Allegiance Mining NL

ACN 059 676 783

Financial Statements

For the Year Ended 31 December 2007

Allegiance Mining NL

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For the Year Ended 31 December 2007

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Corporate Directory

DIRECTORS:	Anthony W. Howland-Rose	Executive Chairman MSc, DIC, FGS, FIMMM, FAusIMM, MAICD,FAIG, CEng
	Eddie Lee	BE (Syd), BSc, Dip BDG Sc
	David Deitz	BCom, CPA, MAusIMM
	Barry Sullivan	BSc(Min), ARSM, FAusIMM, MAICD
	Shi Peirong	
	Zhang Yimin	(Alternate for Mr Shi Peirong)
COMPANY SECRETARIES:	David Deitz	BCom, CPA, MAusIMM
	Elan G. Slater	BCompt, Hons B.Compt, CA(SA), CA
CHIEF EXECUTIVE OFFICER:	Ian Levy	MSc(Dist), DIC, FAusIMM, FAIG (Resigned 10 July 2007)
CHIEF FINANCIAL OFFICER:	Graham Hurwitz	BCom (Hons), CA
GENERAL MANAGER: **AVEBURY OPERATIONS**	Paul Richardson	BSc(Hon), ACSM, MAusIMM
EXPLORATION MANAGER:	Newnham Exploration and Mining Services Principal – Lindsay Newnham BSc, FAusIMM Exeter, Tasmania 7275	
REGISTERED OFFICE:	Level 11 Quantum House 49-51 York Street, Sydney NSW 2000, Australia	
	Telephone:	61 (0)2 9397 7777
	Facsimile:	61 (0)2 9397 7788
	Email:	mining@allegiance-mining.com.au
	Website:	http://www.allegiance-mining.com.au
	ABN:	38 059 676 783
ZEEHAN OFFICE:	145 Main Street (Corner Gellibrand Street), Zeehan TAS 7469	
	Telephone:	61 (0)3 6471 6555
	Facsimile:	61 (0)3 6471 6577
	Email:	general@avebury.com.au
HOME STOCK EXCHANGE:	Australian Stock Exchange Limited Level 4 Exchange Centre, 20 Bridge Street, Sydney NSW 2000	
	ASX Code:	AGM
BANKERS:	National Australia Bank Limited 255 George Street, Sydney NSW 2000 Australia & New Zealand Banking Group Limited 20 Martin Place, Sydney, NSW 2000	
DEBT FUNDING:	Societe Generale Australia Branch Level 21, 400 George Street, Sydney NSW 2000 Australia & New Zealand Banking Group Limited 20 Martin Place, Sydney, NSW 2000	
SHARE REGISTRY:	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street, Sydney NSW 2000	
	Telephone (within Australia):	1300 850 505
	Telephone (overseas):	61 (0)3 9415 5000
	Facsimile:	61 (0)3 9473 2500
	Website:	www.computershare.com
AUDITORS:	Deloitte Touche Tohmatsu Chartered Accountants Grosvenor Place, 225 George Street, Sydney NSW 2000	

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Corporate Directory

SOLICITORS:	Morris Landau Schetzer Brott & Appel 52 Market Street, Melbourne VIC 3000
	James Philips Minter Ellison Aurora Place, 88 Phillip Street, Sydney NSW 2000
	Tim Williams Gunson Williams Level 7, 152 Macquarie Street, Hobart TAS 7000
	Robert Edel DLA Phillips Fox Level 31, 44 St George's Terrace, Perth WA 6000
INSURANCE CONSULTANTS:	Dean Akerley Aon Risk Services Australia Limited Level 4, 440 Collins Street, Melbourne VIC 3000

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Corporate governance statement

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 31 December 2007.

Since the introduction of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations"), Allegiance Mining NL ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Principles and Recommendations, the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the ASX Principles and Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

Further information about the Company's corporate governance practices is set out on the Company's website at ***www.allegiance-mining.com.au***. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the board and its sub-committees), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

Principle 2

Recommendation 2.2: The chairperson should be an independent director

Notification of Departure:

The chairman, Mr Anthony Howland-Rose, is not independent.

Explanation for Departure

The chairman is the Chief Operating Officer of the Company, who, together with the Chief Executive Officer and the Chief Financial Officer, oversees the day-to-day running of the Company. The dual role of overseeing day-to-day operations and longer-term strategic direction of the Company is appropriate in view of the size and scope of the Company's activities. The Company has in the past, and continues to, benefit from Anthony Howland-Rose's experience and qualifications in fulfilling these roles. The Company will continue to monitor this arrangement from time to time to ensure that the best interests of the Company and its stakeholders continue to be served in this regard.

Principle 2

Recommendation 2.4: The Board should establish a Nomination Committee

Notification of Departure:

There is no nomination sub-committee.

Explanation for Departure:

The role of the Nomination Committee is carried out by the full Board. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate Nomination Committee.

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Corporate governance statement

Principle 4

Recommendation 4.2: The Board should establish an Audit Committee

Recommendation: 4.3: Structure the Audit Committee so that it consists of only non-executive directors, a majority of independent directors and an independent chairperson, who is not chairperson to the Board.

Notification of Departure:

A separate audit committee has not been formed.

Explanation for Departure:

The composition of the Board is not suitable for the formation of an audit sub-committee (given that two senior executives of the Company, who possess financial expertise and are involved in preparing the accounts, are also Board members). However, the Company has developed an audit review process whereby the independent directors meet with the external auditor bi-annually and finance management as required to ensure the highest possible degree of integrity of the Company's financial operations.

Principle 8

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

Notification of Departure:

No formal evaluation of the board and its members was carried out.

Explanation for Departure:

It was not considered to be a beneficial procedure given the size and composition of the Board and the nature of the Company's operations. However, the composition of the Board and its suitability to carry out the Company's objectives is discussed on an as-required basis during regular meetings of the Board and any adjustments made accordingly.

Principle 9

Recommendation 9.2: The Board should establish a Remuneration Committee

Notification of Departure:

A separate remuneration committee has not been formed.

Explanation for Departure:

The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. The Board has adopted a Remuneration Committee Charter, which it applies when convening as the remuneration committee. In addition, all matters of remuneration will continue to be determined in accordance with Corporations Act requirements, especially in respect of related party transactions. That is, no directors participate in any deliberations regarding their own remuneration or related issues.

Your directors present their report on the company and its controlled entities for the financial year ended 31 December 2007.

1. General information

(a) Directors

The names of the directors in office at any time during, or since the end of, the year are:

Names	
Anthony W Howland-Rose	
David Deitz	
Eddie Lee	
Barry Sullivan	
Shi Peirong	Appointed 7 November 2007
Zhang Yimin	Appointed 7 November 2007 (Alternate director for Shi Peirong)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

(b) Company Secretary

The following persons held the position of company secretary at the end of the financial year:

Elan Slater, Chief Accountant and Joint Company Secretary – BCompt, Hons BCompt, CA (SA), CA

David Deitz, Chief Financial Officer - BCom, CPA, MAusIMM

(c) Principal Activities

The principal activities of the Group during the financial year were mineral exploration, evaluation, development and geological surveys with major emphasis on the Consolidated Entity's Avebury project.

There have been no significant changes in the nature of the Group's principal activities during the financial year.

2. Business review

(a) Operating Results

The consolidated loss from ordinary activities of the Group after providing for income tax amounted to $9,173,406 (2006: $842,218). An income tax expense of $55,691 (2006: benefit $130,645) has been brought to account.

(b) Review of operations

Detailed comments on operations will be included separately in the Annual Report under Review of Operations.

2. Business review continued

(c) Share Capital

During the financial year 104,825,544 shares were issued for a net consideration of $73,188,154.

(d) Dividends Paid or Recommended

No dividends were paid during the financial year and no dividend is recommended at this time.

3. Other items

(a) Auditors Independence Declaration

The lead auditors independence declaration for the year ended 31 December 2007 has been received and can be found on page 17 of the financial report.

(b) Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial year.

(c) Future developments

The Consolidated Entity will continue to undertake its activities to progress the projects described in this report with major emphasis on the Group's Avebury project and exploration prospects in Tasmania.

(d) Environmental Issues

The Group's operations are subject to significant environmental regulation under the laws of the Commonwealth and State. The directors believe that the Consolidated Entity has complied with all particular and significant environmental regulations relevant to its operations in terms of its Development Proposal and Environmental Management Plan.

Over the past 12 months the Consolidated Entity continued to undertake drilling programs at EL 43/92, EL 28/88 and ML 3M/2003. Further the Consolidated Entity has completed construction of a Wetland Drainage System, Water Storage Dam, Clearing and initial construction of Stage 1 & 2 of the Tailings Storage Facility and the Process Plant construction. These programs were undertaken with the appropriate approvals and consents from the relevant Departments and minimal land disturbances occurred.

(e) After balance date events

Exercise of Options

Since the year end, 5,940,000 options have been exercised at 17 cents, 50,000 options have been exercised at 34 cents, 1,350,000 options have been exercised at 78.6 cents, 187,500 options have been exercised at 19.4 cents, raising $2,124,275. The funds were received in March 2008 and the shares issued in March 2008.

Offer from Zinifex

On 17 December 2007, Zinifex Australia Limited offered to purchase all the shares in the Company for 90 cents with an increase to $1.00 under certain conditions. On the 22 February 2008, this offer was increased to $1.10 and subsequent to year end, the Directors of the Company recommended to shareholders that they

3. Other items continued

(e) After balance date events continued

accept the increased offer of $1.10. Subsequent to this Zinifex Australia Limited have acquired more than 50% of the shares of the company.

Loss on Disposal of Investments

Since the year end, the consolidated entity incurred realised losses of approximately $5,500,000 on disposal of financial assets held at fair value through profit or loss.

Further, the company has disposed of 14.9 million shares in Gullewa Limited and derived a profit of approximately $500,000.

Tax Losses

The company has substantial brought-forward tax losses (refer note 14 of the Notes to the Financial Statements). In view of the acquisition of shares in the company by Zinifex Australia Limited, the company may not be able to satisfy the taxation legislation requirements to claim the losses as a deduction from assessable income in future years.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

(f) Non-audit services

Details of non audit services are detailed in note 5 of the financial report. The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are of the opinion that the services disclosed in note 5 of the financial report do not compromise the external auditor's independence, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and

- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision – making capacity for the company, acting as an advocate for the company or jointly sharing economic risks and rewards.

4. Director Information

(a) Information on Directors

Anthony W Howland-Rose	Executive Chairman
Qualifications	MSc, DIC, FGS, FIMMM, FAusIMM, FAIG, MAICD, CEng, JP
Experience	Anthony Howland-Rose is a qualified geophysicist who has extensive experience in mining exploration and has contributed to many major discoveries in Australia including the Mt Windara and South Mt Keith nickel deposit in Western Australia, the Elura Lead Zinc Deposit in New South Wales, Sandy Flat Redbank Copper Project and the Cape Horn (Mount Lyell) copper, gold and other base metals deposition the west coast of Tasmania. His experience includes acting as Director and as Vice President of the listed Canadian geophysical company Scintrex Ltd. Appointed to the Board of Directors on 30 January 1996.
David Deitz	Executive Director
Qualifications	BCom, CPA, MAusIMM
Experience	David Deitz is a financial accountant who has had some 15 years experience in the mineral exploration industry. Appointed to the Board of Directors on 24 August 2000.
Directorships held in other listed entities	Chairman of Gullewa Limited.
Eddie Lee	Non-executive director
Qualifications	BE, BSc, DIP BDG Sc
Experience	Eddie Lee has an extensive background in corporate management and is the Australian representative of several substantial Asian investment and corporate groups. Mr Lee has wide experience in the fields of civil engineering, finance, construction and mining. Appointed to the Board of Directors on 20 March 1995.
Directorships held in other listed entities	Director of Metroland Australia Limited.
Barry Sullivan	Non-executive Director
Qualifications	BSc(Min), ARSM, FAusIMM, MAICD
Experience	Barry Sullivan has a long and successful career in the mining industry, both in South Africa with Anglo American (1969-1974) and in Australia with MIM Limited from 1974 to 1995. He spent the latter six years as Executive General Manager, in which capacity he was responsible for total operations at Mt Isa including four underground mines and one open cut mine, power stations, dams, comprehensive support services such as workshops, chemical laboratory, medical centre, etc. Appointed to the Board of Directors on 8 March 2004.
Directorships held in other listed entities	Director of Exco Resources Limited.

Shi Peirong	Non-executive director
Qualifications	Masters Degree in Economics and Marketing, Marxist College, Beijing
Experience	Shi Peirong is the Vice President, Vice Chairman and Chief Financial Officer of the Jinchuan Group, the world's fifth largest integrated nickel producer. He joined the Jinchuan Group in 1980.
Zhang Yimin	Alternate director for Mr Shi Peirong
Qualifications	Diploma, Metallurgical and Architectural Institute of Chun Chan
Experience	Zhang Yimin is the Chief Representative for Jinchuan Group in Australia. He joined the Jinchuan Group in 1981.
Elan Slater	Company Secretary
Qualifications	Chartered Accountant with 16 years of experience, of which the last 5 years have been spent in Australia
Experience	Elan Slater has worked both in the accounting profession as well as in commerce, having been Financial Director of a company in South Africa in the skin care cosmetics industry. Simultaneously he had his own accounting & auditing practice.
Positions held in other listed entities	Company Secretary of Gullewa Limited.

(b) Meetings of Directors

During the financial year, 12 meetings of directors (including committees of directors) were held. In addition, there were 17 meetings held by Circular Resolutions in the year. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Eligible to attend	**Number attended**
Anthony W Howland-Rose	12	12
David Deitz	12	11
Eddie Lee	12	11
Barry Sullivan	12	10
S Peirong (appointed 7 November 2007)	5	-
Z Yimin (alternate for Mr Peirong)	5	1

5. Remuneration Report

The Remuneration Report outlines the policies and procedures of the Company and complies with the required disclosure about the remuneration of executives and non-executive directors to ensure market transparency and accountability to our shareholders.

The information in the report assists investors to understand:

* The benefits and costs of the Company's remuneration policies;
* The link between the Company's performance and the performance of directors and executives;
* Remuneration details for Company directors and executives in this financial year.

Remuneration policy

The full Board acts as the Remuneration Committee. It met three times during the reporting period. It consults with Remuneration Strategies Group (RSG) who are independent, professional consultants for market information and advice about remuneration to meet its objectives to ensure that remuneration policy is balanced and independent.

The Committee aims to assist and advise the Company to develop policies which provide the best value for shareholders by:

- Offering competitive remuneration incentives to attract, motivate and retain the most effective and productive directors and executives
- Linking fair and responsible remuneration between individual and company performance
- Ensuring a correlation between executive bonus rewards and value for shareholders

The remuneration policy of Allegiance Mining NL has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of Allegiance Mining NL believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for the board members and senior executives of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved after seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The remuneration committee reviews executive packages annually by reference to the Group’s performance, executive performance and comparable information from industry sectors.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the 250-step Binomial Option Pricing Models.

5. Remuneration Report continued

Executive Directors' and Senior Executive Remuneration

As a listed Company, Allegiance Mining NL is required to disclose the remuneration details of each of its key management personnel with the authority for managing the strategic direction and operational management of the Company and Consolidated Entity.

The following directors and key management personnel have been identified under the requirements for remuneration disclosure for shareholders.

Directors	
Anthony Howland-Rose	Executive Chairman
David Deitz	Director, Company Secretary
Eddie Lee	Director
Barry Sullivan	Director
Shi Peirong	Director
Zhang Yimin	Alternate Director for Shi Peirong
Key management personnel	
Elan Slater	Chief Accountant, Company Secretary
Paul Richardson	General Manager
Ian Levy (Resigned 10 July 2007)	Chief Executive Officer

Remuneration Components

The Company recognises the importance of providing balanced remuneration packages which take account of the Company's short and longer term circumstances and plans. The components of the package are:-

- Fixed remuneration
- Short Term Incentive (STI)
- Long Term Incentive (LTI)

Fixed Remuneration

Fixed remuneration consists of base salaries paid to executives and fees paid to non-executive directors. Base salaries are calculated on a total cost to the Company basis and include company superannuation contributions and benefits (such as a car), including fringe benefits tax.

Non Executive Directors

The fees paid to non-executive directors are periodically reviewed by the Board. Advice is sought from external advisors to determine appropriate fixed fees with reference to allocations made to non-executive directors in similar organisations. The total fees paid to non-executives are within a maximum aggregated limit.

5. Remuneration Report continued

Short and Long Term Incentives (STI and LTI) continued

Non-executive directors' fees are set by the Board which consider the following:-

- the Company's remuneration policy
- the time necessary to effectively discharge responsibilities and reviewing the other commitments of the non-executive directors which impact upon this
- the level of remuneration necessary to attract and retain directors of a suitable caliber
- independent professional advice

Non-executive directors are reimbursed for the cost of travel, accommodation and other expenses incurred on company business and are entitled to superannuation in accordance with statutory requirements.

Other Key Management Personnel

The Company reviews executive salaries in comparable organisations, and consults an external advisor in setting fixed remuneration structures. The broad objective is to ensure that the fixed remuneration is pitched at median market rates.

The fixed primary benefits paid to executives include salary, bonuses, superannuation and non-monetary benefits such as motor vehicles.

Short and Long Term Incentives (STI and LTI)

Allegiance is focused on developing the Avebury project and emerging from exploration to mine development followed by full scale production. The main goals of the STI and LTI are to attract quality staff and provide incentives for long-term employment with the Company. The demand for experienced operators in the mineral mining and processing sectors is very high with no indication of a downturn. With this in mind, the STI and LTI for executives have been combined in the Allegiance Mining NL Employee Incentive Scheme. Details of the scheme can be found in note 26 of the financial statements. The target exercise prices of options issued under the scheme are based on a premium of 25% above the current market prices (a 5 day average around the grant date). The options vest, either immediately or in tranches over three years (four years for options granted to employees after March 2007). The options are not transferable and there is the facility to obtain finance from the company to settle the exercise price.

The options granted to directors during 2007 vest immediately and were approved by shareholders. The options granted were based on advice received from the Company's independent remuneration consultant that the grant constituted reasonable and appropriate remuneration for the directors. Key management personnel were issued with options in 2007 which vest over four years.

At this stage of the Group's development the only meaningful representation of performance is the group's share price.

5. Remuneration Report continued

Short and Long Term Incentives (STI and LTI) continued

The movement in the share price over the last 6 years is as follows:

	Closing share price cents
31 December 2002	4.8
31 December 2003	20.5
31 December 2004	13.0
31 December 2005	14.5
31 December 2006	50.5
31 December 2007	107.0

The company is pleased to note that the share price of the Company has moved from 50.5 cents to over 107 cents during this reporting period.

As at date of signing this report the share price is 110 cents.

Specific Service Agreements

Service Agreements outlining the terms and conditions of employment have been entered into by the Company with executive directors and the key management personnel.

There is no maximum value set as a percentage of the Annual Remuneration Package.

Directors

The service agreements for the specified directors provide the following:-

	Role	Contract Notice
Anthony Howland-Rose	Executive Chairman	12 months
David Deitz	Director	12 months

In the event that the service agreement is terminated due to the director becoming bankrupt or of unsound mind the company shall be liable to pay the directors employment entitlements that have accrued up to and including the date of termination. In the event of any other reason, in addition to the directors' employment entitlements that have accrued up to and including the date of termination, the company shall pay the greater of:

- the amount payable pursuant to the formula contained in Section 200G of the Corporations Act; and
- the equivalent of 12 months of the remuneration package.

5. Remuneration Report continued

Key Management Personnel

The service agreements for the specified key management personnel provide the following:-

	Role	Contract Notice
Paul Richardson	General Manager	2 months
Elan Slater	Chief Accountant and Company Secretary	3 months

In the event that the service agreement is terminated the company shall pay the equivalent of 2-3 months of the remuneration package.

Key Management Personnel Remuneration

Details of the nature and amount of each element of the remuneration of the key management personnel of the consolidated entity are set out in the following table:

2007	Short-term benefits		Post employment benefits	Other long-term employee benefits	Share-based payments	Total	Performance related
	Fees & salaries	Other non-monetary benefits	Superannuation		Equity options (non-cash)		
	$	$	$	$	$	$	%
Directors							
AW Howland-Rose	255,989	225,561	3,870	4,163	967,500	1,457,083	81.00
D Deitz	274,998	239,246	12,552	15,575	967,500	1,509,871	80.00
E Lee	38,506	17,333	1,215	-	193,500	250,554	84.00
B Sullivan	100,750	43,872	3,150	-	193,500	341,272	70.00
Key Management Personnel							
E Slater	136,190	-	12,197	-	20,767	169,154	12.00
P Richardson	203,415	7,247	12,552	-	59,779	282,993	24.00
I Levy (resigned 10 July 2007)	130,754	-	6,396	-	26,075	163,225	15.90
	1,140,602	533,259	51,932	19,738	2,428,621	4,174,152	-

“Other non-monetary benefits” represent the assessed fringe benefit on the interest free shareholder loans that have been granted to certain directors and key personnel. Refer note 24 of the financial report for detail.

During the year, 12,000,000 options were granted on 18 July 2007 to the 4 directors following shareholder approval. 5,000,000 options were granted to David Deitz, 5,000,000 options to AW Howland-Rose and 1,000,000 options each to E Lee and B Sullivan. The options were valued at 19.35 cents per option, calculated using the 250-step Binomial Option Pricing Model. All options vested immediately. All options remain unexercised at the end of the year. None of these options expired or lapsed during the year.

On 19 March 2007, 1,400,000 options were granted to key management personnel being P Richardson 1,000,000 and E Slater 400,000. The options vest over a 4 year period. The options were valued at 19.74 cents calculated using the 250 step Binomial Option Pricing Model. These options remain unexercised at the end of the year. None of these options expired or lapsed during the year.

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Directors' Report

31 December 2007

5. Remuneration Report continued

Key Management Personnel Remuneration continued

2006	**Short-term benefits**		**Post employment benefits**	**Other long-term employee benefits**	**Share-based payments**	**Total**	**Performance Related**
	Fees & salaries	**Other non-monetary benefits**	**Superannuation**		**Equity Option (non-cash)**		
	$	**$**	**$**	**$**	**$**	**$**	**%**
Directors							
AW Howland-Rose	246,760	170,437	3,240	4,164	222,090	646,691	60.70
D Deitz	236,847	177,679	12,139	3,664	255,740	686,069	63.17
E Lee	34,922	-	1,080	-	67,300	103,302	65.10
B Sullivan	68,909	23,217	2,700	-	67,300	162,126	56.00
Key Management Personnel							
E Slater (appointed 22 May 2006)	75,534	-	6,798	-	-	82,332	-
P Richardson	214,665	-	12,139	-	16,804	243,608	6.90
I Levy (resigned 10 July 2007)	248,415	-	12,139	-	26,887	287,441	9.35
	1,126,052	371,333	50,235	7,828	656,121	2,211,569	-

"Other non-monetary benefits" represent the assessed fringe benefit on the interest free shareholder loans that have been granted to certain directors. Refer note 24 of the financial report for detail.

During the year 9,100,000 options were granted on 1 June 2006 to the 4 directors following shareholder approval. 3,800,000 options were granted to David Deitz, 3,300,000 options to Anthony W Howland Rose and 1,000,000 options each to Eddie Lee and Barry Sullivan. The options were valued at 6.73 cents per option calculated using the 250 step Binomial Option Pricing Model. All options vested immediately. 8,100,000 options were exercised in the year with options issued to Eddie Lee remaining unexercised. No options expired or lapsed during the year.

6. Directors Shareholdings

The following table sets out each director's relevant interest in shares and options in shares of the company as at 31 December 2007:

	Fully paid ordinary shares	**Options**
	Number	Number
Directors		
Anthony W Howland-Rose	21,951,027	5,000,000
David Deitz	24,330,578	5,000,000
Eddie Lee	1,000,000	2,000,000
Barry Sullivan	2,000,000	1,000,000
Key Management Personnel		
Ian Levy	516,077	1,760,000
Elan Slater	10,000	400,000
Paul Richardson	625,000	1,625,000
	50,432,682	16,785,000

7. Options

(a) Unissued shares under option

On 25th March 2008 there are 8,967,000 options (2006: 25,578,000) issued to directors, employees and contractors to the company. The options on issue at 25 March 2008 are as follows:

Issue Date	Date of Expiry	Exercise Price (cents)	Number under Option
27 January 2005	27 January 2010	24.00	400,000
13 September 2005	13 September 2010	19.40	2,850,000
1 June 2006	1 June 2011	34.00	80,000
19 March 2007	19 March 2012	78.60	2,000,000
19 March 2007	19 March 2012	80.24	3,637,000
			8,967,000

During the year ended 31 December 2007, 21,978,000 options were issued. These options either vest immediately or progressively on an annual basis commencing 24 months from date of issue. 7,202,500 options were exercised and 410,000 options were cancelled. During the period since year end until 25 March 2008, 7,527,500 options have been exercised and 15,671,000 cancelled.

The names of the holders of options are entered in the company's register of option holders, inspection of which may be made free of charge.

8. Indemnifying Officers or Auditors

During the financial year, the company has paid an insurance premium in respect of a directors' and officers' liability insurance contract effected on behalf of all directors, secretaries and executive officers of the company. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and premium paid. The Corporations Act 2001 does not require disclosure of information in those circumstances.

Signed in accordance with a resolution of the Board of Directors:

Director: ....

Dated this .....31..... day of .....March..... 2008

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Allegiance Mining NL
Level 11 Quantum House
49-51 York Street
Sydney NSW 2000

Allegiance Mining NL

Dear Board Members

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Allegiance Mining NL.

As lead audit partner for the audit of the financial statements of Allegiance Mining NL for the year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ben Arthur
Partner
Chartered Accountants
Sydney, 31 March 2008

Member of
Deloitte Touche Tohmatsu

Allegiance Mining NL

ACN 059 676 783

Income Statements

For the Year Ended 31 December 2007

		Consolidated		Parent	
		2007	**2006**	**2007**	**2006**
	Note	**$**	**$**	**$**	**$**
Revenue	2	**2,207,436**	1,776,940	**2,207,436**	1,776,940
Other income	3	**411,160**	332,607	**17,390**	1,800
Employee benefits expense		**(3,526,086)**	(1,197,612)	**(2,420,621)**	(948,788)
Depreciation, amortisation and impairments		**(202,340)**	(70,086)	**(98,825)**	(52,694)
Other expenses	4	**(8,357,049)**	(2,955,626)	**(6,586,644)**	(2,706,597)
Finance costs	4	**(53,133)**	(3,252)	**(52,521)**	(3,252)
Share of net profits of associates	10	**402,297**	1,144,166	**-**	-
Loss from operations		**(9,117,715)**	(972,863)	**(6,933,785)**	(1,932,591)
Income tax (expense)/revenue	6	**(55,691)**	130,645	**(916,237)**	418,566
Loss attributable to members		**(9,173,406)**	(842,218)	**(7,850,022)**	(1,514,025)
Basic and diluted loss per share (cents per share)	23	**(1.28)**	(0.15)	**-**	-
Dividends per share (cents)		**-**	-	**-**	-

Allegiance Mining NL

ACN 059 676 783

Balance Sheets

31 December 2007

		Consolidated		Parent	
		2007	2006	2007	2006
	Note	$	$	$	$
ASSETS					
Current assets					
Cash and cash equivalents	8	**23,973,089**	50,986,042	**4,069,247**	50,822,757
Trade and other receivables	9	**5,175,500**	1,863,491	**1,363,135**	704,412
Financial assets	11	**6,716,227**	599,922	**6,665,883**	599,922
Other current assets	13	**89,383**	49,785	**58,566**	49,785
Total current assets		**35,954,199**	53,499,240	**12,156,831**	52,176,876
Non-current assets					
Trade and other receivables	9	**7,007,875**	6,319,000	**143,845,406**	37,892,101
Investments accounted for using the equity method	10	**1,880,508**	1,609,453	**-**	-
Financial assets	11	**749,442**	827,091	**1,697,478**	1,798,948
Property, plant and equipment	12	**1,402,435**	1,023,738	**162,023**	176,763
Deferred tax assets	14	**3,906,300**	3,483,199	**19,191,780**	17,570,551
Exploration, evaluation and development	15	**171,927,950**	48,395,696	**-**	-
Total non-current assets		**186,874,510**	61,658,177	**164,896,687**	57,438,363
TOTAL ASSETS		**222,828,709**	115,157,417	**177,053,518**	109,615,239
LIABILITIES					
Current liabilities					
Trade and other payables	16	**29,640,483**	4,818,574	**8,475,088**	316,833
Borrowings	17	**-**	4,721,015	**-**	4,721,015
Provisions	18	**122,572**	99,578	**122,572**	99,578
Other financial liabilities	19	**394,304**	-	**-**	-
Total current liabilities		**30,157,359**	9,639,167	**8,597,660**	5,137,426
Non-current liabilities					
Borrowings	17	**22,145,828**	4,362,640	**-**	4,362,640
Provisions	18	**532,323**	366,946	**-**	-
Other financial liabilities	19	**1,199,207**	-	**-**	-
Other liabilities	20	**475,304**	325,331	**-**	-
Total non-current liabilities		**24,352,662**	5,054,917	**-**	4,362,640
TOTAL LIABILITIES		**54,510,021**	14,694,084	**8,597,660**	9,500,066
NET ASSETS		**168,318,688**	100,463,333	**168,455,858**	100,115,173
EQUITY					
Issued capital	21	**195,070,255**	121,882,101	**195,070,255**	121,882,101
Reserves	22	**6,729,169**	2,888,562	**5,891,115**	2,888,562
Accumulated losses		**(33,480,736)**	(24,307,330)	**(32,505,512)**	(24,655,490)
TOTAL EQUITY		**168,318,688**	100,463,333	**168,455,858**	100,115,173

Allegiance Mining NL

ACN 059 676 783

Statements of Changes in Equity

For the Year Ended 31 December 2007

2007	**Parent**							
	Ordinary Shares	**Retained Earnings**	**Available -for-sale Investments Revaluation Reserve**	**Exercised Options Reserve**	**Share-based Payments Reserve**	**Share capital to be Issued Reserve**	**Hedge Reserve**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 01 January 2007	**121,882,101**	**(24,655,490)**	**238,559**	**2,072,378**	**577,625**	**-**	**-**	**100,115,173**
Shares issued during the year	**71,596,329**	**-**	**-**	**-**	**-**	**-**	**-**	**71,596,329**
Loss attributable to members	**-**	**(7,850,022)**	**-**	**-**	**-**	**-**	**-**	**(7,850,022)**
Share based payments	**-**	**-**	**-**	**-**	**3,241,112**	**-**	**-**	**3,241,112**
Exercise of options	**1,591,825**	**-**	**-**	**-**	**-**	**-**	**-**	**1,591,825**
Transfers to and from reserves								
- available-for-sale investments revaluation reserve	**-**	**-**	**(238,559)**	**-**	**-**	**-**	**-**	**(238,559)**
- exercised options reserve	**-**	**-**	**-**	**343,761**	**(343,761)**	**-**	**-**	**-**
Balance at 31 December 2007	**195,070,255**	**(32,505,512)**	**-**	**2,416,139**	**3,474,976**	**-**	**-**	**168,455,858**

2006	**Parent**							
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 01 January 2006	50,982,145	(23,141,465)	(14,791)	529,600	371,530	7,183,663	-	35,910,682
Loss attributable to members	-	(1,514,025)	-	-	-	-	-	(1,514,025)
Shares issued during the year	70,899,956	-	-	-	-	-	-	70,899,956
Share-based payments	-	-	-	-	1,748,873	-	-	1,748,873
Issue of shares / amounts received in advance of shares being issued	-	-	-	-	-	(7,183,663)	-	(7,183,663)
Transfers to and from reserves								
- exercised options reserve	-	-	-	1,542,778	(1,542,778)	-	-	-
Fair value adjustment	-	-	253,350	-	-	-	-	253,350
Balance at 31 December 2006	121,882,101	(24,655,490)	238,559	2,072,378	577,625	-	-	100,115,173

Allegiance Mining NL

ACN 059 676 783

Statements of Changes in Equity

For the Year Ended 31 December 2007

2007	**Consolidated**							
	Ordinary Shares	**Retained Earnings**	**Available -for-sale Investments Revaluation Reserve**	**Exercised Options Reserve**	**Share-based Payments Reserve**	**Share capital to be Issued Reserve**	**Hedge Reserve**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 01 January 2007	**121,882,101**	**(24,307,330)**	**238,559**	**2,072,378**	**577,625**	**-**	**-**	**100,463,333**
Shares issued during the year	**71,596,329**	**-**	**-**	**-**	**-**	**-**	**-**	**71,596,329**
Loss attributable to members	**-**	**(9,173,406)**	**-**	**-**	**-**	**-**	**-**	**(9,173,406)**
Exercise of options	**1,591,825**	**-**	**-**	**-**	**-**	**-**	**-**	**1,591,825**
Share-based payments	**-**	**-**	**-**	**-**	**3,241,112**	**-**	**-**	**3,241,112**
Transfers to and from reserves								
- available-for-sale investments revaluation reserve	**-**	**-**	**(238,559)**	**-**	**-**	**-**	**-**	**(238,559)**
- exercised options reserve	**-**	**-**	**-**	**343,761**	**(343,761)**	**-**	**-**	**-**
Gains/(loss) on cashflow hedges	**-**	**-**	**-**	**-**	**-**	**-**	**838,054**	**838,054**
Balance at 31 December 2007	**195,070,255**	**(33,480,736)**	**-**	**2,416,139**	**3,474,976**	**-**	**838,054**	**168,318,688**

2006	**Consolidated**							
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 01 January 2006	50,982,145	(23,465,112)	(14,791)	529,600	371,530	7,183,663	-	35,587,035
Loss attributable to members	-	(842,218)	-	-	-	-	-	(842,218)
Shares issued during the year	60,940,956	-	-	-	-	-	-	60,940,956
Exercise of options	9,959,000	-	-	-	-	-	-	9,959,000
Share-based payment	-	-	-	-	1,836,625	-	-	1,836,625
Amounts received in advance of shares being issued	-	-	-	-	-	(7,183,663)	-	(7,183,663)
Other	-	-	-	-	(87,752)	-	-	(87,752)
Transfers to and from reserves								
- exercised options reserve	-	-	-	1,542,778	(1,542,778)	-	-	-
Fair value adjustment	-	-	253,350	-	-	-	-	253,350
Balance at 31 December 2006	121,882,101	(24,307,330)	238,559	2,072,378	577,625	-	-	100,463,333

Allegiance Mining NL

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Cash Flow Statements

For the Year Ended 31 December 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Cash from operating activities:					
Receipts from customers		**317,540**	332,455	**17,390**	1,800
Payments to suppliers and employees		**(8,753,070)**	(4,094,010)	**(6,688,720)**	(3,266,905)
Interest received		**2,207,436**	1,777,092	**2,207,436**	1,776,940
Exploration, evaluation and development		**(104,157,810)**	(18,475,272)	**-**	-
Payments for fair value through profit and loss investments		**(411,455,064)**	-	**(411,455,064)**	-
Proceeds from sale of fair value through profit and loss investments		**409,788,684**	-	**409,788,684**	-
Interest paid		**(53,133)**	(3,252)	**(52,521)**	(3,252)
Net cash (used in) operating activities	25(a)	**(112,105,407)**	(20,462,987)	**(6,182,795)**	(1,491,417)
Cash flows from investing activities:					
Payments for property, plant and equipment		**(631,133)**	(844,492)	**(84,085)**	(159,754)
Payments for other financial assets		**(6,638)**	(544,950)	**(6,638)**	(394,950)
Proceeds from sale of other financial assets		**-**	673,537	**-**	673,537
Proceeds from release of term deposits		**77,149**	-	**-**	-
Payments for term deposits		**-**	-	**(29,978)**	-
Proceeds from sale of investment in associates		**520,409**	-	**520,409**	-
Payments for available for sale investments		**-**	(1,134,900)	**-**	(1,134,900)
Loans to related parties – payments made		**-**	-	**(103,651,655)**	(19,908,022)
Net cash (used in) investing activities		**(40,213)**	(1,850,805)	**(103,251,947)**	(20,924,089)
Cash flows from financing activities:					
Proceeds from issue of shares		**69,303,746**	62,861,580	**69,303,746**	62,861,580
Proceeds from borrowings		**22,145,828**	5,631,666	**-**	5,631,666
Repayment of borrowings		**(4,721,015)**	-	**(4,721,015)**	-
Share issue expenses		**(1,595,892)**	(3,096,687)	**(1,595,892)**	(3,096,687)
Net cash provided by financing activities		**85,132,667**	65,396,559	**62,986,839**	65,396,559
Net increase (decrease) in cash and cash equivalents held		**(27,012,953)**	43,082,767	**(46,753,510)**	42,981,053
Cash and cash equivalents at beginning of financial year		**50,986,043**	7,903,275	**50,822,757**	7,841,704
Cash and cash equivalents at end of financial year	8	**23,973,089**	50,986,042	**4,069,247**	50,822,757

1 Statement of Significant Accounting Policies

(a) General information

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* and complies with the other requirements of the law. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the financial report of Allegiance Mining NL complies with International Financial Reporting Standards (IFRS).

The financial report covers the consolidated group of Allegiance Mining NL and controlled entities, and Allegiance Mining NL as an individual parent entity. Allegiance Mining NL is a listed public company, incorporated and domiciled in Australia

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

(b) Basis of Preparation

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.

(c) Principles of Consolidation

A list of controlled entities is contained in Note 27 to the financial statements. All controlled entities have a December 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.

A controlled entity is an entity that Allegiance Mining NL has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

Subsidiaries are fully consolidated or deconsolidated from the effective date of acquisition or effective date of disposal as appropriate.

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations). Cost is measured as the fair value of the assets given, equity instruments issued (net of transaction costs) or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group’s share of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental

1 Statement of Significant Accounting Policies continued

(c) Principles of Consolidation continued

borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(d) Comparative Figures

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

(e) Property, Plant and Equipment

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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.

The cost of fixed assets constructed within the consolidated entity includes the cost of materials, direct labour, and an appropriate proportion of fixed and variable overheads.

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 group 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 capitalised leased assets is depreciated on a straight-line basis over their useful lives to the Group 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 depreciable amount is the carrying value of the asset less estimated residual amounts. The residual amount is based on what a similar asset of the expected condition of the asset at the end of its useful life could be sold for.

Property plant and equipment is measured initially at cost. Cost includes all directly attributable expenditure incurred including costs to get the asset ready for its use as intended by management. Costs include an estimate of any expenditure expected to be incurred at the end of the asset's useful life, including restoration, rehabilitation and decommissioning costs.

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

Class of Fixed Asset	
Plant and Equipment	13 – 27 %

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

1 Statement of Significant Accounting Policies continued

(f) Financial Instruments

Derivative instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from operating, financing and investing activities. The consolidated entity does not hold or issue derivative financial instruments for speculative or trading purposes. However, derivatives that do not qualify for hedge accounting are required to be accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value on the date the instrument is entered into. Subsequent to initial recognition, derivative financial instruments are remeasured to fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition of profit or loss depends on the nature of the hedging relationship. The consolidated entity designates certain derivatives as hedges of the exposure to variability in cash flows attributable to a recognised asset or liability or highly probable forecast transactions (cash flow hedges).

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than described above, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, but the hedge forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

1 Statement of Significant Accounting Policies continued

(f) Financial Instruments continued

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. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statements in the period in which they arise.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of, or otherwise realise, the investment within 12 months of the balance sheet date.

Financial liabilities

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

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.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank and other third party borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of transaction costs, and are

1 Statement of Significant Accounting Policies continued

(f) Financial Instruments continued

subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(g) Exploration, evaluation and development expenditure

Exploration and evaluation

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

I. The rights to tenure of the area of interest are current; and

II. At least one of the following conditions are also met:

- The exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

- Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

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

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

1 Statement of Significant Accounting Policies continued

(g) Exploration, evaluation and development expenditure continued

Exploration and evaluation continued

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

Development

Development expenditure is recognised at cost less accumulated amortisation and impairment losses. Development costs include all expenditure directly attributable to development of an area of interest. General and administrative costs are only included in the measurement of development costs where they are related directly to operational activities in a particular area of interest.

The Group has not yet commenced production at an area of interest.

(h) Cash and Cash Equivalents

Cash and cash equivalents include 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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheets.

(i) Employee Benefits

Provision is made for the company'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 present value of the estimated future cash outflows to be made for those benefits.

All employees belong to the Group superannuation scheme, which is of the defined contribution type. Contributions to this defined contribution superannuation scheme are recognised as an expense in the period that it is payable .

Equity-settled compensation

The Group operates one share based compensation scheme. Details of this scheme are set out in Note 26.

The fair value of the options granted, whether to employees or third parties, is recognised as an employee benefits expense, or a consultancy or professional fee expense (unless the options are granted to employees directly involved in development activities, in which case the option expense is recognised as part of development costs) with a corresponding increase in equity. The fair value is measured at grant date over the period during which the employee or third party becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using a 250 step Binomial 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 the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the option granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become

1 Statement of Significant Accounting Policies continued

(i) Employee Benefits continued

Equity-settled compensation continued

exercisable. At each balance sheet date, the Group revises its estimate of the number of options expected to be exercised. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of the options, the balance of the Share Based Payments Reserve is transferred to an Exercised Options Reserve.

(j) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provision for Restoration and Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of exploration and development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal and other requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to exploration and development activities is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(k) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

(l) 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 sheet date.

Deferred tax assets and liabilities are recognised 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, and on unused tax losses. No deferred tax assets or liabilities will be recognised from the initial recognition of an asset or liability excluding a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

1 Statement of Significant Accounting Policies continued

(l) Income Tax continued

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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets or liabilities.

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

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

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

Tax consolidation

Allegiance Mining NL and its wholly owned subsidiaries have implemented the tax consolidation legislation and have formed a tax consolidated group. Allegiance Mining NL is the head entity in the tax consolidated group. The members of the tax consolidation group are identified in note 27. Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the ‘separate taxpayer within the group’ approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by Allegiance Mining NL (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Allegiance Mining NL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

(m) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of commodities is recognised upon the delivery of commodities to customers and the associated risks and rewards of ownership have passed.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received

1 Statement of Significant Accounting Policies continued

(m) Revenue continued

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

Revenue from the rendering of services is recognised upon the delivery of the service to the customers.

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

(n) 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 Taxation 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 sheets are shown inclusive of GST.

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

(o) Impairment of Assets

At each reporting date, the Group 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 statements.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined has no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised as income in the income statement.

(p) Investment in associates

Associates are all entities over which the Group has significant influence but not control. Investments in associates are recognised in the parent entity financial statements at cost, and are accounted for in the consolidated financial statements using the equity method of accounting. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of the associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised directly in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any

1 Statement of Significant Accounting Policies continued

(p) Investment in associates continued

other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(q) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

The interest expense is recognised in the income statement so as to achieve a constant periodic rate of interest on the remaining balance of the liability outstanding.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charges as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(r) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(s) Earnings per share

Basic earnings per share is determined by dividing the loss from ordinary activities after income tax attributable to members of Allegiance Mining NL by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking 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.

1 Statement of Significant Accounting Policies continued

(t) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars which is Allegiance Mining NL'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 statements, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences 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 statements.

Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the income statement in the period in which they arise.

(u) Critical accounting estimates and judgements

Key estimates – Impairment

The company assess impairment at each reporting date by evaluating conditions specific to the company 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.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be responsible under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual related actual results. Where there is a change in accounting estimate, the change shall be recognised prospectively by including it in profit or loss in the period of the change and in future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determination of mineral resources and ore reserves

Allegiance Mining NL estimates its mineral resources and ore reserves in accordance with its policy for the Reporting of Mineral Resources and Ore Reserves. This policy requires that the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code') be used as a minimum standard. The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources

1 Statement of Significant Accounting Policies continued

(u) Critical accounting estimates and judgements continued

Key estimates – Determination of mineral resources and ore reserves continued

and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortization rates, asset carrying values and provisions for restoration and rehabilitation.

Impairment of capitalised exploration and evaluation expenditure.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which the determination is made.

Impairment of capitalised development expenditure.

The future recoverability of capitalised development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which the determination is made.

Provision for restoration and rehabilitation costs

Restoration and rehabilitation costs are a normal consequence of mining, and the majority of expenditure in incurred at the end of the mine’s life. In determining the appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of restoration and rehabilitation is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

1 Statement of Significant Accounting Policies continued

(u) Critical accounting estimates and judgements continued

Key estimates – Provision for restoration and rehabilitation costs continued

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

(v) New Accounting Standards now effective

In the current year, the Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these Accounting Standards and Interpretations has not resulted in any changes to the Group's accounting policies.

(w) Adoption of revised Accounting Standards

The Group has not adopted any of the applicable revised Accounting Standards which have been issued but not yet applicable to the reporting periods ended 31 December 2007 as detailed below:

- AASB8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 January 2009;
- Interpretation 11 'Group and Treasury Share Transactions' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 March 2007;
- Interpretation 12 'Service Concession Arrangements' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 January 2008.
- AASB101 'Presentation of Financial Statements' - revised September 2006. Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB123 'Borrowing Costs'. Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB3 'Business Combinations' and consequential amendments to other accounting standards resulting from its issue. Effective for Business Combinations occurring after the beginning of 1 July 2009;
- AASB2008-1 'Amendments to AASB2 'Share Based Payment' – vesting conditions and cancellations - Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB2008-2 'Amendments to AASB132 'Financial Instruments – Presentation' – puttable instruments and obligations arising on liquidation - Effective for annual reporting periods beginning on or after 1 January 2009.

The Directors anticipate that the adoption of these Standards and Interpretations in future period will have no material financial impact on the financial statements of the Parent or the Group.

Allegiance Mining NL

ACN 059 676 783

Note to the Financial Statements

For the Year Ended 31 December 2007

	Consolidated		Parent	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
2 Revenue				
Operating activities:				
Interest received	**2,207,436**	1,776,940	**2,207,436**	1,776,940
Total	**2,207,436**	1,776,940	**2,207,436**	1,776,940
3 Other income				
Other income	**411,160**	332,607	**17,390**	1,800
Total	**411,160**	332,607	**17,390**	1,800
4 Expenses				
Advertising	**322,784**	318,785	**322,784**	318,785
Bad debts	**21,880**	-	**-**	-
Changes in fair value of financial assets	**1,792,756**	251,580	**1,792,756**	251,580
Computer expenses	**60,780**	130,127	**60,780**	130,127
Conference/seminar costs	**23,712**	24,385	**23,712**	24,385
Consulting and professional fees	**639,727**	623,692	**613,934**	576,545
Impairment write down on subsidiary loans	**-**	-	**305,607**	-
Insurance	**152,165**	81,376	**152,165**	81,376
Legal costs	**537,300**	350,510	**490,599**	194,768
Listing fees and share registry expenses	**371,444**	255,787	**371,444**	255,787
Rental outgoings	**85,169**	74,372	**85,169**	74,372
Exploration expenditure	**189,528**	12,198	**-**	1,287
Subscriptions	**13,559**	39,413	**13,079**	38,761
Take-over costs	**1,594,304**	-	**1,594,304**	-
Telephone and fax	**36,948**	34,139	**36,550**	34,139
Travel and motor vehicle expenses	**320,483**	313,738	**289,353**	311,926
Change in fair value of derivatives	**1,656,671**	-	**-**	-
Other expenses	**537,839**	445,524	**434,408**	412,759
Total	**8,357,049**	2,955,626	**6,586,644**	2,706,597

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$

4 Expenses continued

Expenses include the following

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Finance Costs:				
external	**53,133**	3,252	**52,521**	3,252
Total finance costs	**53,133**	3,252	**52,521**	3,252
Bad and doubtful debts				
Bad debts	**21,880**	-	**-**	-
Total bad and doubtful debts	**21,880**	-	**-**	-
Write off of capitalised exploration expenditure	**-**	27,716	**-**	27,716
Impairment write down on subsidiary loans	**-**	-	**305,607**	-
Superannuation contribution expense	**92,337**	58,013	**54,038**	49,196

5 Auditors' Remuneration

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Remuneration of the auditor of the parent entity for:				
- Auditing or reviewing the financial report	**145,200**	57,500	**145,200**	57,500
- Taxation services provided by auditor	**17,121**	8,315	**17,121**	8,315
- Other assurance services	**14,706**	-	**14,706**	-
	177,027	65,815	**177,027**	65,815

6 Income Tax Expense

(a) Income tax expense (revenue) attributable to continuing operations

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Current tax	**55,691**	(130,645)	**916,237**	(418,566)
Deferred tax	**-**	-	**-**	-
	55,691	(130,645)	**916,237**	(418,566)

(b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Prima facie tax expense/(revenue) on (loss) before income tax at 30% (2006: 30%)	**(2,735,314)**	(291,859)	**(2,080,136)**	(579,777)
Non-deductible amounts:				
- share-based payments	**488,501**	95,391	**488,501**	95,391
- sundry items	**16,341**	65,823	**221,709**	65,820
- income tax losses not considered recoverable	**2,286,163**	-	**2,286,163**	-
Income tax attributable to entity	**55,691**	(130,645)	**916,237**	(418,566)

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$

6 Income Tax Expense continued

Income tax losses of $7,620,543 (tax effect $2,286,163) that were brought into the tax consolidated group have been written off in the year ended 31 December 2007 as the directors have assessed that these losses are no longer probable of recovery.

7 Segment Reporting

The consolidated entity operates in the exploration and mining industry in Australia.

8 Cash and Cash Equivalents

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Cash on hand	**433**	966	**433**	500
Cash at bank	**23,972,656**	50,985,076	**4,068,814**	50,822,257
	23,973,089	50,986,042	**4,069,247**	50,822,757

The effective interest rate on short-term bank deposits was 5.89% (2006: 6.48%).

Reconciliation of Cash

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:				
Cash and cash equivalents	**23,973,089**	50,986,042	**4,069,247**	50,822,757
	23,973,089	50,986,042	**4,069,247**	50,822,757

9 Trade and Other Receivables

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
CURRENT				
Trade receivables	**201,300**	107,680	**-**	-
	201,300	107,680	**-**	-
Other receivables	**4,027,541**	1,132,777	**416,476**	81,378
Amounts receivable from:				
- associates	**946,659**	623,034	**946,659**	623,034
	5,175,500	1,863,491	**1,363,135**	704,412

		Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
9 Trade and Other Receivables continued					
NON-CURRENT					
Other receivables - employees		**6,957,875**	6,319,000	**6,957,875**	6,319,000
Amounts receivable from:					
- wholly-owned subsidiaries		**-**	-	**142,934,812**	37,364,775
- provision for impairment of receivables from wholly-owned subsidiaries		**-**	-	**(6,097,281)**	(5,791,674)
- other		**50,000**	-	**50,000**	-
		7,007,875	6,319,000	**143,845,406**	37,892,101
10 Investments Accounted for Using the Equity Method					
Associated companies	(a)	**1,880,508**	1,609,453	**-**	-
		1,880,508	1,609,453	**-**	-

(a) Interests in Associates

Investments in its associated entities are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

Interests are held in the following associated companies:

	Principal Activities	Consolidated Ownership Interest 2007 %	Consolidated Ownership Interest 2006 %	2007 $	2006 $
Both companies are incorporated in Australia					
Zeemain Pty Limited	Property Management	50.00	50.00	248,185	236,131
Gullewa Limited	Investment	20.40	23.90	1,632,323	1,373,322
Total		**70.40**	**73.90**	**1,880,508**	**1,609,453**

(b) Movements during the Year in Equity Accounted Investments in Associated Companies

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Balance at beginning of the financial year	**1,609,453**	465,287	**-**	-
Add:				
Share of associated company's profit after income tax	**402,297**	1,144,166	**-**	-
Purchase of Investment	**6,638**	**-**	**-**	-
Less:				
Equity investment disposed during the year	**(137,880)**	-	**-**	-
Total	**1,880,508**	1,609,453	**-**	-

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$

10 Investments Accounted for Using the Equity Method continued

(c) Summarised presentation of Aggregate Assets, Liabilities and Performance of Associates

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Total Assets	**28,681,407**	13,990,978	**-**	-
Total Liabilities	**13,945,062**	2,710,273	**-**	-
Net Assets	**14,736,345**	11,280,705	**-**	-
Revenues and other income	**6,723,422**	3,526,929	**-**	-
Total profit for the year	**1,938,330**	4,202,933	**-**	-

(d) Equity accounted profits of associate are broken down as follows:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Share of associate's profit before income tax expense	**697,028**	672,349	**-**	-
Share of associate's income tax (expense)/benefit	**(294,731)**	471,817	**-**	-
Total	**402,297**	1,144,166	**-**	-

(e) Ownership interest

At 31 December 2007, the Group held 25,673,067, (2006: 30,086,767) shares in its listed associate Gullewa Limited. The market value of the Group's interest in Gullewa Limited as 31 December 2007 is $3,337,499 (2006: $1,805,206). At 31 December 2007, Gullewa Limited was the holder of 1.818% (2006: 3.116%) of the issued capital of Allegiance Mining NL

The investment in Zeemain Pty Limited has been treated as an associate, as the substance of the arrangement with the other shareholders of this company are that Allegiance Mining NL does not control the operating or financial decisions of that company, but exerts significant influence. There is no agreement in place sharing control, therefore the investment has been equity accounted as an associate.

11 Financial Assets

Current

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Listed shares held for trading	**6,665,883**	-	**6,665,883**	-
Available for sale financial assets at fair value	**-**	599,922	**-**	599,922
Derivative assets	**50,344**	-	**-**	-
Total	**6,716,227**	599,922	**6,665,883**	599,922

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
11 Financial Assets continued				
Non-Current				
Security deposits - bank	**749,442**	827,091	**707,067**	677,091
Shares in associates at cost	**-**	-	**989,898**	1,121,344
Shares in controlled entities at cost	**-**	-	**513**	513
Total	**749,442**	827,091	**1,697,478**	1,798,948

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
12 Property Plant and Equipment				
Plant and equipment				
At cost	**1,991,283**	1,360,150	**455,489**	371,404
Less accumulated depreciation	**(588,848)**	(336,412)	**(293,466)**	(194,641)
Total plant and equipment	**1,402,435**	1,023,738	**162,023**	176,763
Total property, plant and equipment	**1,402,435**	1,023,738	**162,023**	176,763
(a) Movement in Carrying Amounts				
Balance at the beginning of year	**1,023,738**	306,508	**176,763**	69,537
Additions	**631,133**	844,492	**84,085**	159,754
Depreciation expense	**(252,436)**	(127,262)	**(98,825)**	(52,528)
Total	**1,402,435**	1,023,738	**162,023**	176,763
Depreciation capitalised to development costs	**50,096**	57,176	**-**	-

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
13 Other Assets				
CURRENT				
Prepayments	**89,383**	49,785	**58,566**	49,785
	89,383	49,785	**58,566**	49,785

	Consolidated		Parent	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
14 Tax Assets				
NON-CURRENT				
Deferred tax assets comprise:				
Unused tax losses available for set off against future taxable income	**18,030,852**	16,491,560	**18,030,852**	16,491,560
Transaction costs on equity issue	**1,161,249**	992,400	**1,161,249**	992,400
Development activities	**(15,758,627)**	(13,945,747)	**-**	-
Equity accounted investments	**(141,605)**	(141,605)	**-**	-
Provisions - employee benefits	**177,514**	86,591	**64,812**	86,591
Financial assets	**(65,133)**	-	**(65,133)**	-
Derivatives	**502,050**	-	**-**	-
	3,906,300	3,483,199	**19,191,780**	17,570,551

Capital raising costs were debited directly to issued capital during the year.

The deferred tax assets are expected to be recovered through future taxable income following commencement of production at the Avebury project.

Subsequent to the year end more than 50% of the shares of the Company were purchased by Zinifex Australia Limited. In view of the acquisition of shares in the Company by Zinifex Australia Limited, the Company may not be able to satisfy the taxation legislation requirements to claim the unused tax losses as a deduction from assessable income in future years.

15 Exploration, evaluation and development

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Exploration and evaluation phases - at cost	**-**	6,210,637	**-**	-
Development phase - at cost	**171,927,950**	42,185,059	**-**	-
Total	**171,927,950**	48,395,696	**-**	-

(a) Movement in exploration, evaluation and development costs

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Expenditure and evaluation phase				
Balance at beginning of the year	**6,210,637**	6,238,352	**-**	-
Expenditure written off during the year	**-**	(27,715)	**-**	-
Reclassified on commencement of development phase	**(6,210,637)**	-	**-**	-
Balance at end of the year	**-**	6,210,637	**-**	-
Development				
Balance at beginning of the year	**42,185,059**	19,065,953	**-**	-
Expenditure during the year	**123,366,877**	22,752,160	**-**	-
Capitalised restoration costs	**165,377**	366,946	**-**	-
Reclassified from exploration and evaluation phase	**6,210,637**	-	**-**	-
Balance at end of the year	**171,927,950**	42,185,059	**-**	-
Total	**171,927,950**	48,395,696	**-**	-

The ultimate recovery of capitalised exploration, evaluation and development expenditure of $171,927,950 (2006: $ 48,395,696) is primarily dependent on the successful development and commercial exploitation, or alternatively sale, of the areas of interest.

		Consolidated		Parent	
		2007	**2006**	**2007**	**2006**
		$	**$**	**$**	**$**
16	**Trade and Other Payables**				
	CURRENT				
	Unsecured liabilities				
	Trade payables	**22,103,644**	4,507,352	**1,435,374**	199,227
	Accrued employee entitlements	**364,762**	127,707	**65,141**	52,529
	Sundry payables and accrued expenses	**7,172,077**	183,515	**6,974,573**	65,077
		29,640,483	4,818,574	**8,475,088**	316,833
17	**Borrowings**				
	CURRENT				
	Secured liabilities				
	Bank loans	**-**	4,721,015	**-**	4,721,015
		-	4,721,015	**-**	4,721,015
	NON-CURRENT				
	Secured liabilities				
	Bank loans	**22,145,828**	-	**-**	-
	Other loans	**-**	4,362,640	**-**	4,362,640
		22,145,828	4,362,640	**-**	4,362,640

(a) Available credit facilities

Bank loans - secured	**47,854,172**	-	**-**	-
Total	**47,854,172**	-	-	-

The borrower under the bank loans from Australia & New Zealand Banking Limited and Societe Generale Australia for 2007 is Allegiance Metals Pty Limited. Allegiance Mining NL and Allegiance Mining Operations Pty Limited have provided a joint and several guarantee on the total facility.

The bank loans are secured by:

- A mortgage or charge over the “Charged Property” of the consolidated entity. The Charged Property means all the Chargor’s interest in all its property anywhere (real and personal, and present and future), including its uncalled capital and its called but unpaid capital (including any amount characterised as a premium when the relevant shares were issued) for the time being, but excluding the “Mortgaged Property”.

17 Borrowings continued

- The consolidated entity's Mortgaged Property (being the mining tenements, all rights under the Mortgaged Agreement and the Receivables; and all benefits, claims and returns of premiums relating to Project Insurances).

The charge is a first ranking security and operates as a fixed charge over all fixed charge property and as a floating charge over all floating charge property.

Project Finance Facility

USD 45,000,000 facility provided jointly by two banks. The facility has scheduled quarterly repayments commencing March 2009. At 31 December 2007 USD 20,000,000 was utilised. Interest is charged at 2.5% above the LIBOR rate.

Cost overrun facility

$7,500,000 facility provided jointly by two banks. The facility is scheduled for repayment at the time of final repayment of the Project Finance Facility. At 31 December 2007 $nil was utilised. Interest is charged at 3.25% above the Bank Bill rate.

Working capital facility

$11,000,000 facility provided jointly by two banks. The facility is scheduled for repayment at the time of final repayment of the Project Finance Facility. At 31 December 2007 $nil was utilised. Interest is charged at 2% above the Bank Bill rate.

Bank Loans secured - 2006

A bank loan provided by Societe Generale was repaid in December 2007. The loan was secured by a fixed and floating charge over all assets and liabilities of the parent entity. Interest was charged at 3.5% over the Bank Bill Rate.

Other loans secured - 2006

A loan provided by Jinchuan Group Limited was converted to equity in September 2007. The loan was secured through a subordinated mortgage over the mining lease, 3M/2003, Avebury. Interest was charged at 3.5% above the LIBOR rate.

18 Provisions

	Consolidated		**Parent**	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
CURRENT				
Employee benefits	**122,572**	99,578	**122,572**	99,578
	122,572	99,578	**122,572**	99,578
NON-CURRENT				
Provision for restoration	**532,323**	366,946	**-**	-
	532,323	366,946	**-**	-

The provision for restoration represents the present value of the best estimate of the expected costs to be incurred rehabilitating and restoring the site at the end of the Avebury mine's life. The amount recognised in the current period has been capitalised to development costs.

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$

19 Other financial liabilities

Current				
Derivatives	**394,304**	-	**-**	-
Total	**394,304**	-	**-**	-
Non-current				
Derivatives	**1,199,207**	-	**-**	-
Total	**1,199,207**	-	**-**	-

Refer note 31 for information on derivative financial instruments.

20 Other Liabilities

Non-Current				
Deferred income	**475,304**	325,331	**-**	-
Total	**475,304**	325,331	**-**	-

Deferred income represents monies received under the "Energy Grants Credits Scheme" in relation to costs incurred on development activities. These amounts will be released to the income statement over the expected useful life of the development activity, commencing at the time of commercial production.

21 Issued Capital

Summary Table				
774,927,810 (2006: 670,102,266) Ordinary fully paid shares	**195,070,255**	121,882,101	**195,070,255**	121,882,101
Total	**195,070,255**	121,882,101	**195,070,255**	121,882,101

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21 Issued Capital continued

(a) Movement in Ordinary Shares

	Date	Number of Shares No.	Issue Price	Total $
At the beginning of reporting period	1 January 2006	407,219,817	-	50,982,145
Share placement (net of issue expenses)	5 January 2006	48,464,333	0.15	7,068,664
Share placement (net of issue expenses)	11 May 2006	111,000,000	0.31	33,733,207
Share placement (net of issue expenses)	6 June 2006	51,000,000	0.31	14,445,151
Exercise of options	6 June 2006	9,100,000	0.31	2,959,000
Share placement (net of issue expenses)	9 June 2006	3,000,000	0.31	930,000
Share purchase plan	13 October 2006	15,318,116	0.31	4,763,934
Exercise of options	26 October 2006	25,000,000	0.28	7,000,000
Balance at 31 December 2006		670,102,266		121,882,101
Exercise of options	9 January 2007	200,000	0.20	40,000
Share placement (net of issue expenses)	5 April 2007	7,500,000	0.53	3,975,000
Exercise of options	5 April 2007	250,000	0.24	60,000
Exercise of options	5 April 2007	500,000	0.19	97,000
Exercise of options	5 April 2007	187,500	0.19	36,375
Exercise of options	5 April 2007	625,000	0.19	121,250
Exercise of options	5 April 2007	375,000	0.17	63,750
Exercise of options	5 April 2007	1,000,000	0.29	290,000
Exercise of options	5 April 2007	750,000	0.17	127,500
Exercise of options	5 April 2007	1,000,000	0.20	200,000
Exercise of options	11 May 2007	800,000	0.20	160,000
Exercise of options	16 May 2007	40,000	0.34	13,600
Exercise of options	16 May 2007	1,000,000	0.24	240,000
Exercise of options	16 May 2007	100,000	0.79	78,600
Share placement (net of issue expenses)	2 July 2007	41,300,000	0.80	32,973,735
Exercise of options	2 July 2007	375,000	0.17	63,750
Share placement (net of issue expenses)	1 October 2007	6,823,044	0.80	5,458,435
Share placement (net of issue expenses)	5 October 2007	42,000,000	0.72	29,189,159
Balance at 31 December 2007		774,927,810		195,070,255

	Consolidated		Parent	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**

21 Issued Capital continued

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(b) Options

(i) For information relating to Allegiance Mining NL employee option plan, including details of options issued and lapsed during the financial year and the options outstanding at year-end, refer to Note 26.

(ii) For information relating to share options issued to key management personnel during the financial year, refer to Note 24.

22 Reserves

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Reserves				
Hedging reserve	**838,054**	-	**-**	-
Available-for-sale investments revaluation reserve	**-**	238,559	**-**	238,559
Share-based payments reserve	**3,474,976**	577,625	**3,474,976**	577,625
Exercised options reserve	**2,416,139**	2,072,378	**2,416,139**	2,072,378
Total	**6,729,169**	2,888,562	**5,891,115**	2,888,562

(a) Available for Sale Investments Revaluation Reserve

The available-for-sale investments revaluation reserve is used to recognise fair value adjustments to 'available-for-sale' investments. Once the investment is sold, the fair value adjustments in this reserve relating to the sold instrument are transferred to the income statement.

(b) Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of options expensed or capitalised but not exercised.

(c) Exercised Option Reserve

The exercised option reserve is used to recognised the fair value of exercised options. On issue of share capital when options are exercised, a transfer is made from the Share-based Payments Reserve.

(d) Hedging Reserve

The hedging reserve is used to record the effective portion of the gains or losses on hedging instruments in cash flow hedges that are recognised in profit and loss when the associated hedged transactions affect profit or loss or as part of the cost of an asset, if non-monetary.

23 Earnings per Share

	Consolidated 2007 $	Consolidated 2006 $
(a) Reconciliation of Earnings to Profit or Loss		
Net income/loss for the period	**(9,173,406)**	(842,218)
Earnings used to calculate basic and dilutive EPS	**(9,173,406)**	(842,218)
(b) Weighted average number of ordinary shares:		
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**714,374,903**	570,615,468
Basic and diluted loss per share - cents	**(1.28)**	(0.15)

There were 32,165,500 share options outstanding at the end of the year. These potential ordinary shares would reduce the loss per share from continuing ordinary options on conversion, hence these potential ordinary shares are not dilutive. As such, only basic Earnings Per Share is required to be disclosed under AASB 133 "Earnings Per Share".

24 Key Management Personnel Compensation

(a) Key Management Personnel

Names and positions held of key management personnel in office at any time during the financial year are:

Directors	**Position**
Anthony W Howland-Rose	Executive Chairman
David Deitz	Executive director
Eddie Lee	Non-executive director
Barry Sullivan	Non-executive director
Shi Peirong	Non-executive director
Zhang Yimin	Alternate for Shi Peirong
Other Key Management Personnel	
Elan Slater	Chief Accountant & Company Secretary
Ian Levy (resigned 10 July 2007)	Chief Executive Officer
Paul Richardson	General Manager

Mr Paul Richardson is an employee of Allegiance Metals Pty Limited. All other key management personnel are employees of Allegiance Mining NL

Mr Shi Peirong was appointed as a non-executive director on 7 November 2007. Mr Zhang Yimin was also appointed on 7 November 2007 and is an alternate director to Mr Shi Peirong.

Mr Ian Levy resigned as Chief Executive Officer on 10 July 2007

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

24 Key Management Personnel Compensation continued

(b) Remuneration of Directors and Key Management Personnel

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Short-term benefits	**1,673,861**	1,497,385	**1,463,199**	1,282,720
Post-employment benefits	**51,932**	50,235	**39,380**	38,096
Other long-term employee benefits	**19,738**	7,828	**19,738**	7,828
Share-based payments	**2,428,621**	656,121	**2,368,842**	639,317
Total	**4,174,152**	2,211,569	**3,891,159**	1,967,961

(c) Shareholdings

Number of Shares held by Key Management Personnel

2007

	Balance 01/01/2007	Received on exercise of share options	Purchased	Sold	Balance 31/12/2007
Anthony W Howland-Rose	21,951,027	-	-	-	21,951,027
David Deitz	24,330,578	-	-	-	24,330,578
Eddie Lee	-	1,000,000	-	-	1,000,000
Barry Sullivan	2,158,449	-	-	(158,449)	2,000,000
Ian Levy **	146,077	500,000	-	(130,000)	516,077
Elan Slater	-	-	20,000	(10,000)	10,000
Paul Richardson	-	625,000	-	-	625,000
	48,586,131	2,125,000	20,000	(298,449)	50,432,682

** Ian levy is no longer key management personnel as at 31 December 2007.

No other key management personnel had any interest in shares.

24 Key Management Personnel Compensation continued

(c) Shareholdings continued

2006

	Balance 01/01/2006	Received on exercise of share options	Purchased	Sold	Balance 31/12/2006
Anthony W Howland-Rose	18,634,950	3,300,000	16,077	-	21,951,027
David Deitz	20,514,501	3,800,000	16,077	-	24,330,578
Barry Sullivan	142,372	2,000,000	16,077	-	2,158,449
Ian Levy	130,000	-	16,077	-	146,077
Elan Slater	-	-	10,000	(10,000)	-
Total	39,421,823	9,100,000	74,308	(10,000)	48,586,131

No other key management personnel had any interest in shares.

(d) Options and Rights Holdings

Number of Options Held by Key Management Personnel

2007

	Balance 01/01/2007	Granted as Remuneration (1)	Options Exercised (2)	Balance 31/12/2007	Total Vested	Total Exercisable	Total Un-exercisable
Anthony W Howland-Rose	-	5,000,000	-	5,000,000	5,000,000	5,000,000	-
David Deitz	-	5,000,000	-	5,000,000	5,000,000	5,000,000	-
Eddie Lee	2,000,000	1,000,000	(1,000,000)	2,000,000	2,000,000	2,000,000	-
Barry Sullivan	-	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Ian Levy	2,000,000	260,000	(500,000)	1,760,000	-	-	1,760,000
Elan Slater	-	400,000	-	400,000	-	-	400,000
Paul Richardson	1,250,000	1,000,000	(625,000)	1,625,000	625,000	625,000	1,000,000
Total	5,250,000	13,660,000	(2,125,000)	16,785,000	13,625,000	13,625,000	3,160,000

24 Key Management Personnel Compensation continued

(d) Options and Rights Holdings continued

No other key management personnel had any interest in options.

(1) Options granted to Anthony W Howland-Rose, David Deitz, Barry Sullivan and Eddie Lee were issued on 18 July 2007 and are exercisable until 18 July 2012. The exercise price is 98.57 cents and the options vested immediately. The fair value of the options was 19.35 cents. Options granted to Ian Levy, Elan Slater and Paul Richardson were issued on 19 March 2007 and vest as follows: 25% after 24 months, another 25% after 36 months and the balance outstanding after 48 months. They are exercisable once vested at any time until the expiry date. There are no further vesting conditions except that the employee must remain with the company during the vesting period. The exercise price is 80.24 cents and the fair value of the options was 19.74 cents.

(2) The value of the options exercised during the year is $508,250, with exercise prices ranging between 19.4 and 34 cents. In terms of the Allegiance Mining NL Employee Incentive Scheme, the company provided finance for the exercise price payable on some of the above options.

2006

		Balance 01/01/06	Granted as Remuneration (2)	Options Exercised (3)	Net Change Other	Total	Total Vested & Exercisable	Un-exercisable
Anthony W Howland-Rose		-	3,300,000	(3,300,000)	-	-	-	-
David Deitz		-	3,800,000	(3,800,000)	-	-	-	-
Eddie Lee		1,000,000	1,000,000	-	-	2,000,000	2,000,000	-
Barry Sullivan		1,000,000	1,000,000	(2,000,000)	-	-	-	-
Ian Levy	(1)	2,000,000	-	-	-	2,000,000	500,000	1,500,000
Paul Richardson	(1)	1,250,000	-	-	-	1,250,000	312,500	937,500
Total		5,250,000	9,100,000	(9,100,000)	-	5,250,000	2,812,500	2,437,500

There were no other transactions with Key management personnel during the year.

24 Key Management Personnel Compensation continued

(d) Options and Rights Holdings continued

No other key management personnel had any interest in options.

(1) The options granted to Ian Levy and Paul Richardson vest as follows: 25% after 12 months, another 25% after 24 months and the balance outstanding after 36 months. They are exercisable once vested at any time until expiry date. There are no further vesting conditions except that the employee must remain with the company during the vesting period.

(2) The options were issued on 1 June 2006, and are exercisable until 1 June 2011 with an exercise price of 34 cents. The options vested immediately and each option issued has a fair value of 6.73 cents.

(3) The value of options exercised during the year is $2,959,000, with exercise prices ranging between 17 cents and 34 cents. In terms of the Allegiance Mining NL Employee Incentive Scheme, the company provided finance for the exercise price payable on the exercise of options. Refer note 24(e).

(e) Director and key management personnel loans - 2007

	Highest balance during period	Balance start	Loan granted during year	Interest charged	Provision for impairment	Total
	$	$	$	$	$	$
Anthony W Howland-Rose	-	2,802,000	-	-	-	2,802,000
David Deitz	-	2,972,000	-	-	-	2,972,000
Barry Sullivan	-	545,000	-	-	-	545,000
Eddie Lee	-	-	290,000	-	-	290,000
Paul Richardson	-	-	121,250	-	-	121,250
Total	**-**	**6,319,000**	**411,250**	**-**	**-**	**6,730,250**

In terms of the Allegiance Mining NL Employee Incentive Scheme, approved by shareholders, the company may provide finance for the exercise price payable on the exercise of options. These loans are interest free, secured by the issued shares and repayable between one and twenty four months after termination of employment.

Interest which would have been charged if the loans were on a normal commercial term is 8.05% (2006: 7.3%). The benefit in relation to the interest free loan has been included in the remuneration of the directors and the key management personnel. Refer to the remuneration report.

25 Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Net loss for the period	**(9,173,406)**	(842,218)	**(7,850,022)**	(1,514,025)
Cash flows excluded from loss attributable to operating activities				
Non-cash flows in loss				
Depreciation	**252,436**	127,262	**98,825**	52,528
Impairment write-down on subsidiary loan	-	-	**305,607**	-
Change in fair value of derivatives	**2,381,221**	-	**-**	-
Net movements in exploration, evaluation and development expenditure	**(121,919,483)**	(18,554,188)	**-**	-
Impairment write-down of exploration, evaluation and development expenditure	**-**	27,715	**-**	-
Net loss on disposal of listed investments	**2,175,285**	251,580	**2,175,285**	251,580
Net gains on investment in associate	**(382,529)**	-	**(382,529)**	-
Share options expensed	**1,628,337**	317,969	**1,628,337**	317,969
Share of associated companies net profit after income tax and dividends	**(402,297)**	(1,144,166)	**-**	-
Net cash movement of shares held for trading	**(8,517,189)**	-	**(8,517,189)**	-
Changes in assets and liabilities				
(Increase)/decrease in trade receivables	**(93,620)**	-	**-**	-
(Increase)/decrease in other receivables	**(3,268,389)**	(846,799)	**(708,723)**	(269,785)
(Increase)/decrease in prepayments	**(39,598)**	(49,785)	**(8,781)**	(49,785)
Increase/(decrease) in trade payables and accruals	**25,488,555**	287,825	**8,674,630**	46,204
Increase/(decrease) in deferred taxes payable	**(423,101)**	(130,645)	**(1,621,229)**	(418,566)
Increase/(decrease) in provisions	**188,371**	92,463	**22,994**	92,463
	(112,105,407)	(20,462,987)	**(6,182,795)**	(1,491,417)

Non-cash financing and investing activities

During the year ended 31 December 2007, employees exercised options with an exercise price of $638,875 (2006: $2,959,001) which was financed by employee incentive loans (see Note 24(e)). The loan provided by Jinchuan Group Limited was converted to equity, raising equity of$5,458,435.

26 Share-based Payments

(a) Employee Option Plans

The establishment of the Allegiance Mining NL Employee Incentive Scheme was approved by shareholders in 2004. Directors and staff are eligible to participate in the plan.

Options are granted at the discretion of the directors, for no consideration. The exercise price of the option will not be less than 25% above the average market price of the shares at the date of grant of the option. The vesting and exercise periods are determined by the Board for each grant. These, together with the exercise price are set out for each grant in an 'offer' letter given to the employee on grant. The board of directors may at the time of issue of the options, impose such performance conditions (if any) as it considers appropriate and determine that a specified number or proportion of the options issued at that time be exercisable only after certain times or on satisfaction of performance conditions to the satisfaction of the board of directors. Subject to any determination of the board of directors at the time of the issue of the options to the contrary, options will be cancelled on termination of employment.

Current terms for outstanding options are as follows:

Specific employees have been issued options with a vesting period between options vesting immediately and options vesting over 36 and 48 months. For options vesting over 36 months, 25% vest after 12 months, another 25% after 24 months and the balance vest after 36 months. For options vesting over 48 months, 25% vest after 24 months, another 25% vest after 36 months and the balance vest after 48 months. Any balance that has vested but is not exercised can be exercised in later periods. The exercise period ends 5 years from the grant date.

Options granted under the plan carry no dividend or voting rights.

Set out below are summaries of options granted under the plan:

Consolidated and parent entity - 2007

Grant Date	Expiry Date	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Total	Exercisable at end of the year	Exercise Price Cents
29/01/04	29/01/09	2,000,000	-	(1,500,000)	-	500,000	500,000	24.00
29/01/04	29/01/09	250,000	-	(250,000)	-	-	-	24.00
27/01/05	27/01/10	2,100,000	-	(1,500,000)	(150,000)	450,000	-	17.00
13/09/05	13/09/10	4,350,000	-	(1,312,500)	-	3,037,500	1,587,500	19.40
01/06/06	01/06/11	1,000,000	-	(500,000)	-	500,000	500,000	34.00
06/06/06	06/06/11	210,000	-	(40,000)	(40,000)	130,000	130,000	34.00
19/03/07	19/03/12	-	4,478,000	-	(220,000)	4,258,000	-	80.20
18/07/07	18/07/12	-	12,000,000	-	-	12,000,000	12,000,000	98.57
14/12/07	14/12/12	-	2,000,000	-	-	2,000,000	-	85.74
		9,910,000	18,478,000	(5,102,500)	(410,000)	22,875,500	14,717,500	
Weighted average exercise price		$0.217	$0.927	$0.218	$0.526	$0.785	$0.835	-

26 Share-based Payments continued

(a) Employee Option Plans continued

Consolidated and parent entity - 2006

Grant Date	Expiry Date	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Total	Exercisable at end of the year	Exercise Price Cents
29/01/04	29/01/09	2,000,000	-	-	-	2,000,000	2,000,000	24.00
03/06/04	31/05/09	500,000	-	(500,000)	-	-	-	24.00
01/03/05	21/02/10	500,000	-	(500,000)	-	-	-	17.00
29/01/04	29/01/09	250,000	-	-	-	250,000	250,000	24.00
27/01/05	27/01/10	2,100,000	-	-	-	2,100,000	525,000	17.00
13/09/05	13/,09/10	4,350,000	-	-	-	4,350,000	1,087,500	19.40
01/06/06	01/06/11	-	9,100,000	(8,100,000)	-	1,000,000	1,000,000	34.00
03/06/06	06/06/11	-	210,000	-	-	210,000	210,000	34.00
		9,700,000	9,310,000	(9,100,000)	-	9,910,000	5,072,500	
Weighted average exercise price		$0.226	$0.340	$0.330	-	$0.220	$0.247	

26 Share-based Payments continued

(b) Options issued to third parties

Third party contractors and consultants

3,500,000 options were issued during the period to 5 consultants. These options are exercisable at 78.6 cents and have an expiry date of 19 March 2012. The options vested immediately.

Consolidated and parent entity - 2007

Grant Date	Expiry Date	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Total	Exercisable at end of the year	Exercise price Cents
03/08/05	31/07/08	5,890,000	-	-	-	5,890,000	5,890,000	17.00
15/06/06	15/06/11	2,000,000	-	(2,000,000)	-	-	-	20.00
19/03/07	19/03/12	-	3,500,000	(100,000)	-	3,400,000	3,400,000	78.60
		7,890,000	3,500,000	(2,100,000)	-	9,290,000	9,290,000	
Weighted average exercise price		$0.178	$0.786	$0.228	-	$0.393.1	$0.393	-

Consolidated and parent entity - 2006

Grant date	Expiry Date	Balance at start of the year	Granted during the year	Exercised during the year	Cancelled during the year	Total	Exercisable at end of the year	Exercise price Cents
06/.04/04	06/11/06	13,500,000	-	-	(13,500,000)	-	-	22.35
03/08/05	31/07/08	5,890,000	-	-	-	5,890,000	5,890,000	17.00
28/04/06	26/07/07	-	25,000,000	(25,000,000)	-	-	-	28.00
15/06/06	15/06/11	-	2,000,000	-	-	2,000,000	2,000,000	20.00
		19,390,000	27,000,000	(25,000,000)	(13,500,000)	7,890,000	7,890,000	
Weighted average exercise price		$0.207	$0.270	$0.280	$0.220	$0.180	$0.180	-

During the year 21,978,000 (2006: 36,319,000) options were issued, 7,202,500 (2006: 34,100,000) options were exercised and 410,000 (2006: 13,500,000) options cancelled. At 31 December 2007, unissued shares under the above options totalled 32,165,500 (2006: 17,800,000) ordinary shares.

26 Share-based Payments continued

(b) Options issued to third parties continued

The weighted average remaining contractual life of all share options outstanding at the end of the period was 3.39 years (2006 – 1.58 years).

Options are granted for no consideration. The amount received on the exercise of options is recognised as issued capital at the date of issue of the shares and a transfer to an exercised option reserve of the fair value of the exercised option is made. The names of the holders of options are entered in the Company's Register of Option Holders, inspection of which may be made free of charge.

(c) Fair value of options granted

The assessed fair values at grant date of options granted during the year ended 31 December 2007 were between 18.9 cents and 19.74 cents per option (2006 – between 3.92 cents and 7.84 cents). The fair value at grant date is independently determined using a 250 step Binomial 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.

The model inputs for options granted during the year ended 31 December included.

(a) employee options are granted for no consideration and can be exercised immediately or progressively over a period of up to 48 months. Options issued to third parties vest immediately.

(b) exercise price: $0.786 to $0.986 (2006- $0.17 to $0.34)

(c) grant dates: 19 March 2007 to 14 December 2007 (2006: 28 April 2006 to 15 June 2006)

(d) expiry dates: 19 March 2012 to 14 December 2012 (2006: 26 July 2007 to 15 June 2011)

(e) share prices at grant date: $0.67 to $0.71 (2006 - $0.275 to $0.28)

(f) expected volatility of the company's shares: 35.14% - 47.49% (2006 – 35.14%)

(g) expected dividend yield: 0% (2006 – 0%)

(h) risk-free interest rate: 6% (2006 – 6%)

(i) call life 5 years (2006 – 1.25 – 5 years)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

26 Share-based Payments continued

(d) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Options issued under employee option plan	**1,628,337**	317,969	**1,628,337**	317,969

In addition, options issued to employees and consultants directly involved in development activities were capitalised as part of development expenditure. The total amount capitalised was $1,612,776 (2006: $538,656).

27 Controlled Entities

Name	Country of incorporation	Percentage Owned 2007 %	Percentage Owned 2006 %
Parent Entity:			
Allegiance Mining NL			
Subsidiaries of parent entity:			
Allegiance Exploration Pty Limited	Australia	**100**	100
Allegiance Metals Pty Limited	Australia	**100**	100
Allegiance Mining Operations Pty Limited	Australia	**100**	100
Allegiance Mining Processing Pty Limited	Australia	**100**	100
AML (Bielsdown) Pty Limited	Australia	**100**	100
AML Holdings Pty Limited	Australia	**100**	100
Archer Nickel NL	Australia	**100**	100
Central Inca Gold Pty Limited	Australia	**100**	100
Eastren Pty Ltd	Australia	**100**	100
Heazle Pty Ltd	Australia	**100**	100
Ionex Pty Limited	Australia	**100**	100
Taswest Nickel Pty Ltd	Australia	**100**	100
Geothermal Energy Holdings Ltd	Australia	**100**	-
Geothermal Energy Tasmania Pty Limited	Australia	**100**	-
Geothermal Energy Tasmania Exploration Pty Ltd	Australia	**100**	-
Geothermal Energy Tasmania West Coast Pty Ltd	Australia	**100**	-

During the year, Allegiance Mining NL incorporated Geothermal Energy Holdings Ltd and its controlled entities (the Geothermal group). All these entities were shelf companies.

28 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Refer Note 24 for details of key management personnel shareholdings, option holdings and loans.

Transaction with related parties:

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and which in management's opinion is comparable to amounts that would have been paid to non-related parties.

Ionex Pty Limited, a subsidiary of Allegiance Mining NL, performed work on behalf of Wilcone Pty Limited, a company in which Mr David Deitz, a Director of the Parent Entity has a beneficial interest. The work was carried out on normal commercial terms. The value of the work amounted to $105,000 (2006: $75,000)

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Expenses incurred by the Parent Company and reimbursed by its associate entity Gullewa Limited at cost	**210,531**	152,961	**210,531**	152,961
Advance to Gullewa Limited	**946,659**	623,034	**946,659**	623,034
Total advances to associates	**946,659**	623,034	**946,659**	623,034

The parent company advanced a loan to Gullewa Limited, an associated company, which bears interest at 8.3% per annum with no fixed repayment terms.

29 Events After the Balance Sheet Date

(a) Exercise of Options

Since the year end, 5,940,000 options have been exercised at 17 cents, 50,000 options have been exercised at 34 cents, 1,350,000 options have been exercised at 78.6 cents, 187,500 options have been exercised at 19.4 cents, raising $2,124,275. The funds were received in March 2008 and the shares issued in March 2008.

(b) Offer from Zinifex

On 17 December 2007, Zinifex Australia Limited offered to purchase all the shares in the Company for 90 cents with an increase to $1.00 under certain conditions. On the 22 February 2008, this offer was increased to $1.10 and subsequent to year end, the Directors of the Company recommended to shareholders that they accept the increased offer of $1.10. Subsequent to this Zinifex Australia Limited have acquired more than 50% of the shares of the company.

29 Events After the Balance Sheet Date continued

(c) Loss on Disposal of Investments

Since the year end, the consolidated entity incurred realised losses of approximately $5,500,000 on disposal of financial assets held at fair value through profit or loss.

Further, the company has disposed of 14.9 million shares in Gullewa Limited and derived a profit of approximately $500,000.

(d) Tax Losses

The company has substantial brought-forward tax losses (refer note 14 of the Notes to the Financial Statements). In view of the acquisition of shares in the company by Zinifex Australia Limited, the company may not be able to satisfy the taxation legislation requirements to claim the unused tax losses as a deduction from assessable income in future years.

30 Company Details

(a) Registered office

The registered office and principal place of business of the company is:

Allegiance Mining NL
Level 11, Quantum House
49-51 York Street
Sydney NSW 2000

31 Financial instruments

(a) Financial Assets

The consolidated entity classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on which the financial assets were acquired or executed. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(b) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for selling in the short term or if so designated by management.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'receivables' in the balance sheet.

31 Financial instruments continued

(d) Recognition

Regular purchases and sales of investments are recognised on trade date – the date on which the consolidated entity commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the consolidated entity has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' category are presented in the income statement within the 'increase/(decrease) in fair value of financial instruments ' in the period in which they arise. The fair value of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same.

(e) Derivative financial instruments and hedging activities

The consolidated entity uses a range of derivative financial instruments to hedge the risk exposures arising from its operational and financing activities.

Derivatives are initially recognised at fair value on the date they are entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The consolidated entity has designated its derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction (cash flow hedge).

The consolidated entity documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 11 and 19. Movements of the hedging reserve in shareholders equity are shown in note 22. The fair value of hedging derivatives is classified as a non-current asset or non-current liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or current liability if the remaining maturity of the hedged item is less than 12 months.

(f) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'increase/(decrease) in fair value of financial instruments'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'increase/(decrease) in fair value of financial instruments'.

31 Financial instruments continued

(f) Cash flow hedges continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(g) Financial risk management

Financial risk factors

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial and commodity markets and seeks to minimize potential adverse effects on the consolidated entity's financial performance. The consolidated entity uses a range of derivative financial instruments to hedge these risk exposures.

Risk management is carried out by the Board of directors.

(h) Market Risk

i Foreign exchange risk

The consolidated entity is exposed to foreign exchange risk on its borrowings denominated in US dollars. In the future, the consolidated entity will be exposed to foreign exchange risk on its forecast sales transactions denominated in US dollars.

To manage the foreign exchange risk arising from the future forecast sales the consolidated entity uses forward foreign exchange currency options. The consolidated entity does not have any specific hedges in place to mitigate the foreign exchange risk on its repayment of borrowings, but uses forward foreign exchange contracts to hedge the expected drawdown of borrowings denominated in US dollars.

In managements opinion a sensitivity analysis would be unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The Group was not exposed to foreign exchange risk in 2006.

ii Price risk

In future reporting periods the consolidated entity will be exposed to commodity price risk, primarily nickel prices. The consolidated entity is also exposed to equity securities price risk because of investments held by the consolidated entity and classified on the consolidated balance sheet as fair value through profit or loss. The consolidated entity does not currently hedge its price risks.

31 Financial instruments continued

ii Price risk continued

At reporting date, if equity prices had been 10% higher or lower and all other variables were held constant, the Group's and company's:

Net profit would increase/ decrease by $466,612 (2006: $41,995) as a result of a change in the value of financial assets held for trading through profit or loss.

iii Credit risk

Credit risk refers to the risk that counterparty will default on their obligations which would result in a financial loss to the Group. Publicly available credit information from recognised providers is utilised for this purpose where available. Significant amounts of receivables have been secured, with the balance of the risk being mitigated by dealing only with creditworthy counterparties. The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of financial assets is the carrying amount of those assets as indicated in the balance sheet. The consolidated entity's credit risk is concentrated in Australia.

iv Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to fund ongoing expenditure. The consolidated entity manages this risk by maintaining adequate cash reserves from funds raised in the market, and maintaining flexibility in funding by keeping committed credit lines available.

The following table details the company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet.

	Consolidated							
	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	1-5 years	5+ years	Adjustment	Total
	$	$	$	$	$	$	$	$
2007								
Non-interest bearing	-	15,804,480	11,727,508	2,108,495	-	-	-	29,640,483
Variable interest rate instruments	7.46%	-	473,002	1,116,235	23,903,898	-	(3,347,307)	22,145,828
Fixed interest rate instruments	-	-	-	-	-	-	-	-
2006								
Non-interest bearing	-	4,591,291	-	227,283	-	-	-	4,818,574
Variable interest rate instruments	10.00%	-	-	10,636,003	-	-	(1,552,348)	9,083,655
Fixed interest rate instruments	-	-	-	-	-	-	-	-

31 Financial instruments continued

iv Liquidity risk continued

Parent

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	1-5 years	5+ years	Adjustment	Total
	$	$	$	$	$	$	$	$
2007								
Non-interest bearing	-	3,621,210	3,044,500	1,808,774	-	-	-	8,475,088
Variable interest rate instruments	-	-	-	-	-	-	-	-
Fixed interest rate instruments	-	-	-	-	-	-	-	-
2006								
Non-interest bearing	-	264,304	-	52,529	-	-	-	316,833
Variable interest rate instruments	10.00%	-	-	10,636,003	-	-	(1,552,348)	9,083,655
Fixed interest rate instruments	-	-	-	-	-	-	-	-

The following table details the company's and the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the company/Group anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the balance sheet.

Consolidated

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Adjustme nt	Total
	$	$	$	$	$	$	$	$
2007								
Non-interest bearing	-	6,755,266	11,867,701	1,947,959	-	248,135	-	20,819,061
Variable interest rate instruments	4.96%	23,973,089	-	-	-	-	-	23,973,089
Fixed interest rate instruments	-	-	-	749,442	-	-	-	749,442
2006								
Non-interest bearing	-	649,707	1,240,457	-	8,016,704	236,131	-	10,142,999
Variable interest rate instruments	6.18%	50,986,042	-	-	-	-	-	50,986,042
Fixed interest rate instruments	-	-	-	-	827,091	-	-	827,091

31 Financial instruments continued

iv Liquidity risk continued

	Parent							
	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Adjustment	Total
	$	$	$	$	$	$	$	$
2007								
Non-interest bearing	-	6,724,449	10,985,416	2,188,320	133,025,216	-	-	152,923,401
Variable interest rate instruments	4.96%	4,069,247	-	-	-	-	-	4,069,247
Fixed interest rate instruments	-	-	-	707,067	-	-	-	707,067
2006								
Non-interest bearing	-	649,707	6,400,378	-	1,594,891	31,573,401	-	40,218,377
Variable interest rate instruments	6.18%	50,822,757	-	-	-	-	-	50,822,757
Fixed interest rate instruments	-	-	-	-	677,091	-	-	677,091

The following table details the Group's liquidity analysis for its derivative financial instruments in 2007. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at reporting date.

The company and Group did not have any derivatives in 2006. The company does not have any derivatives in 2007.

	Less than 1 month	1- 3 months	3 months to 1 year	1-5 years	5+ years
2007	$	$	$	$	$
Interest rate swaps	-	-	-	-	-
Forward foreign exchange contracts	(20,468,506)	(5,129,374)	-	-	-
Forward foreign exchange currency options	-	-	(1,056,786)	(7,106,886)	-

Settlement of the Forward foreign exchange contracts will occur upon drawdown of available funds from the Project Finance Facility.

31 Financial instruments continued

v Interest rate risk

The consolidated entity's income and operating cash flows are substantially independent of changes in market interest rates. The consolidated entity's interest rate risk arises from long-term borrowings. The consolidated entity manages its cash flow interest rate risk by using floating to – fixed interest rate swaps. Under the interest rate swaps, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

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

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's net profit would not have increased or decreased by any significant amount.

(i) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern, so that it can provide future returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the consolidated entity may return capital to shareholders, issue new shares or sell assets to reduce debt. The consolidated entity's focus has being to raise sufficient funds through a combination of capital and borrowings to fund mining development. The consolidated entity monitors capital on the basis of the gearing ratio.

(j) Hedge accounting

i Interest rate swaps

The aggregate notional principal amounts of the outstanding interest rate swap contracts at 31 December 2007 were USD18,000,000 (2006: $nil) with interest rates of 6.58%. The hedged anticipated interest payment transactions are expected to occur at various dates between 1 month to 2 years from the balance sheet date as a result of the maturities of the underlying borrowings. Gains and losses recognised in the cash flow hedge reserve in equity on interest rate swap contracts as of 31 December 2007 will be continuously released to the income statement in each period in which interest payments are recognised in the income statement until the maturities of the underlying borrowings.

ii Forward foreign exchange contracts

The aggregate notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 were $25,598,000 (2006: $nil). Forward foreign exchange contracts are designated in cash flow hedge relationships.

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between one and two months from balance sheet date. Gains and losses recognised in the cash flow hedge reserve in equity on forward foreign exchange contracts as of 31 December 2007 will be released to the income statement when the underlying anticipated transactions affect the income statement.

31 Financial instruments continued

iii Forward foreign exchange currency options

The aggregate notional principal amounts of the outstanding forward foreign exchange currency options at 31 December 2007 were $179,300,000 (2006: $nil). Forward foreign exchange currency options are designated in cash flow hedge relationships.

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between six months and 3 years from balance sheet date. Gains and losses recognised in the cash flow hedge reserve in equity on forward foreign exchange currency options as of 31 December 2007 will be released to the income statement when the underlying anticipated transactions affect the income statement.

(k) Fair value estimation

The fair value of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the consolidated entity are the current bid prices for the assets. The fair value of financial instruments that are not traded in an active market are determined using established valuation techniques.

The fair value of interest rate swaps are calculated using the present value of the estimated future cash flows of these instruments. The fair value of forward foreign exchange contracts and forward foreign exchange currency options are determined using quoted foreign exchange rates at the balance sheet date. Two key variables are used in these valuations:

- appropriate market pricing data (for the relevant underlying interest rates or foreign exchange rates)
- discount rates

For derivative instruments, both of these variables are taken from observed market pricing data at the valuation date and therefore these variables represent those which would be used by market participants to execute and value the instruments.

The nominal value of receivables (less impairment allowances) and payables approximate their fair value.

32 Commitments

(a) *Mineral Tenement Leases*

In order to maintain current rights of tenure to exploration and mining tenements, the Consolidated Entity will have an expenditure commitment amounting to $1,965,000 (2006: $1,190,000) in the next 12 months, which is imposed by the relevant Mines Departments. These obligations are expected to be either fulfilled or renegotiated in the normal course of operations.

(b) *Capital Commitment*

The Group has entered into agreements with various third parties for construction activities on the Avebury project. These include construction of the processing plant, the installation and commissioning of the primary ball mill for the processing plant, the installation and commissioning of the mill thickener, the construction of the Tailings Storage Facility and the manufacture and installation of the flotation cells for the processing plant. The estimated cost of these commitments which will be incurred during 2008 is $20,128,000.

	Consolidated		Parent	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**

32 Commitments continued

(c) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Payable - minimum lease payments				
- not later than 12 months	**67,455**	-	**67,455**	-
- between 1 and 5 years	**27,140**	-	**27,140**	-
- greater than 5 years	**-**	-	**-**	-
	94,595	-	**94,595**	-

Operating leases include the lease of the company's premises which expires in September 2008. In addition, the company leases certain items of office equipment.

33 Contingent Liabilities

On 17 December 2007, Zinifex Australia Limited ("Zinifex") offered to purchase all the shares in the Company. The directors of the Company engaged Merrill Lynch International (Australia) Limited and Australia and New Zealand Banking Group Limited to advise them with respect to evaluation of the offer. Various fees were negotiated relating to various potential outcomes of the takeover offer. Since Zinifex acquired more than 50% of the shares in the Company subsequent to year-end, fees amounting to $10,376,696 (including GST) are payable by the Company.

Except for the matter set out above, there are no contingent liabilities at the balance sheet date.

34 Material Contracts

The Company has an agreement for the Purchase and Sale of Nickel Concentrate (“Offtake agreement) with Jinchuan Group Ltd for the nickel concentrates produced from the nickel mineral resources with a first right of negotiation for additional nickel concentrates produced. Net revenue will be a proportion of the gross value of the nickel content in the concentrates based on the prevailing spot price for nickel on the London Metals Exchange at the time of each shipment of nickel concentrates.

On 16th April 2007, the Company entered into a three year mining contract with Barminco Limited.

Allegiance Mining NL

ACN 059 676 783

Directors' Declaration

The directors of the company declare that:

1. In the directors opinion, the financial statements and notes, as set out on pages 18 to 69, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards; and

   (b) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the year ended on that date of the company and consolidated group;

2. The Chief Executive Officer and Chief Financial Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. In the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors, made pursuant to section 295(5) of the Corporations Act 2001.

Director ....

Dated 31 March 2008

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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Independent Auditor's Report to the members of Allegiance Mining NL

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Allegiance Mining NL, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 18 to 70.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 10 to 15 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error.

Member of
Deloitte Touche Tohmatsu

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation 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 opinions.

Auditor's Independence Declaration

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

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of Allegiance Mining NL is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 10 to 15 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ben Arthur

Ben Arthur
Partner
Chartered Accountants
Sydney, 31 March 2008

Allegiance Mining NL

ACN 059 676 783

Additional information for listed public companies

The shareholder information set out below was applicable as at 27 March 2008.

1. Distribution of Shareholders

Analysis of number of shareholders by size of holding.

Category of holding	Number	Number of Shares
1 - 1,000	376	240,355
1,001 - 5,000	953	2,899,537
5,001 - 10,000	562	4,526,242
10,001 - 100,000	921	29,029,503
100,001 - shares and over	155	745,759,673
Total	2,967	782,455,310

2. Twenty Largest Shareholders

The Top 20 Shareholders at 27 March 2008 does not reflect Zinifex Australia Limited's ("Zinifex") position that Zinifex has an interest of 73.03% and has an entitlement to 571,419,869 fully paid shares in the company at 27 March 2008.

The names of the twenty largest holders of quoted shares are:

	Number of Shares	Percentage of total shares
Zinifex Australia Limited	257,253,382	32.88
Bowyang Nominees Pty Limited	152,453,736	19.48
Zinifex Australia Limited	85,002,759	10.86
Jinchuan Group Ltd	80,623,044	10.30
Elise Nominees Pty Limited	35,729,000	4.57
HSBC Custody Nominees (Australia) Limited - a/c 2	18,753,701	2.40
J P Morgan Nominees Australia Limited	16,958,128	2.17
Champs Pty ltd	7,000,000	0.89
Howlandrose Holdings Pty Ltd	7,000,000	0.89
Societe Generale	5,890,000	0.75
York Corporate Pty Limited	4,955,492	0.63
Mr Ian Stolyar <Canchel Ltd Partnership a/c>	4,500,000	0.58
ANZ Nominees Limited <Cash Income a/c>	3,870,032	0.49
Champs Pty Ltd	3,800,000	0.49
HSBC Custody Nominees (Australia) Limited-gsi ecsa	3,532,501	0.45
Howlandrose Holdings Pty Ltd	3,300,000	0.42
Belike Nominees Pty Ltd <Prime Protection a/c>	3,000,000	0.38
Canchel Pty Ltd	3,000,000	0.38
HSBC Custody Nominees (Australia) Limited - a/c 3	2,000,000	0.26
Mr Barry Sullivan	2,000,000	0.26
Total	**700,621,775**	**89.5**

3. Substantial Shareholders

As at 27 March 2008 the substantial shareholders were as follows:

Shareholder	Number of Shares
Zinifex Limited	571,419,869
Macquarie Group Limited	40,186,046
UBS Nominees Pty Ltd	39,605,983

4. Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

5. Cancellation of Options

Pursuant to the Letter Agreement between the Company and Zinifex Australia Limited ("Zinifex") dated 22 February 2008, Zinifex has offered all option holders the opportunity to cancel their options in consideration of payment by Zinfex of the difference between the exercise price and the Offer price.

Option holders have commenced accepting this offer, resulting in the cancellation of 23,659,000 shares on 27 March 2008. Further the company has been advised by option holders that a further 779,000 options will be cancelled pursuant to the offer.

It is quite probable that all the remaining option holders will accept the offer resulting in the cancellation of all options.