Exchange, and would not be proceeding with the purchase of the Nova Smelting and furnace business in the DRC. Accordingly the board of AAF took back the furnace business and will be operating the furnaces' on a toll treatment basis as well as treating some proprietary ore in the short term. The board decided to sell the furnaces as a going concern.

On 13 March 2008 Mr David McArthur resigned as Secretary of the Company and Ms Karen Brown was appointed.

## AUSTRAL AFRICA RESOURCES LIMITED DIRECTORS' REPORT

On 3 July 2008 AAF entered into an agreement (conditional upon shareholder and regulatory approval) with SAMR to acquire a 75% interest in two granted and two applications for mineral exploration concessions located in the Katanga province in the DRC; and to extinguish the loan to Nova by the issue of 200 million shares in the capital of AAF at a deemed issue price of 1 cent each (Consideration Shares) to SAMR. SAMR has advised that it intends to distribute the Consideration Shares in-specie to its shareholders. AAF shareholders approved this issue of 200 million shares at a General Meeting held on 25 August 2008.

Other than this, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely in the opinion of the Directors of the Company, to significantly effect the operations of the consolidated entity, the results of those operations or the state of the affairs of the consolidated entity in future financial years.

### STATE OF AFFAIRS

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the consolidated entity during the financial year in review, other than those matters referred to in the summary of material transactions.

### LIKELY DEVELOPMENTS

The consolidated entity will continue to operate its copper smelting operation in the DRC on a toll treatment basis and negotiations are still proceeding to sell the furnaces as a going concern. The acquisition of the additional four Concessions provides AAF with an exciting opportunity to explore the Katanga copper belt in the DRC. It is also actively seeking new mineral exploration opportunities as well as considering its many options in DRC and other parts of Africa and Australia.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

### DIVIDENDS

No dividends have been paid by the Company during the financial year ended 30 June 2008, nor have the directors recommended that any dividends be paid.

### DIRECTOR'S MEETINGS

Given the nature of the Company's business and the fact that its operations are based primarily in the DRC, the full Board has not been able to meet with greater regularity however, the managing director frequently communicates with other executive management via telephone and email. In addition, the non-executive directors meet regularly regarding the financial and operational issues of the business.

The number of director's and committee meetings (but excluding operations meetings which are attended by the Chairman and Non-Executive Director from time to time) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Directors Meetings		Audit & Risk Committee	
	A	B	A	B
L Colless	3	3	-	-
I Cornelius	3	3	-	-
G Zytkow	3	3	-	-

**A** = Number of meetings attended

**B** = Number of meetings held during the time the director held office during the reporting period.

## AUSTRAL AFRICA RESOURCES LIMITED DIRECTORS' REPORT

### INDEMNIFICATION AND INSURANCE OF OFFICERS

#### Indemnification

The Company has agreed to indemnify the following current directors of the Company, Mr L Colless, Mr I Cornelius, and Mr G Zytow, directors of controlled entities and executive officers against all liabilities to other persons (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

#### Insurance premiums

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

### NON-AUDIT SERVICES

At the Annual General Meeting held on the 28 November 2007 Rothsay Chartered Accountants were appointed as the Company's auditor; however during the year RSM Bird Cameron Partners continued to perform certain other services excluding audit services.

The Board has considered the non-audit services provided during the year by RSM Bird Cameron Partners and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditors' independence requirements of the Corporations Act 2001 as Rothsay Chartered Accountants and RSM Bird Cameron Partners are totally separate and non related entities.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is attached to and forms part of this Directors' Report.

Details of the amounts paid (excluding goods and services tax) to Rothsay Chartered Accountants (2007 - RSM Bird Cameron Partners) and its related practices for the audit and non-audit services provided during the year are set out below:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Statutory audit</b>		
- Statutory audit/review by the auditors of the Company	35,000	-
- Statutory audit/review by previous auditors (2008 prior year fee)	18,000	29,000
<b>Services other than statutory audit</b>		
- Taxation services by RSM Bird Cameron Partners	4,900	16,754
	<u>57,900</u>	<u>45,754</u>

### ENVIRONMENTAL ISSUES

The Company's operations are subject to various environmental regulations in Australia and the DRC. The directors have complied with these regulations and are not aware of any breaches of the legislation during the current financial year, which are material in nature.

### DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received, or become entitled to receive, any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the financial statements or the fixed salary of a full-time employee of the Company or of a related corporation) by reason of a contract made by the Company or a related corporation with the Directors or with a firm of which the Director is a member, or with a Company in which the Director has a substantial financial interest other than those disclosed in Notes 27 and 28.

## AUSTRAL AFRICA RESOURCES LIMITED DIRECTORS' REPORT

### SHARE OPTIONS

#### Unissued shares under option and shares issued on the exercise of options

At the date of this report, the Company had no options over unissued ordinary shares in Austral Africa Resources Limited. Details of unissued shares under option as at 30 June 2008 and the date of this report and shares issued during or since the end of the financial year are set out below:

	Number	Exercise Price	Expiry Date
Unlisted Options	0	\$0.00	n/a

No option holders have any right to participate by virtue of any options in any share issue of any other corporation.

#### Shares issued on exercise of options

During the year and subsequent to the year end no options were exercised.

#### Share options forfeited

On 1 March 2008 - 23,656,598 options exercisable at 10 cents per share expired.

#### Options granted to directors' and executives of the Company

No options have been granted during or since the end of the financial year, to directors or executives as part of their remuneration.

### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the Corporate Governance Section of the annual report.

### KEY MANAGEMENT PERSONNEL REMUNERATION REPORT

The Remuneration Report for the year ended 30 June 2008, is set out below:

#### Remuneration policies

Remuneration levels for directors, secretaries and senior managers of the Company ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The board may obtain independent advice on the appropriateness of remuneration packages and remuneration strategies.

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

- the capability and experience of the directors and senior executives;
- the directors and senior executives ability to control the relevant segments' performance;
- the consolidated entity's performance including:
  - the consolidated entity's earnings;
  - the growth in share price and returns on shareholder wealth; and
- the amount of incentives within each directors and senior executive's remuneration.

Remuneration packages currently include a mix of fixed and variable remuneration and long-term performance-based incentives.

#### Fixed remuneration

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

Remuneration levels are reviewed annually by the Board through a process that considers individual, segment and over performance of the consolidated entity. In addition, external consultants may be used to provide analysis and advice to ensure the director's and senior executive's remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

## AUSTRAL AFRICA RESOURCES LIMITED DIRECTORS' REPORT

### **Performance-linked remuneration**

Performance linked remuneration can include both short-term and long-term incentives and is designed to reward executive directors and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentives ("STI") would include an "at risk" bonus in the form of cash, while the long-term incentive ("LTI") is provided as options over ordinary shares of Austral Africa Resources Limited under the rules of the Employee Option Plan. The Employee Option Plan was last approved by shareholders in 2005.

### **Short-term incentive bonus**

At the end of each financial year, the Board will assess the actual performance of the consolidated entity and individuals employed within the consolidated entity. However, the Board has determined that no bonuses will be paid until such time as the consolidated entity continues to successfully achieve a profitable smelting operation.

### **Long-term incentive**

Options are issued under the Employee Option Plan and it provides for executive directors and senior executives to receive options over ordinary shares for no consideration. The ability to exercise the options may be conditional on the consolidated entity achieving certain performance hurdles and/or the continuing service of the directors and employees. Options granted to directors and employees, which have not vested on termination of services for the employee or director, are forfeited unless otherwise determined by the Board of Austral Africa Resources Limited.

Performance hurdles may comprise a number of components, including share price hurdles and personal Key Performance Indicators. Performance hurdles are set and assessed by the Board.

### **Employment contracts**

The Company is in the process of finalising employment and or contracts of service with all directors and senior executives. The contracts outline the components of remuneration paid to the executive directors and senior executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the Remuneration Policy.

Executives' services may be terminated with four weeks notice. The executive directors and senior executives are entitled to receive on termination of services their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Executives may contract their services via entities which they control. This generally occurs where the executive is employed overseas or away from their normal place of residence.

### **Non-executive directors**

Total remuneration for all non-executive directors, is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

Non-executive directors do not receive performance related remuneration other than incentive options, which must be approved by shareholders prior to them being granted. Directors' fees cover all main board activities and membership to committees.

From time to time, the Board may ask non-executive directors with appropriate skills and experience to consult to the Company on a daily basis to carry out particular tasks.

**AUSTRAL AFRICA RESOURCES LIMITED  
DIRECTORS' REPORT**

**Directors' and executive officers' remuneration**

Details on the nature and amount of each major element of remuneration of each director and executives of the Company are detailed below.

There is only one person deemed to be an executive director at 30 June 2008.

	Year	Fees & Salary \$	Super-annuation \$	Other \$	Total \$
<b>Directors</b>					
I Cornelius	2008	-	-	50,000	50,000
	2007	-	-	50,000	50,000
L Findlay <i>(Resigned 13 December 2006)</i>	2008	-	-	-	-
	2007	15,000	7,948	102,000	124,948
G Zytkow	2008	-	-	168,214	168,214
	2007	-	-	153,110	153,110
L Colless <i>(Appointed 14 December 2006)</i>	2008	-	-	60,000	60,000
	2007	-	-	32,500	32,500
<b>Executives</b>					
Gaetan (David) Kakudji	2008	-	-	79,413	79,413
	2007	-	-	127,868	127,868
David McArthur <i>(Resigned 13 March 2008)</i>	2008	-	-	9,250	9,250
	2007	-	-	13,625	13,625
Karen Brown <i>(Appointed 13 March 2008)</i>	2008	-	-	-	-
	2007	-	-	-	-
<b>Totals</b>	2008	-	-	366,877	366,877
	2007	15,000	7,948	479,103	502,051

**Details of performance related remuneration**

Details of the consolidated entity's policy in relation to the proportion of remuneration that is performance related is discussed above.

**Analysis of share-based payments granted as remuneration**

No options have been granted to directors or executives as remuneration.

Signed in accordance with a resolution of the Board of Austral Africa Resources Limited.

Dated in Perth this 30th day of September 2008.



**LINDSAY COLLESS**  
Non-Executive Director

# ROTHSAY

Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001  
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

The Directors  
Austral Africa Resources Ltd  
PO Box 8178  
Perth Business Centre WA 6849

Dear Sirs,

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2008 annual financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Graham Swan (Lead auditor)



Rothsay Chartered Accountants

Dated 30 September 2008



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

The Board of directors of Austral Africa Resources Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

#### ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the Company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has and has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

#### THE BOARD OF DIRECTORS

##### *Role of the Board*

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

#### ***Board composition***

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive directors should serve at least 3 years. At the completion of the first 3 years, the position of the director is reviewed to ascertain if circumstances warrant a further term.

The Board comprises two non-executive directors and one executive director. Details of the directors are set out in the Directors' Report.

The Chairman of The Board is non-executive.

The Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

#### ***Retirement and re-election of directors***

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

#### ***Independence of directors***

**The Board has reviewed the position and association of each of the three directors in office at the date of this report and considers that two of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.**

**The Board considers that as Mr Zytow is employed in an executive capacity by the Company, he is not considered to be independent.**

#### ***Independent professional advice***

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

#### ***Board performance review***

The performance of all directors is assessed through review by the Board as a whole of a director's attendance at and involvement in Board meetings, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period; however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

#### ***Director remuneration***

Details of the Company's remuneration policies are included in the "key management personnel remuneration report" section of the Directors' Report.

Non-executive directors will be remunerated by cash benefits alone and will not be provided with retirement benefits (except in exceptional circumstances). Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

The Company does not provide any equity-based remuneration to directors.

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

#### MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Executive Director and Financial Controller annually provide a formal statement to the board that in all material respects and to the best of their knowledge and belief;

- The Company's financial reports present a true and fair view of the Company's financial position and operational results and are in accordance with relevant accounting standards; and
- The Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

#### *Internal controls*

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

#### AUDIT COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the board's representative, the financial controller and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

#### ETHICAL STANDARDS

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Company's Managing Director as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

## **AUSTRAL AFRICA RESOURCES LIMITED**

### **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

#### **TRADING IN THE COMPANY'S SECURITIES BY DIRECTORS AND EMPLOYEES**

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Company's Managing Director (or in his place the Chairperson) must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

#### **CONTINUOUS DISCLOSURE**

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and ensure officers and employees of the Company understand these obligations.

The procedure adopted by The Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

#### **SHAREHOLDERS**

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as The Company is a disclosing entity, regular announcements are made to the Australian Securities Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;
- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

#### ASX BEST PRACTICE RECOMMENDATIONS

***Pursuant to the ASX Listing Rules, the Company advises that based upon the information set out above, it does comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council.***

*Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.*

The Board has adopted a statement of its primary responsibilities as set out above, which reflects the policies that were in place during the reporting year.

*Recommendation 2.1: A majority of the board should be independent directors*

The Company complies with this requirement.

*Recommendation 2.2: The Chairperson should be an independent director.*

The Company has an independent Chairman.

*Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual*

The role of the chairperson has been fulfilled by Mr Lindsay Colless and the role of Chief Executive Officer has been fulfilled by Mr Gerard Zytkow.

*Recommendation 3.1: Establish a code of conduct to guide directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:*

*3.1.1 the practices necessary to maintain confidence in the Company's integrity*

*3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As set out above, the Company has adopted a Code of Conduct which reflects policies that were in place during the reporting year.

*Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.*

As set out above, the Company has adopted a trading policy.

*Recommendation 3.3: Provide the information indicated in "Guide to Reporting on Principle 3".*

The Company has made available a summary of its Code of Conduct and trading policy in this statement, but has not otherwise made this information publicly available.

*Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.*

As set out above, the Company complies with this requirement.

*Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.*

As set out above, the Company has adopted a continuous disclosure policy, which reflects policies that were in place during the reporting year.

*Recommendation 5.2: Provide the information indicated in "Guide to Reporting on Principle 5".*

The Company has provided a summary of its continuous disclosure policy in this Statement.

*Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

As set out above, the Company has adopted a communications policy, which reflects policies that were in place during the reporting year.

*Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*

As set out above, the Company requests its auditor to attend the annual general meeting.

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

*Recommendation 7.1: The board or appropriate committee should establish policies on risk oversight and management.*

As set out above, the Board has established policies on risk oversight and management.

*Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:*

*7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.*

*7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

As set out above, the Company complies with this requirement.

*Recommendation 7.3: Provide the information indicated in "Guide to Reporting on Principle 7".*

The Company has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

*Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.*

The Company's processes for performance evaluation are set out above.

*Recommendation 9.1: Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.*

The Company's remuneration policies are referred to above.

*Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives. The distinction between non-executive and executive remuneration detailed above.*

*Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*

As set out in the Company's remuneration policies, the Company complies with this requirement.

*Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

As set out above, the Company has adopted a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.

***Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.***

*Recommendation 2.4: The Board should establish a Nomination Committee.*

The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 2.5: Provide the information indicated in "Guide to reporting on Principle 2".*

One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 2* is "the names of members of the nomination committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2* by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

*Recommendation 4.2: The Board should establish an Audit Committee.*

## AUSTRAL AFRICA RESOURCES LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

*Recommendation 4.3: Structure of the Audit Committee so that it consists of:*

- only Non-Executive Directors;
- a majority of Independent Directors;
- an independent Chairperson, who is not chairperson of the Board;
- at least three members.

*Recommendation 4.4: The Audit Committee should have a formal charter.*

The functions to be performed by an audit committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 4.5: Provide the information indicated in "Guide to reporting on Principle 4".*

The *Guide to reporting on Principle 4* requires that the corporate governance section of the annual report include "details of the names and qualifications of those appointed to the audit committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish an audit committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the audit committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 4*.

*Recommendation 9.2: The Board should establish a Remuneration Committee.*

The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

*Recommendation 9.5: Provide the information indicated in "Guide to reporting on Principle 9".*

One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 9* is "the names of members of the remuneration committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9*.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>Revenue</b>	2	<b>7,483,924</b>	<b>14,560,042</b>	<b>66,668</b>	<b>13,528,498</b>
Cost of sales		(5,936,292)	(14,008,730)	-	(12,095,152)
Employees, directors and contractor expense		(1,926,457)	(2,514,871)	(508,816)	(1,030,504)
Depreciation expense		(425,789)	(466,066)	(7,121)	(7,882)
Borrowing costs expense		(22,882)	(47,832)	(1,597)	(3,464)
Exploration expenditure		(17,718)	-	-	-
Provision or diminution in value of subsidiaries		-	-	-	(1,159)
Provision for non recovery of loans to subsidiaries		-	-	(3,133,222)	(5,161,800)
Rental expense on operating leases		(120,247)	(65,317)	(22,499)	(26,394)
Other expenses		(937,017)	(2,424,618)	(322,605)	(327,710)
<b>(Loss)/Profit before income tax</b>	3	<b>(1,902,478)</b>	<b>(4,967,392)</b>	<b>(3,929,192)</b>	<b>(5,125,567)</b>
Income tax expense	5	-	-	-	-
<b>(Loss)/Profit attributable to members of the parent entity</b>		<b>(1,902,478)</b>	<b>(4,967,392)</b>	<b>(3,929,192)</b>	<b>(5,125,567)</b>
<b>Overall Operations</b>					
<b>Basic earning per share (cents per share)</b>	6	<b>(0.32)</b>	<b>(1.30)</b>		
<b>Diluted earnings per share( cents per share)</b>	6	<b>(0.32)</b>	<b>(1.30)</b>		

The accompanying notes form part of these financial statements.

**AUSTRAL AFRICA RESOURCES LIMITED**

**BALANCE SHEET  
AS AT 30 JUNE 2008**

	Note	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	1,081,207	1,142,057	992,999	1,205,873
Trade and other receivables	8	949,786	564,810	2,170	11,588
Inventories	9	244,207	835,271	-	-
Other current assets	10	277,583	63,595	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>2,552,783</b>	<b>2,605,733</b>	<b>995,169</b>	<b>1,217,461</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	8	13,574	36,741	12,000	3,777,164
Property, plant and equipment	11	2,407,181	3,139,912	11,060	19,229
Mineral exploration and evaluation expenditure	12	-	17,718	-	-
Financial assets	13	-	-	-	-
Intangibles	15	68,209	52,103	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,488,964</b>	<b>3,246,474</b>	<b>23,060</b>	<b>3,796,393</b>
<b>TOTAL ASSETS</b>		<b>5,041,747</b>	<b>5,852,207</b>	<b>1,018,229</b>	<b>5,013,854</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	16	1,020,708	976,364	165,997	232,430
Short-term borrowings	17	1,891,757	475,371	-	-
Income tax liabilities	18	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,912,465</b>	<b>1,451,735</b>	<b>165,997</b>	<b>232,430</b>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	18	195	249	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>195</b>	<b>249</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>2,912,660</b>	<b>1,451,984</b>	<b>165,997</b>	<b>232,430</b>
<b>NET ASSETS</b>		<b>2,129,087</b>	<b>4,400,223</b>	<b>852,232</b>	<b>4,781,424</b>
<b>EQUITY</b>					
Issued capital	19	34,533,165	34,533,165	34,533,165	34,533,165
Reserves	20	(1,305,672)	(937,014)	-	-
Retained earnings		(31,098,406)	(29,195,928)	(33,680,933)	(29,751,741)
<b>TOTAL EQUITY</b>		<b>2,129,087</b>	<b>4,400,223</b>	<b>852,232</b>	<b>4,781,424</b>

The accompanying notes form part of these financial statements.

**AUSTRAL AFRICA RESOURCES LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
AS AT 30 JUNE 2008**

**Consolidated Entity**

	Issued Capital	Accumulated Losses	Foreign Exchange Reserve	Total Equity
	\$	\$	\$	\$
<b>As at 1 July 2006</b>	<b>30,999,127</b>	<b>(24,228,536)</b>	<b>(352,612)</b>	<b>6,417,979</b>
Loss for the period	-	(4,967,392)	-	(4,967,392)
Shares issued (net)	3,534,038	-	-	3,534,038
Translations of foreign controlled entities	-	-	(584,402)	(584,402)
<b>As at 30 June 2007</b>	<b>34,533,165</b>	<b>(29,195,928)</b>	<b>(937,014)</b>	<b>4,400,223</b>
<b>As at 1 July 2007</b>	<b>34,533,165</b>	<b>(29,195,928)</b>	<b>(937,014)</b>	<b>4,400,223</b>
Loss for the period	-	(1,902,478)	-	(1,902,478)
Shares issued (net)	-	-	-	-
Translations of foreign controlled entities	-	-	(368,658)	(368,658)
<b>As at 30 June 2008</b>	<b>34,533,165</b>	<b>(31,098,406)</b>	<b>(1,305,672)</b>	<b>2,129,087</b>

**Parent Entity**

	Issued Capital	Accumulated Losses	Foreign Exchange Reserve	Total Equity
	\$	\$	\$	\$
<b>As at 1 July 2006</b>	<b>30,999,127</b>	<b>(24,626,174)</b>	-	<b>6,372,953</b>
Loss for the period	-	(5,125,567)	-	(5,125,567)
Shares issued (net)	3,534,038	-	-	3,534,038
<b>As at 30 June 2007</b>	<b>34,533,165</b>	<b>(29,751,741)</b>	-	<b>4,781,424</b>
<b>As at 1 July 2007</b>	<b>34,533,165</b>	<b>(29,751,741)</b>	-	<b>4,781,424</b>
Profit (Loss) for the period	-	(3,929,192)	-	(3,929,192)
Shares issued (net)	-	-	-	-
<b>As at 30 June 2008</b>	<b>34,533,165</b>	<b>(33,680,933)</b>	-	<b>852,232</b>

The accompanying notes form part of these financial statements.

**AUSTRAL AFRICA RESOURCES LIMITED**

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		6,517,256	15,074,847	-	14,044,052
Payments to suppliers and employees		(8,896,512)	(18,494,387)	(910,935)	(13,620,103)
Interest received		66,931	5,725	66,931	4,976
Other income		-	-	-	-
Borrowing costs		(22,882)	(47,832)	(1,597)	-
<b>Net cash (used in)/ provided by operating activities</b>	24(a)	<b>(2,335,207)</b>	<b>(3,461,647)</b>	<b>(845,601)</b>	<b>428,925</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Deposits refunded		22,734	-	7,734	-
Investment in concessions		(22,213)	(29,660)	-	-
Loans to controlled entities		-	-	624,208	(3,573,940)
Proceed from the sale of tenements		900,000	-	-	-
Proceeds from the sale of fixed assets		785	11,115	785	-
Payments for property, plant and equipment		(43,334)	(691,083)	-	(496)
Purchase of investment		-	-	-	(1,159)
<b>Net cash (used in) investing activities</b>		<b>857,972</b>	<b>(709,628)</b>	<b>632,727</b>	<b>(3,575,595)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		1,416,385	1,580,764	-	978,008
Repayment of borrowings		-	(1,299,563)	-	(1,172,178)
Proceeds from the issue of shares		-	3,756,645	-	3,756,645
Payment of share issue costs		-	(222,608)	-	(222,608)
<b>Net cash provided by financing activities</b>		<b>1,416,385</b>	<b>3,815,238</b>	<b>-</b>	<b>3,339,867</b>
<b>NET (DECREASE)/ INCREASE IN CASH HELD</b>		<b>(60,850)</b>	<b>(356,037)</b>	<b>(212,874)</b>	<b>193,197</b>
<b>CASH AT BEGINNING OF FINANCIAL YEAR</b>		<b>1,142,057</b>	<b>1,498,094</b>	<b>1,205,873</b>	<b>1,012,676</b>
<b>CASH AT END OF FINANCIAL YEAR</b>	24(b)	<b>1,081,207</b>	<b>1,142,057</b>	<b>992,999</b>	<b>1,205,873</b>

The accompanying notes form part of these financial statements.

# AUSTRAL AFRICA RESOURCES LIMITED

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

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial report of Austral Africa Resources Limited and controlled entities, and Austral Africa Resources Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

#### **Basis of Preparation**

The accounting policies set out below have been consistently applied to all years presented.

#### *Reporting Basis and Conventions*

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

#### Accounting Policies

##### **(a) Principles of Consolidation**

A controlled entity is any entity Austral Africa Resources Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity. Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

##### **(b) Going Concern**

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the consolidated entity's assets and the discharge of their liabilities in the normal course of business.

In November 2007 Sino-Asia Mining and Resources plc (SAMR) agreed to effectively acquire the copper operations in the Democratic Republic of Congo (DRC); ahead of completion of the acquisition SAMR loaned (secured by a floating charge over shares that AAF owns in NOVA) GBP750,000 (A\$1,74,000) to Nova to allow the operations to continue in the DRC.

In March 2008 SAMR advised Austral Africa Resources Limited (AAF) it would not be proceeding with the purchase of the Nova Smelting and furnace business in the DRC. Accordingly the Company took back the furnace business in the DRC and is continuing to operate one of the furnaces on a toll treatment basis as well as treating some proprietary ore in the short term; negotiations are still proceeding to sell the furnaces as a going concern.

On 25 August 2008 a General Meeting of AAF shareholders approved the negotiated settlement with SAMR for the Loan repayment by accepting the issue of 200 million shares in the capital of AAF; and as part of the agreement for AAF to acquire a 75% interest in two granted and two applications for mineral exploration concessions located in the Katanga province in the DRC.

Refer to note 30 "Subsequent Events" for additional details of the above events.

# AUSTRAL AFRICA RESOURCES LIMITED

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

### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### (c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

#### (d) Revenue recognition

Sale of goods is recognised when control has passed to the buyer.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

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

#### (e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment losses.

Property: Freehold land and buildings are measured on the cost basis.

Plant and Equipment: Plant and equipment are measured on the cost basis.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### *Depreciation*

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a diminishing value basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

<b><i>Class of Fixed Asset</i></b>	<b><i>Depreciation Rate</i></b>
Buildings	2.5%
Plant and equipment	13-40%

## AUSTRAL AFRICA RESOURCES LIMITED

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

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

##### (e) Property, Plant and Equipment (Cont.)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

##### (f) Exploration and Development Expenditure

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

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

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

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

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

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

##### (g) Intangibles

Intangibles are recognised at cost of acquisition. Intangibles are carried at cost less any accumulated amortisation and any impairment losses. Intangibles are amortised, where there is a definitive life, on a straight line basis over the period of benefit.

##### (h) Share-based Payments

Share-based compensation benefits are provided to directors and executives.

The fair value of options granted to directors and executives is recognised as an employee benefit expense with a corresponding increase in contributed equity. The fair value is measured at grant date and recognised over the period during which the directors and/or executives becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

##### (i) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

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

**(k) Lease**

Lease payment for operating leases, where substantially all the risk and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

**(l) Impairment of assets**

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(m) Financial instrument**

*Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, these instruments are measured as set out below.

*Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

*Loans and receivables*

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

*Held-to-maturity investments*

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

*Available-for-sale financial assets*

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken to equity.

*Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**(m) Financial instrument (Cont.)**

*Impairment*

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

**(n) Borrowing cost**

All borrowing costs are recognised in the income statement in the period in which they are incurred.

**(o) Employee Benefits**

*Wages, salaries, annual and long service leave*

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Related on-costs have also been included in the liability.

*Superannuation plan*

The consolidated entity contributes to several defined contribution superannuation plans. Contributions to employee superannuation funds are charged against income statement as they are made.

**(p) Foreign Currency**

*Functional and presentation currency*

The functional currency of each of the entities in the consolidated entity is measured using the currency of the primary economic environment in which that entity operates. The financial report is presented in Australian dollars which is the parent entity's functional and presentation currency.

*Transaction and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

*Subsidiary companies*

The financial results and position of foreign operations whose functional currency is different from Austral Africa Resources Limited's presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.
- Income and expenses are translated at average exchange rates for the period.
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

## AUSTRAL AFRICA RESOURCES LIMITED

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

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

##### (p) Foreign Currency (Cont.)

Exchange differences arising on translation of foreign operations are transferred directly to the foreign currency reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

##### (q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

##### (r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

##### (s) Earnings per share

###### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

###### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

##### (t) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

##### (u) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial reports based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

###### Key estimates – Impairment

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

No impairment has been recognised in respect of intangibles for the year ended 30 June 2008. Should the projected turnover figures be materially outside of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of intangibles at 30 June 2008 amounting to \$68,209.

The financial report was authorised for issue on 30 September 2008 by the board of directors.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2 REVENUE</b>				
Sale of goods	6,517,256	14,487,432	-	13,456,637
Interest received	66,931	5,725	66,931	4,976
Revenue from outside operating activities:				
Other income *	899,737	66,885	(263)	66,885
	7,483,924	14,560,042	66,668	13,528,498

\* Other Income: the consolidated net gain in 2008 includes a \$900,000 gain on sale of tenements to Korab Resources Ltd and a \$263 loss on sale of plant & equipment.

**3 PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE**

**Profit/(Loss) before income tax expense has been arrived at after charging/(crediting) the following items:**

Loss (Gain) on foreign currency transactions	3,073	36,332	3,073	36,332
Provision for non-recovery of loan to controlled entity	-	-	3,133,222	5,161,800
Provision for diminution in investment in subsidiaries	-	-	-	1,159
Provision for impairment of other debtor	-	482,309	-	-
Rental expense on operating leases	120,247	65,317	22,499	26,394
Borrowing costs – external parties	22,882	47,832	1,597	3,464
Depreciation charges:				
Plant and equipment	422,071	463,154	3,403	4,970
Leasehold improvements	3,718	2,912	3,718	2,912
	425,789	466,066	7,121	7,882
Gains and (Losses):				
Proceeds on sale of plant and equipment	785	11,055	785	-
Carrying value of plant and equipment disposed	(1,048)	(15,814)	(1,048)	-
Net gain (loss) on disposal of plant and equipment	(263)	(4,759)	(263)	-

**4. AUDITORS' REMUNERATION**

Remuneration of auditors of the parent entities for:

- Auditing or reviewing the financial reports	53,000	29,000	53,000	29,000
- Taxation services	4,900	16,754	4,900	16,754
	57,900	45,754	57,900	45,754

Remuneration of other auditors of subsidiaries for:

Auditing or reviewing the financial reports	7,029	11,773	-	-
	64,929	57,527	57,900	45,754

**AUSTRAL AFRICA RESOURCES LIMITED**

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

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>5. INCOME TAX EXPENSE</b>				
The prima facie tax on (loss)/profit before income tax is reconciled to the income tax expense as follows:				
Operating (loss)/profit before tax	(1,902,478)	(4,967,392)	(3,929,192)	(5,125,567)
Prima facie income tax expense/(benefit) calculated at 30% (2007: 30%) on the profit/(loss) before tax	(570,743)	(1,490,218)	(1,178,758)	(1,537,670)
Tax effect of permanent differences	-	(489,051)	-	(731)
Tax effect of timing differences	-	-	-	-
Amount not brought to account as a carried forward future income tax benefit	-	-	1,178,758	1,538,401
Tax losses of non-resident controlled entities not recognised	570,743	1,979,269	-	-
Tax losses utilised	-	-	-	-
<b>Income Tax Expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

***Deferred Tax Asset***

Deferred tax asset not brought to account comprises the estimated future benefit at the applicable tax rates:

Tax losses	9,337,013	8,766,270	5,478,288	4,299,530
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The potential deferred tax asset will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the asset to be realised;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the asset.

Notwithstanding the above, the parent entity submitted an application for a private tax ruling with the Australian Tax Office with regards to the availability of the tax losses carried forward as disclosed above. In December 2006 the ATO confirmed, the losses from 1 July 1988 to 30 June 2003 had conformed and that the continuity of ownership test had also been satisfied. However, given the various capital raisings that took place during the 2007 year, a review of availability of the tax losses will need to be conducted. No determination has been received from the Australian Tax Office.

Austral Africa Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Austral Africa Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**6 EARNINGS PER SHARE**

	<b>Consolidated entity</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Earnings used to calculate basic and dilutive earnings per share	(1,902,478)	(4,967,392)
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share:		
Number for Basic Earnings per share – Ordinary Shares	587,383,734	381,132,969
Weighted average number of ordinary shares used in the calculation of dilutive earnings per share:		
Number for Basic Earnings per share – Ordinary Shares	587,383,734	381,132,969
Effect of options on issue, which are exercisable at less than the market price for ordinary shares as at 30 June	-	-
Number for Diluted Earnings per share – Ordinary Shares	587,383,734	381,132,969

The amount used as the numerator in calculating basic earnings per share is the same as the net profit/(loss) reported in the income statement.

No options (2007: 23,656,598) have been included in the calculation of diluted earnings per share as they all expired on the 1 March 2008 (During 2007 they were exercisable at prices greater than the market value and were therefore considered not dilutive.)

	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>7 CASH AND CASH EQUIVALENTS</b>				
Cash at bank and on hand	1,081,207	1,142,057	992,999	1,205,873
<b>8 TRADE AND OTHER RECEIVABLES</b>				
<b>Current</b>				
Trade receivables	-	-	-	-
Other receivables	1,348,076	1,011,388	2,170	11,588
Less: Provision for impairment	(398,290)	(446,578)	-	-
	949,786	564,810	2,170	11,588
<b>Non Current</b>				
Loans to controlled entities	-	-	19,981,453	20,605,662
Less: Provision for non-recovery	-	-	(19,969,453)	(16,836,232)
	-	-	12,000	3,769,430
Security bonds	13,574	36,741	-	7,734
	13,574	36,741	12,000	3,777,164

The security bonds are supported by cash deposits held by suppliers or the mines department for the rehabilitation of exploration tenements.

**9 INVENTORIES**

Raw materials	41,281	348,161	-	-
Work in progress	-	251,923	-	-
Finished goods	202,926	235,187	-	-
	244,207	835,271	-	-

**10 OTHER CURRENT ASSETS**

Prepayments	277,583	63,595	-	-
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**AUSTRAL AFRICA RESOURCES LIMITED**

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

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>11 PROPERTY, PLANT AND EQUIPMENT</b>				
Land:				
At cost	387,258	409,001	-	-
Leasehold improvements:				
At cost	-	8,737	-	8,737
Accumulated depreciation	-	(5,019)	-	(5,019)
	-	3,718	-	3,718
Plant and equipment:				
At cost	3,160,609	3,648,510	33,966	64,626
Accumulated depreciation	(1,140,686)	(921,317)	(22,906)	(49,115)
	2,019,923	2,727,193	11,060	15,511
Total property, plant and equipment	2,407,181	3,139,912	11,060	19,229
<b>Reconciliations</b>				
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:				
<b>Land</b>				
Carrying amount at beginning of the year	409,001	466,198	-	-
Additions	-	8,000	-	-
Foreign exchange movement	(21,743)	(65,197)	-	-
Carrying amount at end of year	387,258	409,001	-	-
<b>Leasehold Improvements</b>				
Carrying amount at beginning of the year	3,718	6,630	3,718	6,630
Additions	-	-	-	-
Depreciation / Amortisation	(3,718)	(2,912)	(3,718)	(2,912)
Carrying amount at end of year	-	3,718	-	3,718
<b>Plant and equipment</b>				
Carrying amount at beginning of the year	2,727,193	2,852,834	15,511	19,984
Additions	43,334	679,495	-	496
Foreign exchange movement	(362,377)	(326,168)	-	-
Disposals	33,844	(15,814)	(1,048)	-
Depreciation	(422,071)	(463,154)	(3,403)	(4,969)
Carrying amount at end of year	2,019,923	2,727,193	11,060	15,511
Total property, plant and equipment	2,407,181	3,139,912	11,060	19,229
<b>12 MINERAL EXPLORATION AND EVALUATION EXPENDITURE</b>				
Exploration, evaluation and development – at cost	-	17,718	-	-
<b>Movement during the year</b>				
Carrying amount at beginning of the year	17,718	17,718	-	-
Exploration costs written off	(17,718)	-	-	-
Carrying amount at end of year	-	17,718	-	-
<b>13 FINANCIAL ASSETS</b>				
Investments in subsidiaries	-	-	2,881,267	2,881,267
Provision for impairment of investment in subsidiaries	-	-	(2,881,267)	(2,881,267)
	-	-	-	-

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**14 CONTROLLED ENTITIES**

Name of Entity	Percentage Owned		Class of Share	Cost of Parent's Investments		Contribution to Consolidated Profit/(Loss) From Operating Activities After Income Tax Expense		Loans to Controlled Entities	
	2008	2007		2008	2007	2008	2007	2008	2007
	%	%		\$	\$	\$	\$	\$	\$
<b>Parent entity</b>									
Austral Africa Resources Limited				-	-	(795,970)	36,232	-	-
<b>Controlled Entities</b>									
Savanna Mineral Resources Pty Ltd	100	100	Ordinary	1,200,000	1,200,000	882,282	(895)	4,235,198	5,150,198
Smelting Technologies (Australia) Pty Ltd	100	100	Ordinary	640,000	640,000	-	-	93,490	93,490
Mihlayonke Consulting Services (Pty) Ltd	100	100	Ordinary	750,000	750,000	-	(21,505)	207,945	207,945
Nova Mining SPRL	100	100	Ordinary	290,108	290,108	(1,712,809)	(4,778,938)	13,645,481	13,442,442
Nova Mining (SA) (Pty) Ltd	100	100	Ordinary	-	-	-	-	-	-
Hertz Electrical Technologies (Pty) Ltd	100	100	Ordinary	-	-	(1,650)	(3,493)	-	-
New World Alloys (SA) (Pty) Ltd	100	100	Ordinary	-	-	(274,331)	(198,793)	1,799,339	1,711,587
Mogwele Trading 10 (Pty) Ltd	100	100	Ordinary	-	-	-	-	-	-
Nsele Trading 47 (Pty) Ltd	100	100	Ordinary	-	-	-	-	-	-
KCM Services Pty Ltd	60	60	Ordinary	-	-	-	-	-	-
Macro Mining Sprl	100	100	Ordinary	-	-	-	-	-	-
Phoenix Resources Sprl	80	80	Ordinary	-	-	-	-	-	-
Nova Mining Zambia Ltd	100	100	Ordinary	1,159	1,159	-	-	-	-
				<b>2,881,267</b>	<b>2,881,267</b>	<b>(1,902,478)</b>	<b>(4,967,392)</b>	<b>19,981,453</b>	<b>20,605,662</b>

**COUNTRY OF INCORPORATION**

<b>Parent entity:</b>	
Austral Africa Resources Limited	Australia
<b>Subsidiaries entities:</b>	
Savanna Mineral Resources Pty Ltd	Australia
Smelting Technologies (Australia) Pty Ltd	Australia
KCM Services Pty Ltd	Australia
Macro Mining Sprl	Democratic Republic of Congo
Phoenix Resources Sprl	Democratic Republic of Congo
Nova Mining Sprl	Democratic Republic of Congo
Nova Mining Zambia Ltd	Zambia
Nova Mining (SA) (Pty) Ltd	South Africa
Mihlayonke Consulting Services (Pty) Ltd	South Africa
Hertz Electrical Technologies (Pty) Ltd	South Africa
New World Alloys (SA) (Pty) Ltd	South Africa
Mogwele Trading 10 (Pty) Ltd	South Africa
Nsele Trading 47 (Pty) Ltd	South Africa

The carrying values of the controlled entities recorded in the books of the parent entity are at the lower of cost or net asset backing of the subsidiaries at balance date.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>15 INTANGIBLES</b>				
<b>Concessions</b>				
Balance at beginning of year	29,661	-	-	-
Foreign exchange movement	(3,477)	-	-	-
Additions	15,036	29,661	-	-
Amortisation	-	-	-	-
	41,220	29,661	-	-
<b>Licences</b>				
Balance at beginning of year	22,442	26,091	-	-
Foreign exchange movement	(2,630)	(3,649)	-	-
Additions	7,177	-	-	-
	26,989	22,442	-	-
	68,209	52,103	-	-
<b>16 TRADE AND OTHER PAYABLES</b>				
<b>Current</b>				
Trade creditors and accruals	985,379	907,998	130,668	164,064
Amount owed to Directors/ Director-related entities	35,329	68,366	35,329	68,366
	1,020,708	976,364	165,997	232,430
<b>17 SHORT-TERM BORROWINGS</b>				
Debtor loan – secured – non interest bearing	1,891,757	-	-	-
Debtor loan – unsecured – interest bearing	-	475,371	-	-
	1,891,757	475,371	-	-
	The secured debtor loan is to be repaid by the issue of shares see Note 30 - subsequent events.			
	The unsecured interest bearing debtor loan was for working capital an average interest rate of 8.35% per annum.			
<b>18 TAX LIABILITIES</b>				
<b>Current</b>				
Income tax	-	-	-	-
<b>Non Current</b>				
Provision for deferred tax	195	249	-	-
	195	249	-	-
<b>19 ISSUED CAPITAL</b>				
<b>Issued and paid-up share capital</b>				
587,383,734 (2007: 585,483,734) ordinary shares, fully paid	34,533,165	34,533,165	34,533,165	34,533,165
<b>(a) Movements during the year</b>				
<b>Ordinary shares</b>				
Balance at the beginning of year	34,533,165	30,999,127	34,533,165	30,999,127
1,994,760 shares issued for payment of debt	-	99,738	-	99,738
36,000,000 shares issued for capital raising	-	720,000	-	720,000
293,691,867 shares issued for capital raising	-	2,936,908	-	2,936,908
Shares issue costs	-	(222,608)	-	(222,608)
	34,533,165	34,533,165	34,533,165	34,533,165
	34,533,165	34,533,165	34,533,165	34,533,165

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**(b) Terms and conditions of contributed equity**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings.

In the event of winding up of the parent entity, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

**(c) Share Options**

- During the financial period, the parent entity issued no options.

*Unissued shares*

At the end of the year, there were no options (2007: 23,656,598) over unissued shares. The options were exercisable as follows;

- 23,656,598 options exercisable at 10 cents per share expired on the 1 March 2008

Each option entitled the holder to be issued with one ordinary share in the capital of the parent entity subject to payment of the relevant issue price and satisfaction of applicable conditions (if any).

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

*Expired options*

At 30 June 2008 23,656,598 options exercisable at 10 cents per share expired on the 1 March 2008.

**(d) Issued Shares**

During the financial period, the parent entity issued no shares; in 2007 the following shares were issued:

- 1,994,760 shares at 5.0 cents per share, being for the conversion of debt to equity.
- 36,000,000 shares at 2.0 cents per share, being for working capital.
- 293,691,867 shares at 1.0 cents per share, being for working capital.

**20 RESERVES**

**Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**21 FINANCIAL RISK MANAGEMENT**

**Overview:**

The company and consolidated entity have exposure to the following risks from their use of financial instruments:

- (a) liquidity risk
- (b) credit risk
- (c) market risk

This note presents information about the company's and consolidated entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the company through regular reviews of the risks.

**(a) Liquidity risk:**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The company manages liquidity risk by maintaining adequate reserves through continuously monitoring forecast and actual cash flows. The company has no financing facilities available to it.

**Interest rate risk**

The consolidated entity's exposure to interest rate risk and the effective weighted average rate for classes of financial assets and liabilities is set out below:

30 June 2008	Note	Fixed interest maturing in:		Floating interest	Non-interest bearing	Total	weighted average interest rate
		1 year or less	Over 1 to 5 years				
		\$	\$	\$	\$	\$	
<i>Financial assets</i>							
Cash	7	-	-	1,081,207	-	1,081,207	1.0%
Receivables	8	-	-	-	949,786	949,786	
Total financial assets		-	-	1,081,207	949,786	2,030,993	
<i>Financial liabilities</i>							
Payables	16	-	-	-	1,020,708	1,020,708	
Non interest bearing loan	17	-	-	-	1,891,757	1,891,757	
Interest bearing loans	17	-	-	-	-	-	
Total financial liabilities		-	-	-	2,912,465	2,912,465	

30 June 2007	Note	Fixed interest maturing in:		Floating interest	Non-interest bearing	Total	weighted average interest rate
		1 year or less	Over 1 to 5 years				
		\$	\$	\$	\$	\$	
<i>Financial assets</i>							
Cash	7	-	-	1,142,057	-	1,142,057	1.0%
Receivables	8	-	-	-	564,810	564,810	
Total financial assets		-	-	1,142,057	564,810	1,706,867	
<i>Financial liabilities</i>							
Payables	16	-	-	-	976,364	976,364	8.35%
Interest bearing loans	17	475,371	-	-	-	475,371	
Total financial liabilities		475,371	-	-	976,364	1,451,735	

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**21 FINANCIAL RISK MANAGEMENT (Cont.)**

**(b) Credit risk exposures**

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and investment securities. For the company it arises from receivables due from subsidiaries.

(i) Investments: The group limits its exposure to credit risk by only investing with counterparties that have an acceptable credit rating.

(ii) Trade and other receivables:

The company and consolidated entity have established an allowance for impairment that represents their estimate of incurred losses in respect of receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. The management does not expect any counterparty to fail to meet its obligations.

Presently, the group undertakes exploration and evaluation activities in Australia and in Africa. At the balance sheet date there were no significant concentrations of credit risk.

(iii) Exposure to credit risk:

The carrying amount of financial assets recorded in the financial statements and notes, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained. The company has no financial assets that are neither past due nor impaired therefore credit qualities have not been disclosed.

The company's maximum exposure to credit risk at the reporting date was:

	Consolidated Entity		Parent Entity	
	\$		\$	
	2008	2007	2008	2007
Cash and cash equivalents	1,081,207	1,142,057	992,999	1,205,873
Trade and other receivables	949,786	564,810	2,170	11,588
Other financial assets	-	-	-	-
<b>Total exposure</b>	<b>2,030,993</b>	<b>1,706,867</b>	<b>995,169</b>	<b>1,217,461</b>

**Impairment losses**

An impairment loss of \$4,060,222 in respect of inter-group loans was recognised during the current year from a net asset analysis of the subsidiaries positions. None of the company's other receivables are past due (2007: nil).

The movement in the allowance for impairment in respect of the inter-group loans on a non-consolidated basis during the year was as follows:

	Parent Entity	
	\$	
	2008	2007
Balance at 1 July	15,909,231	10,798,135
Impairment loss/ (write-back) recognised	4,060,222	5,111,096
<b>Balance at 30 June</b>	<b>19,981,453</b>	<b>15,909,231</b>

Whilst the loans were not payable as at 30 June 2008, a provision for impairment based on the subsidiaries financial position was made. The balance of this provision may vary due to the performance of a subsidiary in a given year.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**21 FINANCIAL RISK MANAGEMENT (Cont.)**

**(c) Market Risk:**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Price risk: The company does not have investments in equity securities and is not exposed to price risk.

(ii) Currency risk:

The company is exposed to currency risk on investments in subsidiaries in a currency other than the respective functional currencies of group entities, primarily the Australian dollar (AUD).

The company has not entered into any derivative financial instruments to hedge such investments and anticipated future receipts or payments that are denominated in a foreign currency.

The company's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

Exposure to currency risk: The consolidated entity's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	7,483,924	14,560,042	66,668	13,528,498
Expenditure	(9,386,402)	(19,527,434)	(3,995,860)	(18,654,065)
<b>Net exposure</b>	<b>(1,902,478)</b>	<b>(4,967,392)</b>	<b>(3,929,192)</b>	<b>(5,125,567)</b>

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
<b>AUD:</b>				
USD	0.8965	0.7859	0.9615	0.8488
ZAR	6.5648	5.6710	7.6579	6.0062

**Sensitivity analysis:**

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June would have increased (decreased) equity and reduced the loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Consolidated Entity		Parent Entity	
	Equity	Profit or loss	Equity	Profit or loss
	\$	\$	\$	\$
<b>30 June 2008 - AUD</b>	<b>180,799</b>	<b>180,799</b>	-	-
30 June 2007 - AUD	1,464,129	1,464,129	-	-

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**21 FINANCIAL RISK MANAGEMENT (Cont.)**

**Interest rate risk:**

At balance date the group had minimal exposure to interest rate risk, through its cash and equivalents held within financial institution.

	Consolidated Entity		Parent Entity	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
	\$	\$	\$	\$
<b>Fixed rate instruments</b>				
Financial assets	-	-	-	-
<b>Variable rate instruments</b>				
Financial assets	1,081,207	1,142,057	992,999	1,205,873

**Fair value sensitivity analysis for fixed rate instruments:**

There was no exposure to fixed rate instruments at balance date or at the previous reporting period.

**Fair value sensitivity analysis for variable rate instruments:**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

Consolidated Entity	Profit or loss		Equity	
	100 bp increase	100bp decrease	100 bp increase	100 bp decrease
	\$	\$	\$	\$
<b>30 June 2008</b>				
Cash and cash equivalents	10,812	(10,812)	10,812	(10,812)
<b>30 June 2007</b>				
Cash and cash equivalents	11,420	(11,420)	11,420	(11,420)

**Net fair value**

For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets of the investment.

For other assets and other liabilities the net fair value approximates their carrying value, as disclosed in the Balance Sheet.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**22 SEGMENT INFORMATION**

The parent entity operates predominantly in one segment involved in the mineral exploration and development industry. Geographically, the consolidated entity operates in Australia and Southern Africa.

**30 June 2008**

	<b>Australia</b>	<b>Africa</b>	<b>Consolidated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>			
Segment revenue from operating activities	966,668	6,517,256	7,483,924
<b>RESULT</b>			
Profit/(loss) after income tax	86,312	(1,988,790)	(1,902,478)
<b>ASSETS</b>			
Segment assets	1,006,229	4,035,518	5,041,747
<b>LIABILITIES</b>			
Segment liabilities	165,997	2,746,663	2,912,660
<b>OTHER</b>			
Segment assets acquired	(39,397)	(478,984)	(518,381)
Segment depreciation and amortisation	7,121	418,668	425,789

**30 June 2007**

	<b>Australia</b>	<b>Africa</b>	<b>Consolidated</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>			
Segment revenue from operating activities	71,861	14,488,181	14,560,042
<b>RESULT</b>			
Profit/(loss) after income tax	(520,212)	(4,447,180)	(4,967,392)
<b>ASSETS</b>			
Segment assets	1,236,690	4,615,517	5,852,207
<b>LIABILITIES</b>			
Segment liabilities	203,130	1,248,854	1,451,984
<b>OTHER</b>			
Segment assets acquired	496	161,039	161,535
Segment depreciation and amortisation	7,882	458,184	466,066

**23 JOINT VENTURES**

The parent entity has interests in the following unincorporated joint ventures.

<b>Exploration Joint Venture</b>	<b>% Interest</b>	
	<b>2008</b>	<b>2007</b>
Batchelor (Northern Territory)	0%	100% (diluting)
Castlemaine	0%	100% (diluting)

The carrying value of the parent entity's interest in these joint ventures is nil (2007: \$17,718). The contribution of these exploration joint ventures to the loss of the parent entity for the current year was nil. The Joint Venture with Korab Resources Limited and its subsidiary Uranium Australia Pty Ltd was automatically terminated in September 2007 when the parent entity's subsidiary Savanna Mineral Resources Pty Ltd sold its 100% interests in the Batchelor and Castlemaine tenements to Uranium Australia Pty Ltd for an amount of \$900,000 cash and a 5% net smelter royalty return. Korab also took over responsibility for any tenement rehabilitation obligations of Savanna up to the value of \$20,000.

The parent entity is not aware of any contingent liabilities where it can be held liable for other ventures, including by way of guarantee.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>24 NOTES TO THE CASH FLOW STATEMENT</b>				
<b>(a) Reconciliation of (loss)/profit after income tax to net cash used in operating activities</b>				
(Loss)/Profit after income tax	(1,902,478)	(4,967,392)	(3,929,192)	(5,125,567)
<i>Non-cash items:</i>				
Depreciation	425,789	466,066	7,121	7,882
Translation foreign exchange gains/(losses)	(12,891)	(221,590)	-	-
Provision for diminution of:				
- Other debtor	-	482,309	-	-
- Subsidiaries	-	-	-	1,159
Provision for non-recovery of loans to subsidiaries	-	-	3,133,222	5,161,800
Exploration	17,718	-	-	-
(Profit) loss on sale of non-current assets	(899,737)	4,759	263	-
Net cash (used in) provided by operating activities before change in assets and liabilities	<u>(2,371,599)</u>	<u>(4,235,848)</u>	<u>(788,586)</u>	<u>45,274</u>
Change in assets and liabilities:				
(Increase) decrease in net receivables	(407,710)	128,668	1,683	597,668
(Increase) decrease in net inventories	591,065	451,383	-	-
(Increase) decrease in other current assets	(213,988)	211,678	-	(896)
(Increase) decrease in bonds	22,734	4,220	7,734	-
Increase (decrease) in payables and provisions	44,345	(21,715)	(66,432)	(213,121)
Increase (decrease) in tax liabilities	(54)	(33)	-	-
Net cash provided from/(used in) operating activities	<u>(2,335,207)</u>	<u>(3,461,647)</u>	<u>(845,601)</u>	<u>428,925</u>

**(b) Reconciliation of Cash**

For the purposes of the cash flow statement, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash at bank and on hand	<u>1,081,207</u>	<u>1,142,057</u>	<u>992,999</u>	<u>1,205,873</u>
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**25 COMMITMENTS**

**(a) Non cancellable operating lease commitments**

Future operating leases rentals for premises not provided for in the financial statements and payable:

Within one year	-	27,060	-	27,060
One year or later but not later than five years	-	7,420	-	7,420
	<u>-</u>	<u>34,480</u>	<u>-</u>	<u>34,480</u>

**(b) Exploration**

The parent entity and consolidated entity have certain obligations to perform minimum exploration work on mineral leases held; however the parent entity currently does not hold any tenements within Australia. These obligations may vary over time, depending on the parent entity's and the consolidated entity's exploration programs and priorities. As at balance date, total exploration expenditure commitments on tenements held by the parent entity and the consolidated entity which have not been provided for in the financial statements and which cover the following twelve month period amount to \$Nil (2007: \$Nil) respectively. These obligations are also subject to variations by farm-out arrangements and the purchase or sale of the relevant tenements.

## AUSTRAL AFRICA RESOURCES LIMITED

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

#### 26 EMPLOYEE ENTITLEMENTS

##### Employee Share Option Plan (ESOP)

The parent entity has an Employee Share Option Plan (Plan), which was approved by shareholders on 30 Nov 2005. Options are issued at the discretion of the Directors at no consideration. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. All options expire on the earlier of their expiry date or on termination of the employee's employment if not exercised.

No options were granted under the Plan during the financial year. No options are outstanding at the end of the financial year under the Plan.

The options can be granted free of charge and are exercisable at a fixed price calculated in accordance with the Plan over a period of five years to a maximum of 20% in any one financial year.

##### Details of options issued under the ESOP

No options were issued under the ESOP for the year ended 30 June 2008.

#### 27 KEY MANAGEMENT PERSONNEL

##### (a) Details of Specified Directors and Specified Executives during the year ended 30 June 2008

###### (i) *Specified Directors*

Lindsay Colless	Non Executive Director/Chairman
Ian Cornelius	Non Executive Director
Gerard Zytkow	Executive Director/CEO

###### (ii) *Specified Executives*

Gaetan (David) Kakudji	Resources Manager DRC
David McArthur	Company Secretary (Resigned 13 March 2008)
Karen Brown	Company Secretary (Appointed 13 March 2008)

There are no other specified executives within Austral Africa Resources Limited and or its controlled entities at 30 June 2008.

##### (b) Compensation Practices

The remuneration policy of the parent entity as it applies to key management personnel is disclosed in the Remuneration Report contained in the Directors' Report.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**27 KEY MANAGEMENT PERSONNEL (Cont.)**

**(c) Key Management Personnel Compensation**

	Year	Fees & Salary \$	Super-annuation \$	Other \$	Share-based payments \$	Total \$
<b>Directors</b>						
I Cornelius	2008	-	-	50,000	-	50,000
	2007	-	-	50,000	-	50,000
L Findlay	2008	-	-	-	-	-
	2007	15,000	7,948	102,000	-	124,948
G Zytkow	2008	-	-	168,214	-	168,214
	2007	-	-	153,110	-	153,110
L Colless	2008	-	-	60,000	-	60,000
	2007	-	-	32,500	-	32,500
<b>Executives</b>						
Gaetan (David) Kakudji	2008	-	-	79,413	-	79,413
	2007	-	-	127,868	-	127,868
David McArthur	2008	-	-	9,250	-	9,250
	2007	-	-	13,625	-	13,625
Karen Brown	2008	-	-	-	-	-
	2007	-	-	-	-	-
<b>Totals</b>	2008	-	-	366,877	-	366,877
	2007	15,000	7,948	479,103	-	502,051

**(d) Options Granted As Compensation**

No compensation options were issued to specified directors or specified executives during the year.

**(e) Shares Issued on Exercise of Compensation Options**

No options were exercised during the year that were received as compensation in prior periods.

**(f) Shareholdings of Specified Directors and Specified Executives**

	Balance at Beginning of period	Acquisitions	On exercise of Options	Sales	Net Change Other *	Balance at End of Period
Lindsay Colless	200,000	-	-	-	-	200,000
Ian Cornelius	8,824,476	-	-	-	(3,394,612)	5,429,864
Gerard Zytkow	6,943,756	7,693,756	-	(6,943,756)	-	7,693,756
Gaetan (David) Kakudji	-	-	-	-	-	-
David McArthur	-	-	-	-	-	-
Karen Brown	-	-	-	-	-	-
	<b>15,968,232</b>	<b>7,693,756</b>	<b>-</b>	<b>(6,943,756)</b>	<b>(3,394,612)</b>	<b>13,323,620</b>

\* Net Change Other refers to an effective 50% net reduction in the director's shareholding previously registered in the name of a director related entity. That company went into liquidation during the financial year and 100% of its shareholding in Austral Africa Resources Limited were distributed 50% to each of the company's shareholders; thereby effectively reducing the director's shareholding by 50%.

**AUSTRAL AFRICA RESOURCES LIMITED**

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

**27 KEY MANAGEMENT PERSONNEL (Cont.)**

**(g) Option holdings of Specified Directors and Specified Executives**

	Balance at Beginning of period	Acquired through conversion of debt to equity	Exercised	Net Change Other*	Balance at End of Period
Lindsay Colless	-	-	-	-	-
Ian Cornelius	-	-	-	-	-
Gerard Zytchow	1,735,939	-	-	(1,735,939)	-
Gaetan (David) Kakudji	-	-	-	-	-
David McArthur	-	-	-	-	-
Karen Brown	-	-	-	-	-
	<b>1,735,939</b>	<b>-</b>	<b>-</b>	<b>(1,735,939)</b>	<b>-</b>

\* Net Change Other refers to options expired during the financial year.

**28 RELATED PARTY TRANSACTIONS**

**Other Transactions and Balances with Specified Directors and Specified Executives Services**

The following transactions with Directors and Director-related entities occurred during the year on normal commercial terms and conditions:

- (i) During the year, the parent entity paid \$0 fees (2007: \$102,000) to International Engineers Sdn Bhd, a company associated with Mr L Findlay, for the hire of metallurgical and power test equipment and other services. The parent entity paid \$0 fees (2007: \$16,011) to International Engineers in respect of Mrs R Findlay. As at 30 June 2008, \$50,118 (2007: \$63,279) was owed to International Engineers by the parent entity although this is subject to legal claim; see 29(c).
- (ii) During the year, the parent entity paid \$50,000 (2007: \$50,000) in consulting fees to Goldtrek Pty Limited, a company associated with Mr I Cornelius.
- (iii) During the year, the parent entity paid fees totalling \$118,018 and a further \$50,196 was paid by Nova Mining to Mr G Zytchow (2007: \$153,110) and \$0 fees to Mrs B Zytchow (2007: \$7,843).
- (iv) During the year, the parent entity paid financial service fees for Mr L Colless totalling \$60,000 (2007: \$32,500) to Mineral Administration Services Pty Limited, a company in which Mr L Colless and Ms K Brown are directors and shareholders. During the year, Ms K Brown did not charge the parent entity for company secretarial service fees.
- (v) During the year, the parent entity paid company secretarial service fees totalling \$9,250 (2007: \$13,625) to DAS Australia Pty Limited, a company associated with Mr D McArthur.

The above information disclosed is shown as follows:

Transaction Type	Director/ Executive Concerned	Consolidated		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Consulting services	L Colless	60,000	32,500	60,000	32,500
Hire of metallurgical and power test equipment and other services	L J Findlay	-	102,000	-	102,000
Various services by R Findlay	L J Findlay	-	16,011	-	16,011
Consulting Services	G Zytchow	168,214	153,110	118,018	153,110
Various services by B Zytchow	G Zytchow	-	7,843	-	7,843
Consulting services	I Cornelius	50,000	50,000	50,000	50,000
Secretarial service fees	D McArthur	9,250	13,625	9,250	13,625
Secretarial service fees	K Brown	-	-	-	-

## AUSTRAL AFRICA RESOURCES LIMITED

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

#### 29 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

*Contingent Liabilities:* There were no contingent liabilities not provided for in the financial statements of the parent entity and the consolidated entity as at 30 June 2008 other than:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>(a) Bonds</b>				
The consolidated entity has entered into bonds for the rehabilitation of exploration tenements	12,000	27,000	-	-

#### **(b) Native Title and Aboriginal Heritage**

There is the risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over the land over which the parent entity and the consolidated entity hold tenements in Western Australia. It is impossible at this stage to quantify the impact (if any), which native title may have on the operations of the parent entity.

A controlled entity, Savanna Mineral Resources Pty Limited also sold tenements it held in the Northern Territory; although it still retains a 5% net smelter return royalty on all mineral production from these tenements. These tenements lie predominantly on private freehold land, which the Directors consider is not subject to native title. However it is impossible at this stage to quantify the impact (if any), which native title (on other than freehold land) or aboriginal heritage issues may have on the operations of this controlled entity.

#### **(c) Legal Claims**

The parent entity has been advised by International Engineers Sdn Bhd, an entity associated with Mr Laurie Findlay (previous CEO), of a claim for past services rendered. The Company intends to defend the claim and no provision has been made in the accounts.

#### 30 SUBSEQUENT EVENTS

On 3 July 2008 Austral Africa Resources Limited (AAF) entered into an agreement (conditional upon shareholder and regulatory approval) with SAMR to acquire a 75% interest in two granted and two applications for mineral exploration concessions located in the Katanga province in the DRC; and the extinguishment of the loan shown in Note 17, by the issue of 200 million shares in the capital of AAF at a deemed issue price of 1 cent each (Consideration Shares) to Sino-Asia Mining and Resources plc (SAMR). SAMR has advised that it intends to distribute the Consideration Shares in-specie to its shareholders.

On 22 August 2008 US\$50,851 was transferred to Phoenix to complete the purchase of mining concessions in the DRC.

On 25 August 2008 a General Meeting of shareholders passed the resolution approving the issue of 200 million shares to SAMR for certain mining concessions in the DRC. Key highlights of the concessions are:

- The Concessions lie within areas where early exploration has revealed potential for copper and cobalt mineralisation.
- The Concessions fall within the overall Mwashya-Roan-Kibrerian geological formations which have shown mineral anomalies of copper and cobalt with silver and gold elements.
- There are a number of companies actively involved in exploration in these areas due to the underlying geological strata, normally associated with extensive mineralisation.

AAF currently holds four granted mineral exploration concessions in the Katanga province and therefore the Directors consider the acquisition of the additional four Concessions provides AAF with an exciting opportunity to explore the Katanga copper belt in the DRC.

Meanwhile the company is continuing to operate one of the furnaces on a toll treatment basis in the short term and negotiations are still proceeding to sell the furnaces as a going concern.

**AUSTRAL AFRICA RESOURCES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2008**

**31. Company Details**

The registered office and principal place of business of the parent entity is:

129 Edward Street  
Perth WA 6000  
Australia

## AUSTRAL AFRICA RESOURCES LIMITED

### DIRECTOR'S DECLARATION

In the opinion of the Directors:

- (a) the financial statements and notes set out in preceding **pages 22 to 49** are in accordance with the Corporations Act 2001 including:
  - (i) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2008 and of their performance for the financial year ended on that date
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable
- (c) the audited remuneration disclosures set out in the Directors' Report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



**Lindsay Colless**  
Non-Executive Director

Perth, Western Australia,  
30 September 2008

# ROTHSAY

Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001  
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTRAL AFRICA RESOURCES LTD**

We have audited the accompanying financial report of Austral Africa Resources Ltd (the Company) which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, 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 year.

The Company has disclosed information as required by Australian Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures") under the heading "Remuneration Report" in the directors' report as permitted by the Corporations Regulations 2001.

### **Directors Responsibility for the Financial Report**

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

### **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 as to whether the financial report is free of material misstatement and the remuneration disclosures in the Directors' report comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

### **Independence**

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



Chartered Accountants

Liability limited by the Accountants Scheme, approved  
under the Professional Standards Act 1994 (NSW).

**Audit opinion**

In our opinion the financial report of Austral Africa Resources Ltd is in accordance with the Corporations Act 2001, including:

- a) (i) giving a true and fair view of the Company's and the group'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 and the Corporations Regulations 2001; and
- b) the consolidated financial report also complies with International Financial Reporting Standards.
- c) the remuneration disclosures in the Directors' report comply with AASB 124



Rothsay



Graham R Swan  
Partner

Dated 30 September 2008