

# ALBIDON LIMITED

**Financial Report 31 December 2007**



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**CORPORATE INFORMATION**

**ABN 86 107 288 755**

**Directors**

D. Potts *Chairman*  
J. Shaw *Deputy Chairman*  
D.C. Rogers *Managing*  
P.I. Chapman  
V. Chitalu  
A. Cooke  
C.J. De Guingand

**Company Secretary**

N.F. Day

**Registered Office**

3/F Barclays House, Wickhams Cay  
Road Town, Tortola, British Virgin Islands

**Principal Place of Business**

Level 1, 62 Colin Street  
West Perth, WA 6005, Australia

**Share Register**

Computershare Investor Services Pty Limited  
452 Johnston Street  
Abbotsford, Victoria 3067, Australia

Albidon Limited shares are listed on the Australian Stock Exchange (ASX) and the Alternative Investment Market (AIM) of the London Stock Exchange

**Solicitors**

Blakiston & Crabb  
1202 Hay Street  
West Perth, WA 6005, Australia

**Auditors**

Ernst & Young  
11 Mounts Bay Road  
Perth, WA 6000  
Australia

**Website**

[www.albidon.com](http://www.albidon.com)

## **DIRECTORS' REPORT**

Your Directors present their report on the Consolidated Entity consisting of Albidon Limited and the entities it controlled at the end of, or during, the year ended 31 December 2007.

### **DIRECTORS**

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### **Mr. Richard (Dick) Potts - Non Executive Chairman**

*ARSM, Bsc Mining Engineering, FIMM, FAusIMM, CEng (Age: 63)*

Mr Potts has 42 years experience in the minerals industry and has worked in Zambia, South Africa, Oman, UK and Australia. He is a mining engineer by profession and has had broad experience across the minerals spectrum from exploration to finished product. He has held senior management or consulting positions with a number of mining companies including Rio Tinto, Pasminco and Mount Isa Mines. He is currently a Non-Executive Director of Copper Strike Limited, Mintails Limited, Indophil NL and Riversdale Mining Limited.

Mr Potts' experience includes overall management responsibility for a large integrated base metal mine-concentrator-smelter facility and extensive involvement in due diligences, operational reviews, technical reviews and feasibility studies. He has also worked in the area of business development with responsibility for strategic and business planning, mine to market optimisation, logistics and major project management.

Mr Potts spent the formative part of his life in Zambia and South Africa and has a good understanding of the requirements to bring projects into operation in southern Africa.

#### **Mr. John Shaw - Non Executive Deputy Chairman**

*BSc (Geological Engineering), FAusImm, MCIM, FAICD, MAIME (Age 68) - Appointed 28 February 2008*

John Shaw has over 40 years experience in exploration, development and operations of open cut and underground mines. He previously was Vice President of the Australian Operations of Placer Dome Asia Pacific Limited and Managing Director of Kidston Gold Mines. His responsibilities included operations at Kidston, Big Bell, Granny Smith, Osborne and Misima.

Mr Shaw is a former Chairman of Gallery Gold Limited, Lodestone Exploration Limited, Tri Origin Minerals Limited and Zimbabwe Platinum Mines Limited, and was involved with the development of the Mupane Gold Mine in NE Botswana. Mr Shaw is a Non Executive Director of IAMgold Corporation and Discovery Metals Ltd.

#### **Mr. Dale Rogers - Managing Director**

*B.Eng. (Hons) Mining (Age: 44)*

Mr Rogers is a mining engineer by profession with over 20 years experience in both underground and open pit mining, processing and smelting operations. Mr Rogers has a broad range of experience in the base metals, gold and diamond industries.

His experience has included management roles at WMC's (now BHP Billiton's) operations in Kambalda, Kalgoorlie, Mt Keith and their Kalgoorlie smelter in Western Australia. Subsequent to this Mr Rogers was responsible for the management of several gold mining operations. In 2002 he formed his own consulting group to provide advice on mining operations, management services, feasibility studies, due diligence and acquisitions.

More recently Mr Rogers was a member of the Reliance Mining team that successfully developed the Beta-Hunt nickel project, culminating in the takeover of Reliance by Consolidated Minerals, completed a due diligence and provided advice to Avoca Resources for their purchase of the Higginsville Project in Western Australia and completed the scoping study for Albidon on the Munali Nickel Project.

**Mr. Alasdair Cooke - Executive Director**

*BSc (Hons) University of Western Australia (Age: 43)*

Mr Cooke is a founding director and shareholder of the company. He is a qualified geologist with 20 years of experience in the resources industry throughout Australia and internationally including eight years spent with BHP Minerals Business Development Group and over ten years managing public resource companies.

Mr Cooke is a founding partner of the Mitchell River Group, which over the past eight years has established a number of successful resource companies, including ASX listed Sally Malay Mining Ltd. (operating the Sally Malay and Lanfranchi nickel projects in Australia), ASX listed Mirabela Nickel Ltd. (developing the Santa Rita Nickel Project in Brazil) and ASX listed African Energy Resources Ltd (developing uranium projects in Africa). Mr Cooke is a former director of Sally Malay Mining Ltd and is also currently an Executive Director for African Energy Resources Ltd., Energy Ventures Ltd., Exco Resources Ltd. and Oval Biofuels Ltd.

**Mr. Paul Chapman - Executive Director**

*BComm, ACA, Grad. Dip. Tax, CFTP(Snr), MAICD, SA Fin (Age 49) - Appointed 18 April 2007*

Mr. Chapman is a chartered accountant with over 20 years resource industry experience gained in Australia and the US. He has worked in a number of commodity businesses including gold, nickel, manganese, bauxite/alumina and oil/gas.

Mr. Chapman has held executive roles in public companies of various sizes. He is Non-executive Chairman of ASX listed uranium explorer Encounter Resources Ltd., gold and copper explorer Rex Minerals Ltd. and gold producer Silver Lake Resources Ltd. His main focus will be on commercial management and business development.

**Mr. Christopher John Gilbert De Guingand - Non Executive Director**

*FCCA. Principal, Mineral Commerce Services Pty Ltd (Age: 75)*

Mr. De Guingand has had a long career in the mining industry, having been involved in financial or marketing roles as an executive, trader, director or consultant. He has held senior management positions in finance and marketing of non-ferrous metals and iron ore for CRA and Metals Exploration Limited (now QNI) for over 20 years.

In 1982 he formed his own consultancy Mineral Commerce Services Pty Ltd. (MCS). MCS advises on the marketing and logistic aspects of projects involving base metals (including nickel, copper, zinc and cobalt), phosphate rock, fertilizers, iron, chrome and manganese ores. MCS manages the shipment of nickel concentrates for several companies and Mr de Guingand has extensive knowledge of nickel processes and refined nickel products. Mr. De Guingand is currently Non-Executive Chairman of Sally Malay Mining Limited.

**Mr. Valentine Chitalu - Non Executive Director**

*MPhil, BAcc, FCCA (Age 43) - Appointed 18 April 2007*

Mr. Chitalu is a Zambian with a 20-year career in the fields of private equity, privatisation, merchant banking, corporate finance, accounting, auditing, development economics, capital markets and business development in transitional economies. He has previously held positions with CDC Capital Partners, London and Zambia offices, Zambia Privatisation Agency and KPMG Peat Marwick, London office.

Mr. Chitalu has a significant interest in private sector development in Africa and is extensively networked in East and Southern Africa. He is currently a Non-Executive Director of African Energy Resources Ltd. and has been Chairman of Albidon's wholly owned subsidiary Albidon Zambia Limited since 2005.

**Mr. Michael Brook - Non Executive Director**

*BSc (Hons) Uni. of Wales (Mining Geology) MAusIMM, MIMM, Chartered Eng. (UK) (Age: 49) – Resigned 24 May 2007*

Mr Brook is a geologist who has worked in Australia, North America and Africa. He was employed by Mt Isa Mines Limited (MIM) (now Xstrata) from 1982 to 1992 including the position of Chief Geologist at MIM's copper mining operations and he also worked as part of a project team on the Ernest Henry deposit. After Mount Isa, Mr Brook worked for 9 years as a resources analyst with institutional broking firm JB Were & Son, specialising in the research of emerging resource companies.

In 2001 Mr Brook joined AFL Management and is now an executive director of AFL Management Limited, the company that supplies investment advice and management services to AFL, Albidon's largest Shareholder.

Mr Brook resigned as a Director of the Company on 24 May 2007.

**Mr. Craig Burton - Non Executive Director**

*BJuris, LLB University of Western Australia MICD (Age: 44) - Resigned 15 May 2007*

Mr Burton has extensive business experience in venture capital. He has a track record of providing financial and corporate backing to start up projects and technical teams, with a particular interest in the resources and energy sectors.

Over the last 16 years Mr Burton has been a co-founder, substantial shareholder and director of sixteen public listings of new projects. The projects include the nickel, copper-gold, oil and gas, mining services, agribusiness and renewable energy sectors. The public listings include the Australian Stock Exchange, London AIM market and the Toronto Stock Exchange.

Mr Burton is a principal of Verona Capital, a private venture capital group. He is currently a director of Mirabela Nickel Limited, Wildhorse Energy Limited, Exco Resources NL, Capital Drilling Limited, Rewards Group Limited, Matra Petroleum plc and Livingstone Petroleum Ltd. He is a member of the Australian Institute of Company Directors.

Mr. Burton resigned as a Director of the Company on 15 May 2007.

**Dr. Donal Windrim - Executive Director**

*BSc (Hons) Trinity College Dublin, PhD Australian National University (Age: 50) – Resigned 31 October 2007*

Dr. Windrim has 25 years' experience in the international mineral exploration and mining industry, principally in Australia and Africa. He has conducted exploration for a range of base metals, principally nickel, in North and South America, Europe, India, Africa and Australia. He has previously held technical or management positions with Elf Aquitaine and BHP Minerals International (now BHP Billiton Limited). Dr Windrim was until recently a director of African Energy Resources Ltd.

Dr. Windrim's efforts in the past eight years have been directed at generating and developing mineral exploration projects based on his extensive knowledge of the geology and prospectivity of the regions of Africa targeted by Albidon. This work combined with the Company's exploration database formed the basis of the Company's current projects.

Dr. Windrim resigned as a Director of the Company on 31 October 2007 however he continues to be involved with Albidon as a consultant, providing advice on exploration strategy and business development.

**DIRECTORS AND COMMITTEE MEETINGS**

The number of Directors' meetings and number of meeting attended by each of the Directors of the Company during the financial year are:

<b>Director</b>	<b>A</b>	<b>B</b>
Mr. Richard Potts	9	9
Mr. Dale Rogers	9	9
Mr. Craig Burton	1	2
Mr. Alasdair Cooke	9	9
Dr. Donal Windrim	6	6
Mr. Christopher De Guingand	8	9
Mr Paul Chapman	7	7
Mr Valentine Chitalu	6	7
Mr. Michael Brook	1	2

A – Number of meetings attended

B – Number of meeting held during that time the Director held office during the year

The number of audit committee meetings and number of meetings attended by its members during the financial year are:

<b>Member</b>	<b>A</b>	<b>B</b>
Mr. Christopher De Guingand	3	3
Mr. Craig Burton	1	1
Mr. Valentine Chitalu	1	1
Mr. Nicholas Day	3	3

A – Number of meetings attended

B – Number of meeting held during that time the Director held office during the year

The number of remuneration committee meetings and number of meetings attended by its members during the financial year are:

<b>Member</b>	<b>A</b>	<b>B</b>
Mr. Craig Burton	3	3
Mr. Christopher De Guingand	3	3
Mr. Michael Brook	3	3
Mr. Richard Potts	3	3
Mr. Nicholas Day	6	6

A – Number of meetings attended

B – Number of meeting held during that time the Director held office during the year

## **REVIEW AND RESULTS OF OPERATIONS**

### **Principal Activities**

The principal activity of the Consolidated Entity during the period was the exploration, evaluation and development of mineral interests.

The operating loss after income tax for the twelve months ended 31 December 2007 was US\$2,205,075 (2006 US\$2,667,634).

### **Group Highlights**

#### *(i) Munali Nickel Project*

In February 2007 a power supply agreement was signed between Albidon and ZESCO Limited (the Zambian state energy company) to cover the total power requirements of the Munali Project for a ten-year period.

In April 2007, the Company entered into forward contracts for 9,020 tonnes of nickel over the period from June 2009 to December 2013. The level of hedging represents approximately 15% of the Munali Project's expected payable nickel from production.

The formal ground-breaking ceremony to launch the Munali Project was held on 3 April 2007, at which His Excellency the President of Zambia, Levy Patrick Mwanawasa SC, was guest of honour.

In April 2007 financing agreements were signed with the Jinchuan Group Limited of China to provide US\$20 million in subordinated debt funding for the Munali Project and 4,190,992 new ordinary shares were issued to Jinchuan at AU\$1.55 per share to raise US\$5 million.

In May 2007 the European Investment Bank and Barclays Capital formally approved a senior debt finance facility of up to US\$60 million for the Munali Project.

In August 2007 the Company announced the appointment of Mr Eben Swanepoel as Chief Executive Officer of Albidon Zambia Limited reporting to the Managing Director of Albidon Limited. Mr Swanepoel will be responsible for building the Munali implementation team and delivering the project on schedule and on budget.

In October 2007 the Company announced the engagement of Byrnegut Mining International Limited as the mining contractor for the Munali Nickel Project. Byrnegut will expedite underground mine development at Munali to reach initial production in mid 2008.

In November 2007 the Company announced that following a detailed review of the Munali project, costs through to positive cash flow were expected to increase by approximately 24% to US\$124m.

In December 2007 the company announced an initial Inferred Resource estimate of 1.2Mt @ 0.9% Ni and 1.1g/t of platinum group metals ('PGM') had been completed for the Voyager deposit at Munali. The Voyager deposit contains 11,500 tonnes of Ni and 43,800 ounces of PGM. The total Indicated and Inferred Resource for the Munali Project has now been increased to 10.3Mt @ 1.2% Ni and 0.9g/t for 123,500 tonnes of Ni and 286,800 ounces of PGM.

In December 2007 the Company completed a placement with Jinchuan Group Limited ("Jinchuan") and ZCCM Investments Holdings Plc ("ZCCM-IH") to raise US\$25 million at a price of US\$2.95 (AU\$3.35/£1.45) per share. The Company also secured a further US\$20 million in financing from Barclays Capital ("Barclays") on the same terms as the initial tranche of senior debt funding. 400,000 unlisted options exercisable at AU\$2.81 expiring on or before 1 February 2011 were allocated to Barclays in part consideration for the financing arrangements.

This funding from Jinchuan, ZCCM-IH and Barclays fulfilled the remaining funding required for development of the Munali Nickel Project in Zambia and ensures, going forward, Albidon retains sufficient funds for exploration, increased drilling programs and business development activities.

In January 2008 the Company announced that the main ore zone at the Munali Nickel Project had been intercepted in the underground development, two months ahead of schedule. Following a review of the construction schedule for the Munali concentrator the forecast date for first ore into the mill was brought forward to mid-April 2008.

*(ii) Exploration Projects*

In September 2007 the board of joint venture partner African Energy Resources approved a Pre-feasibility study to evaluate the commercial development of uranium mineralisation at the Njame deposit and Gwabe prospect in the Chirundu project, Zambia. Albidon currently owns a 70% interest in the Chirundu project.

In December 2007 the Company announced initial assay results from RC drilling at the Chisebuka Uranium Project had confirmed the presence of significant grades and thicknesses of near-surface uranium mineralisation.

In December 2007 an initial resource estimate by joint venture partner African Energy Resources was completed for the Gwabe uranium deposit in the Chirundu joint venture project. Inferred Resource of 4.2 million tonnes at 267ppm U<sub>3</sub>O<sub>8</sub> (-100 ppm U<sub>3</sub>O<sub>8</sub> cut-off) for 1,120 tonnes of U<sub>3</sub>O<sub>8</sub> (2.5 Mlb U<sub>3</sub>O<sub>8</sub>).

The Njame Deposit contains an additional 8.8 Mt @ 340ppm U<sub>3</sub>O<sub>8</sub> for 3,000 tonnes of U<sub>3</sub>O<sub>8</sub> (6.6 Mlb (U<sub>3</sub>O<sub>8</sub>), bringing the project total to 4,120t (9.1 Mlb) of U<sub>3</sub>O<sub>8</sub>. The Pre-feasibility Study for the Chirundu uranium project is due for completion at the end of the first quarter 2008.

At the Songea nickel project in Tanzania a number of high priority targets were defined by coincident geophysical and geochemical anomalies within highly prospective geology. Joint Venture partner BHP Billiton is currently sole-funding the exploration programme and plans to commence drilling in the second quarter of 2008.

In Tunisia, drilling at Khatkhadha in the historic Bou Aouane zinc mining area intersected a best result of 8.1m @ 11.7% Zn. Additional drilling is planned for 2008.

*(iii) Corporate Activities*

In February 2007, 250,000 unlisted options were exercised at AU\$0.60 each for total proceeds of AU\$150,000 (US\$118,000).

In April 2007, 600,000 unlisted options were exercised at AU\$0.60 each for total proceeds of AU\$360,000 (US\$296,000).

On 18 April 2007 Mr Valentine Chitalu was appointed as Non Executive Director, and Mr Paul Chapman as Executive Director to the board of Albidon Limited.

On 23 April 2007, 350,000 unlisted options (exercisable at AU\$2.60 on or before 20 May 2010) were allocated to key personnel on the Munali Project in Zambia.

In May 2007, 698,000 unlisted options were exercised at AU\$0.60 each for total proceeds of AU\$418,800 (US\$341,000).

In May 2007, 50,000 unlisted options (exercisable at AU\$1.05 on or before 30 June 2009) lapsed due to the termination of an employee contract in accordance with the terms and conditions of the unlisted options given to employees.

On 15 May 2007 Mr. Craig Burton resigned as a Director of the Company.

On 24 May 2007 Mr. Michael Brook resigned as a Director of the Company.

On 29 May 2007, Messrs Chapman and Chitalu were allocated 200,000 unlisted options each (exercisable at AU\$2.60 on or before 20 May 2010).

On 29 May 2007, 150,000 unlisted options (exercisable at AU\$1.70 on or before 1 December 2009) were allocated to key personnel.

On 29 May 2007, 1,200,000 unlisted options (exercisable at AU\$2.10 on or before 27 February 2010) were allocated to Mr Dale Rogers.

In June 2007, 1,250,000 unlisted options were exercised at AU\$0.60 each for total proceeds of AU\$750,000 (US\$628,000).

On 21 June 2007, Mr Dale Rogers was issued with 400,000 shares at a purchase price of AU\$0.75 each.

On 13 July 2007, 250,000 unlisted options exercisable at AU\$3.14 expiring on or before 27 July 2010 and 50,000 unlisted options exercisable at AU\$2.60 expiring on or before 20 May 2010 were allocated to key personnel.

*(iii) Corporate Activities (continued)*

On 13 July 2007, 200,000 unlisted options exercisable at AU\$2.80 expiring on or before 12 July 2010 were allocated to key personnel.

On 26 July 2007, 300,000 unlisted options exercisable at AU\$2.97 expiring on or before 12 July 2010 were allocated to key personnel.

On 3 August 2007 the Company announced that it had satisfied all material conditions precedent required for initial drawdown by Senior Lenders under the facility agreement and that first drawdown on the Jinchuan subordinated loan had taken place.

On 22 August 2007, 600,000 unlisted options exercisable at AU\$2.23 expiring on or before 1 September 2010 were allocated to key personnel.

On 31 October 2007 Dr. Donal Windrim resigned as a Director of the Company. He continues to be involved with the Company as a consultant, providing advice on exploration strategy and new business development.

On 30 November 2007,

- 350,000 unlisted options exercisable at AU\$2.88 expiring on or before 31 December 2010 were allocated to key personnel.
- 295,000 unlisted options exercisable at AU\$3.22 expiring on or before 1 November 2009 were allocated to key personnel.
- 400,000 unlisted options exercisable at AU\$3.22 expiring on or before 1 December 2011 were allocated to key personnel.
- 100,000 unlisted options exercisable at AU\$2.97 expiring on or before 31 December 2010 were allocated to key personnel.

On 21 December 2007, 400,000 unlisted options exercisable at AU\$2.81 expiring on or before 1 February 2011 were allocated to Barclays Capital.

In December 2007,

- 258,900 unlisted options were exercised at AU\$0.60 each for total proceeds of AU\$155,300 (US\$135,900).
- 250,000 unlisted options were exercised at AU\$0.75 each for total proceeds of AU\$187,500 (US\$164,700).
- 50,000 unlisted options (exercisable at AU\$2.60 on or before 20 May 2010) lapsed due to the termination of an employee contract in accordance with the terms and conditions of the unlisted options given to employees.
- 50,000 unlisted options (exercisable at AU\$1.05 on or before 30 June 2009) lapsed due to the termination of contract in accordance with the terms and conditions of the unlisted options given to contractors.

*(iv) Significant events after the balance date*

In January 2008, as part of the funding arrangements negotiated in December 2007, the Company received a second instalment of US\$5 million from ZCCM Investments Holdings Plc ("ZCCM-IH") to complete the transaction whereby the Company issued 3,389,831 shares at AU\$3.35/US\$2.95 cents each to ZCCM-IH to raise US\$10 million.

In February 2008 the Company completed the final issue of 5,084,746 shares at AU\$3.35/US\$2.95 cents each to the Jinchuan Group to raise US\$15 million.

In February 2008, as part of the funding arrangements negotiated in December 2007, the Company forward hedged 2,274 tonnes of nickel in addition to its original 9,020 tonnes hedged in May 2007. Total nickel now hedged is 11,294 tonnes which represents approximately 25% of the nickel in concentrate expected to be produced from the Munali Nickel Project over the hedging period.

On 25 February 2008, 100,000 unlisted options exercisable at AU\$3.25 expiring on or before 1 February 2011 were allocated to key personnel.

On 17 March 2008, the Company advised that subject to Shareholder approval Mr. John Shaw, Deputy Chairman, would be allocated 300,000 unlisted options exercisable at AU\$3.47 expiring on or before 30 June 2011.

## REMUNERATION REPORT

The remuneration report outlines the remuneration arrangements which were in place during the year, and remain in place as at the date of this report.

### Remuneration Policy

Albidon Limited aims to ensure that the level and composition of remuneration of its Directors and Executives are sufficient and reasonable for the sector in which the Company operates. Albidon Limited has adopted a Remuneration Policy to attract and retain talented and motivated personnel in order to achieve enhanced performance of the Company. A remuneration committee has been implemented to report all proposed arrangements to the Board. The Board is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

#### (i) Executive Directors

The remuneration of Albidon Limited's Executive Directors comprises some or all of the following elements: fixed salary; short term incentive bonus based on performance; long term incentive share and/or option scheme; and other benefits including employment insurances and superannuation contributions. In relation to the payment of bonuses, share options and other incentive amounts, discretion is exercised by the Board having regard to the overall performance of the Company and of the relevant individual during the period.

#### (ii) Non-Executive Directors

Albidon Limited's Non-Executive Directors are remunerated with a cash fee. There is currently no scheme to provide performance based bonuses or retirement benefits to Non-Executive Directors. Non-Executive Directors typically do not participate in equity or option schemes of the Company, however given Albidon Limited's size, focused nature of business and shareholding structure, issues of share options to Non-Executive Directors have previously been, and may in the future be, approved by shareholders to enhance overall shareholder wealth creation.

US\$ DIRECTORS	Cash salary	Superannuation	Directors fees	Shares	Options	Total
<b>Non-Executive Chairman</b>						
Mr. Richard Potts	-	-	65,250	-	-	65,250
<b>Non-Executive</b>						
Mr. Michael Brook	-	-	10,004	-	-	10,004
Mr. Christopher De Guingand	-	-	43,918	-	-	43,918
Mr. Craig Burton	-	-	12,548	-	-	12,548
Mr. Valentine Chitalu	-	-	37,644	-	107,481	145,125
<b>Executive</b>						
Mr. Dale Rogers	286,933	16,789	-	799,717	792,965	1,896,404
Dr. Donal Windrim	221,962	19,977	-	-	-	241,939
Mr. Alasdair Cooke	52,597	4,734	35,553	-	-	92,884
Mr. Paul Chapman	89,355	9,189	23,005	-	86,186	207,735

## OPTIONS

At the date of this report, the number of options over un-issued ordinary shares of the Company, held by each Director of the Company is as follows:

Director	Options	Exercise Price (AU\$)	Expiry Date
Mr. Dale Rogers	1,200,000	0.75	1 December 2008
	1,200,000	2.10	27 February 2010
Mr. Valentine Chitalu	100,000	1.05	30 June 2009
	200,000	2.60	20 May 2010
Mr. Paul Chapman	200,000	2.60	20 May 2010

## **DIRECTORS' INTERESTS**

The relevant interest of each Director in the share capital, as notified by the Directors to the Australian Stock Exchange and AIM market of the London Stock Exchange, at the date of this report is as follows:

<b>Director</b>	<b>Ordinary Shares</b>
Mr. Richard Potts	530,000
Mr. Dale Rogers	350,000
Mr. Alasdair Cooke	5,000,000
Mr. Christopher De Guingand	400,000
Mr. Paul Chapman	-
Mr. Valentine Chitalu	150,000
Mr John Shaw	-

- (i) Alasdair Cooke directly and through director related entities, owned 5,000,000 shares.
- (ii) Richard Potts directly and through a superannuation fund owned 530,000 shares.
- (iii) Christopher De Guingand directly and through director related entities, owned 400,000 shares.
- (iv) Dale Rogers directly owned 350,000 shares.
- (v) Valentine Chitalu directly owned 150,000 shares.

## **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Company will pursue activities consistent with its corporate objective and those of its joint venture partners.

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

## **ENVIROMENTAL REGULATION AND PERFORMANCE**

The Group holds licences issued by the relevant environmental protection authorities of the various countries in which the Group operates. There have been no significant known breaches of the consolidated entity's licence conditions.

## **SHARE OPTIONS**

### **Unissued Shares**

As at the date of this report, there were 7,301,100 unissued ordinary shares under options (7,003,100 at the reporting date). Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

### **Shares issued as a result of the exercise of options**

During the financial year, option holders have exercised options to acquire 3,306,900 fully paid ordinary shares in Albidon Limited at a weighted average exercise price of AU\$0.61 per share.

## **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

The Company has paid a premium and other charges for a Directors and Officers Liability policy for the benefit of the Directors, Secretary and Executive Officers of the Company. The policy prohibits the disclosure of the nature of Liability Insured and the amount of premium paid.

**AUDITOR'S INDEPENDENCE DECLARATION**

The directors have received the following declaration from the auditor of Albidon Limited.



Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843  
Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
www.ey.com/au

**Auditor's Independence Declaration to the Directors of Albidon Limited**

In relation to our audit of the financial report of Albidon Limited for the year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'V. W. Tidy'.

V W Tidy  
Partner  
Perth  
31 March 2008

**CAPITAL STRUCTURE AS AT 31 MARCH 2008**

**SHARES**

Total Shares	164,642,469
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**SHARE OPTIONS**

Unlisted options (expiring 30 Jun 2008 AU\$0.75)	150,000
Unlisted options (expiring 30 Jun 2008 AU\$0.60)	56,100
Unlisted options (expiring 1 Dec 2008 AU\$0.75)	1,200,000
Unlisted options (expiring 30 Jun 2009 AU\$1.05)	500,000
Unlisted options (expiring 20 May 2010 AU\$2.60)	350,000
Unlisted options (expiring 27 Feb 2010 AU\$2.10)	1,200,000
Unlisted options (expiring 1 Dec 2009 AU\$1.70)	150,000
Unlisted options (expiring 20 May 2010 AU\$2.60)	400,000
Unlisted options (expiring 27 Jul 2010 AU\$3.14)	250,000
Unlisted options (expiring 12 Jul 2010 AU\$2.80)	200,000
Unlisted options (expiring 27 Jul 2010 AU\$2.80)	300,000
Unlisted options (expiring 1 Sep 2010 AU\$2.23)	600,000
Unlisted options (expiring 1 Nov 2009 AU\$3.22)	295,000
Unlisted options (expiring 1 Dec 2011 AU\$3.22)	400,000
Unlisted options (expiring 31 Dec 2010 AU\$2.88)	350,000
Unlisted options (expiring 31 Dec 2010 AU\$2.97)	100,000
Unlisted options (expiring 1 Feb 2011 AU\$2.81)	400,000
Unlisted options (expiring 1 Feb 2011 AU\$3.25)	100,000
Unlisted options (expiring 30 Jun 2011 AU\$3.47)	300,000
<b>Total Options</b>	<b>7,301,100</b>

This report is made in accordance with a resolution of the Directors.



**Dale Rogers**  
Managing Director

Perth  
31 March 2008

**Consolidated income statement**

	Notes	2007 US\$	2006 US\$
<b>Continuing Operations</b>			
Revenue	6(a)	1,326,638	732,557
Other income	6(b)	2,886,159	1,187,845
Staff costs	6(c)	(4,946,944)	(1,573,431)
Depreciation and amortisation		(110,362)	(38,940)
Exploration & evaluation expenditure		(395,942)	(1,588,001)
Other expenses	6(d)	(964,624)	(1,387,664)
<b>Loss before income tax</b>		<b>(2,205,075)</b>	<b>(2,667,634)</b>
Income tax expense	7(a)	-	-
<b>Loss for the year</b>		<b>(2,205,075)</b>	<b>(2,667,634)</b>
<b>Loss attributable to equity holders of the parent</b>		<b>(2,205,075)</b>	<b>(2,667,634)</b>
<b>Loss per share (expressed in US cents per share)</b>			
- basic	8	(1.44)	(2.46)
- diluted	8	(1.44)	(2.46)

The accompanying notes form part of the Financial Report

**Consolidated balance sheet**

	Notes	2007 US\$	2006 US\$
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	9	4,175,383	826,626
Inventories	10	106,912	-
Other financial assets	11	254,415	401,758
Prepayments	12	698,257	129,384
Cash and cash equivalents	13	16,365,129	38,276,017
<b>Total current assets</b>		<b>21,600,096</b>	<b>39,633,785</b>
<b>Non-current assets</b>			
Plant and equipment	14	51,206,397	266,734
Mine properties & development	15	51,510,067	20,841,917
Deferred tax asset	7(d)	3,790,608	-
<b>Total non-current assets</b>		<b>106,507,072</b>	<b>21,108,651</b>
<b>Total assets</b>		<b>128,107,168</b>	<b>60,742,436</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	18,321,041	1,579,575
Other financial liabilities	17	76,749	-
Provisions	18(a)	366,592	97,461
<b>Total current liabilities</b>		<b>18,764,382</b>	<b>1,677,036</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	3(d)	33,733,809	-
Financial derivative liabilities	3(e)	15,162,431	-
Provisions	18(b)	445,598	-
<b>Total non-current liabilities</b>		<b>49,341,838</b>	<b>-</b>
<b>Total liabilities</b>		<b>68,106,220</b>	<b>1,677,036</b>
<b>Net Assets</b>		<b>60,000,948</b>	<b>59,065,400</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Issued capital	19	1,560,659	1,481,680
Share premium reserve	19	75,450,585	67,793,071
Capital raising costs	19	(3,275,182)	(3,234,599)
<b>Share capital</b>		<b>73,736,062</b>	<b>66,040,152</b>
Share capital to be issued	27(i)	5,000,000	-
Option premium reserve	20	2,828,746	1,017,471
Hedging reserve	3(e)	(11,366,562)	-
Accumulated loss		(10,197,298)	(7,992,223)
<b>Total shareholders' equity</b>		<b>60,000,948</b>	<b>59,065,400</b>

The accompanying notes form part of the Financial Report

**Consolidated cash flow statement**

	2007 US\$	2006 US\$
<b>Cash flows from/(used in) operating activities</b>		
Payment to suppliers	(1,707,092)	(3,319,433)
Payment to employees	(1,864,190)	(726,963)
Interest and other revenue received	1,592,425	736,580
<b>Net cash flows used in operating activities</b>	<b>(1,978,857)</b>	<b>(3,309,816)</b>
<b>Cash flows from/(used in) investing activities</b>		
Purchase of property, plant and equipment, and mine development	(63,275,156)	(203,269)
Borrowing and transaction costs	(3,554,040)	-
Payment to suppliers (exploration)	(4,293,728)	(11,782,959)
Repayments from other entities	404,282	419,600
<b>Net cash flows (used in)/from investing activities</b>	<b>(70,718,642)</b>	<b>(11,566,628)</b>
<b>Cash flows from/(used in) financing activities</b>		
Proceeds from issue of ordinary shares	11,936,775	45,837,797
Share issue transaction costs	(40,582)	(1,603,963)
Proceeds from loans	36,000,000	-
<b>Net cash flows from financing activities</b>	<b>47,896,193</b>	<b>44,233,834</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(24,801,306)</b>	<b>29,357,390</b>
Effects of exchange rate changes	2,890,418	1,183,822
Cash and equivalents at beginning of the period	38,276,017	7,734,805
<b>Cash and equivalents at end of the period</b>	<b>16,365,129</b>	<b>38,276,017</b>

## Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2007

	Issued Capital US\$	Share Premium US\$	Option Premium Reserve US\$	Hedging Derivative Reserve US\$	Capital Raising Costs US\$	Shares to be issued US\$	Accumulated (Loss) US\$	Total US\$
<b>At 1 January 2007</b>	<b>1,481,680</b>	<b>67,793,071</b>	<b>1,017,471</b>	-	<b>(3,234,599)</b>	-	<b>(7,992,223)</b>	<b>59,065,400</b>
Fair value of hedging adjustment net of tax	-	-	-	(11,366,562)	-	-	-	(11,366,562)
<b>Total income and expense for the period recognised in equity</b>	-	-	-	<b>(11,366,562)</b>	-	-	-	<b>(11,366,562)</b>
Net loss from ordinary activities	-	-	-	-	-	-	(2,205,075)	(2,205,075)
<b>Total income and expense for the year</b>	-	-	-	<b>(11,366,562)</b>	-	-	<b>(2,205,075)</b>	<b>(13,571,637)</b>
Shares issued	45,910	5,207,004	-	-	(30,331)	-	-	5,222,583
Shares to be issued	-	-	-	-	-	5,000,000	-	5,000,000
Share based payments	-	799,717	1,811,275	-	-	-	-	2,610,992
Exercise of options	33,069	1,650,793	-	-	(10,252)	-	-	1,673,610
<b>At 31 December 2007</b>	<b>1,560,659</b>	<b>75,450,585</b>	<b>2,828,746</b>	<b>(11,366,562)</b>	<b>(3,275,182)</b>	<b>5,000,000</b>	<b>(10,197,298)</b>	<b>60,000,948</b>

For the year ended 31 December 2006

	Issued Capital US\$	Share Premium US\$	Option Premium Reserve US\$	Hedging derivative reserve US\$	Capital Raising Costs US\$	Shares to be issued US\$	Accumulated (Loss) US\$	Total US\$
<b>At 1 January 2006</b>	<b>893,680</b>	<b>22,543,274</b>	<b>455,882</b>	-	<b>(1,630,637)</b>	-	<b>(5,324,589)</b>	<b>16,937,610</b>
Fair value of hedging adjustment net of tax	-	-	-	-	-	-	-	-
<b>Total income and expense for the period recognised in equity</b>	-	-	-	-	-	-	-	-
Net loss from ordinary activities	-	-	-	-	-	-	(2,667,634)	(2,667,634)
<b>Total income and expense for the year</b>	-	-	-	-	-	-	<b>(2,667,634)</b>	<b>(2,667,634)</b>
Shares issued	536,500	44,232,176	-	-	(1,603,962)	-	-	43,164,714
Share based payments	-	-	561,589	-	-	-	-	561,589
Exercise of options	51,500	1,017,621	-	-	-	-	-	1,069,121
<b>At 31 December 2006</b>	<b>1,481,680</b>	<b>67,793,071</b>	<b>1,017,471</b>	-	<b>(3,234,599)</b>	-	<b>(7,992,223)</b>	<b>59,065,400</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 General information**

The consolidated financial statements of Albidon Limited for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Directors dated 31 March 2008.

Albidon Limited ('the Company') is a Company incorporated in the British Virgin Islands, on 11 April 2000 whose shares are publicly traded. Its registered place of business is Level 1, 62 Colin Street, West Perth, Western Australia 6005.

The principal activities of the Company and its subsidiaries ('the Group') are described in note 5.

The Group had two hundred and ninety three employees as at 31 December 2007 (fifteen employees as at 31 December 2006).

### **2 Summary of significant accounting policies**

#### **a) Basis of preparation**

The consolidated financial statements of Albidon Limited and all its subsidiaries contained in this report have been prepared in accordance with the International Financial Reporting Standards ("IFRS") in effect as at balance date.

The functional currency of the Company and each of the subsidiaries is US dollars. This represents the currency of the primary economic environment in which the Company and each of the subsidiaries operates.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments which are measured at fair value.

Recently issued or amended International Accounting Standards not yet effective and not adopted for the year ended 31 December 2007, are not expected to result in significant accounting policy changes.

#### *(i) Changes in accounting policies*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 January 2007.

#### *(ii) Adoption of new International Financial Reporting Standards*

The Group has reviewed the following new and revised standards in light of the Group's existing accounting policies:

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

No material differences arose between the above standards and the Group's existing accounting policies.

In addition the Group has adopted IFRS7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The adoption of these standards has only affected method of disclosure in the Financial Statements. There has been no effect on the income statement or the balance sheet of the Group.

#### **b) Basis of consolidation**

The consolidated financial statements comprise the financial statements of Albidon Limited and its subsidiaries for the year ended 31 December 2007. The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All subsidiaries have been owned by the Group since their date of incorporation.

**c) Foreign currency translation**

Initial recognition of a foreign currency transaction is recorded in the functional currency at the spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the rate of exchange ruling at the balance sheet date. All exchange differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the original transactions.

**d) Exploration and evaluation expenditure**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation or sale of the area of interest; or
- (ii) 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.

Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment on a cash-generating unit basis. The cash generating unit shall not be larger than the area of interest. If sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the capitalised expenditure which is not expected to be recovered is charged to the income statement.

**e) Mine properties and development**

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mine property and development assets.

The carrying amounts of mine properties and development are depreciated, following the commencement of production, to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter.

**f) Cash and cash equivalents**

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less net of outstanding bank overdrafts.

**g) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

The collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor or default payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

**h) Trade and other payables**

Liabilities for trade creditors and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

**i) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

***i) Revenue (continued)***

*Interest*

Revenue is recognised as the interest accrues (using the effective interest rate method that is the rate that directly discounts estimated future cash receipts through the expected life of the financial asset) to the net carrying amount of the financial asset.

***j) Taxes***

*(i) Income tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill recognised or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be recognised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability on a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be recognised

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be recognised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is recognised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*(ii) Goods and Services Tax and Value Added Tax*

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) and value added tax (VAT), except where the amount of GST/VAT incurred is not recoverable from the relevant tax authority. In these circumstances the GST/VAT is recognised as a part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST/VAT included. The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

**k) Interest in joint ventures**

The Group's interest in its joint ventures is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint ventures' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

**l) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**m) Other financial assets**

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(i) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. Such assets are carried at the amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

*(ii) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, 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 the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in equity are recognised in the income statement.

**n) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**o) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

**p) Derivative financial instruments and hedging**

The Group uses derivative financial instruments to provide an economic hedge of exposures to nickel prices. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows.

Testing to ensure that a hedge is effective on both a retrospective and prospective basis is undertaken at each financial reporting period (at least semi-annually) from inception until contract maturity or until the hedge is closed out. A minimum of 30 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

**q) Segment Information**

Revenues and expenses are attributable to geographical areas based on the location of the assets producing or incurring those revenues and expenses.

**r) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the shorter of the useful life of the asset or the line of mine. The estimated useful life of the assets as follows:

Plant and equipment – over 2.5 to 10 years  
Motor Vehicles – over 4 years

The carrying value of items of plant and equipment are reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values of an asset exceed its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of net selling price and value in use. 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 assessment of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

**r) Property, plant and equipment (continued)**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

**s) Provisions for decommissioning and restoration costs**

The Group is required to decommission and rehabilitate mines and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities.

The expected cost of any approved decommissioning or rehabilitation program, discounted to its net present value, is provided when the related environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financing expenses. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related asset are adjusted and the effect is recognised in profit or loss on a prospective basis over the remaining life of the operation.

**t) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain of being received. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**u) Share-based payment transactions**

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Binomial model, further details of which are given in note 20. In valuing equity-settled transactions, no account is taken of any performance conditions, other than a condition linked to the price of the shares of Albidon Limited ('market conditions').

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors of the Group at that date, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

**u) Share-based payment transactions (continued)**

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings/loss per share (see note 8).

**v) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**w) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company and is split between issued capital (par value) and share premium reserve. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**x) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries and annual leave. Employee benefits expenses are recognised against profit on a net basis in their respective categories.

Contributions made by the Group to employee superannuation funds are charged as an expense when incurred.

**y) Earnings per share**

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preferences shares as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

### 3 Financial Risk Management

#### (a) Financial risk management objectives and policies

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects and ensure that net cash flows are sufficient to support the delivery of the Group's financial targets whilst protecting future financial security. The Group continually monitors and tests its forecast financial position against these objectives and in general will undertake hedging activity only when necessary to ensure the objectives are achieved.

The Group's activities expose it to a variety of financial risks; market, credit and liquidity. These risks are managed under Board approved directives through the Finance Committee. The Groups principal financial instruments, other than derivatives, comprise interest-bearing debt, cash and short term deposits. Other financial instruments include trade receivables and trade payables, which arise directly from operations.

It is, and has been throughout the period under review, Group policy that no speculative trading in financial instruments be undertaken.

#### (b) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Zambian kwacha and the Australian dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured by regularly monitoring, forecasting and performing sensitivity analysis on the Group's financial position.

The financial instruments denominated in Zambian kwachas and Australian dollars are as follows:

	Zambian kwacha		Australian dollar	
	2007 ZMK000's	2006 ZMK000's	2007 A\$	2006 A\$
<b>Financial Assets</b>				
Cash & cash equivalents	2,438,215	638,713	663,233	33,314,841
Trade receivables	12,260,367	2,274,111	414,552	361,036
	<b>14,698,582</b>	2,912,824	<b>1,077,785</b>	33,675,877
<b>Financial Liabilities</b>				
Trade payables	6,118,382	213,953	1,655,340	741,847
	<b>6,118,382</b>	213,953	<b>1,655,340</b>	741,847
<b>Net exposure</b>	<b>8,580,200</b>	2,698,871	<b>(577,555)</b>	32,934,030

The following table summarises the sensitivity of financial instrument held at the balance sheet date to movements in the exchange rate of the Zambian kwacha and Australian dollar to the US dollar, with all other variables held constant. The 5% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five year period.

	Impact on profit		Impact on equity	
	2007 US\$	2006 US\$	2007 US\$	2006 US\$
<b>Post-tax gain/(loss)</b>				
ZMK/USD +5%	110	29	-	-
ZMK/USD -5%	(110)	(29)	-	-
AUD/USD +5%	(17,702)	908,704	-	-
AUD/USD -5%	17,702	(908,704)	-	-

The Group has not entered into forward foreign exchange contracts. Natural hedges are utilised wherever possible to offset foreign currency liabilities.

**(b) Market risk (continued)**

*(ii) Commodity price risk*

The Group's future revenue forecasts are exposed to commodity price fluctuations, in particular nickel prices.

A hedging programme was placed in April 2007 in conjunction with the terms of the debt funding agreement for the Munali project. The Group entered into forward contracts for 9,020 tonnes of nickel over the period from June 2009 to December 2013. The level of hedging represents approximately 15% of the Munali project's expected payable nickel from production.

The following table summarises the sensitivity of the fair value of the financial instruments held at balance sheet date to movement in the price of nickel with all other variables held constant. The 10% sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical prices for the preceding five year period.

	Impact on profit		Impact on equity	
	2007	2006	2007	2006
	US\$	US\$	US\$	US\$
<b>Post-tax gain/(loss)</b>				
Nickel forward price +10%	<b>(74,350)</b>	-	<b>(19,999,839)</b>	-
Nickel forward price -10%	<b>95,514</b>	-	<b>19,999,839</b>	-

*(iii) Interest rate risk*

The Group's main interest rate risk arises from long-term borrowings in relation to the Munali project. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Interest rate risk on cash and short term deposits is not considered to be a material risk due to the short term nature of these financial instruments.

During 2007 and 2006, the Group's borrowings at variable rate were denominated in US Dollars. The Group analyses its interest rate exposure on a dynamic basis and where appropriate simulates various scenarios taking into consideration refinancing, renewal of existing positions, alternative financing and hedging options.

The financial instruments exposed to interest rate risk are as follows:

	2007	2006
	US\$	US\$
<b>Financial Liabilities</b>		
Interest bearing loans and borrowings	<b>(36,469,472)</b>	-
	<b>(36,469,472)</b>	-

As all these borrowings are related to a long-term qualifying development project, the Munali operation, the interest costs are capitalised in accordance with the policy outlined in note 2(o). Therefore the impact on Group profit is nil.

**(b) Market risk (continued)**

*(iii) Interest rate risk (continued)*

The effective interest rates on financial assets and liabilities as at 31 December 2007 were as follows:

2007		Weighted average interest rate	Fixed interest rate US\$	Floating interest rate US\$	Non-interest bearing US\$	Total US\$
	Notes					
<b>Financial Assets</b>						
Cash assets	13	3.17%	-	16,365,129	-	16,365,129
Security deposits		5.78%	-	254,141	-	254,141
Current receivables	9		-	-	4,175,383	4,175,383
Other financial assets	11		-	274	-	274
			-	<b>16,619,544</b>	<b>4,175,383</b>	<b>20,794,927</b>
<b>Financial liabilities</b>						
Payables	16		-	-	18,321,041	18,321,041
Interest bearing loans and borrowings	3(d)	8.43%	-	33,733,809	-	33,733,809
Other financial liabilities			-	-	76,749	76,749
			-	<b>33,733,809</b>	<b>18,397,790</b>	<b>52,131,599</b>

The effective interest rates on financial assets and liabilities as at 31 December 2006 were as follows:

2006		Weighted average interest rate	Fixed interest rate US\$	Floating interest rate US\$	Non-interest bearing US\$	Total US\$
	Notes					
<b>Financial Assets</b>						
Cash assets	13	5.14%	-	38,276,017	-	38,276,017
Security deposits		5.63%	-	181,539	11,388	192,927
Current receivables	9		-	-	826,626	826,626
Loans to other entities	11	7.00%	208,830	-	-	208,830
			<b>208,830</b>	<b>38,457,556</b>	<b>838,014</b>	<b>39,504,400</b>
<b>Financial liabilities</b>						
Payables	16		-	-	1,579,575	1,579,575
			-	-	<b>1,579,575</b>	<b>1,579,575</b>

**(b) Liquidity Risk**

The Group's liquidity position is managed to ensure that sufficient funds are available to meet its financial commitments in a timely and cost effective manner.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The table below reflects a balanced view of cash inflows and outflows and shows the implied risk based on those values. Loan obligations, trade payables and other financial liabilities originate from the financing of assets used in the Group's ongoing operations. These assets are considered in the Group's overall liquidity risk.

Management continually reviews the Group liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Note 3(d) details the repayment obligations in respect of the amount of the facilities and derivatives utilised.

Year ended 31 December 2007	≤6 months US\$	6-12 months US\$	1-5 years US\$	>5 years US\$	Total US\$
<b>Financial assets</b>					
Cash and cash equivalents	16,365,129	-	-	-	16,365,129
Trade and other receivables	4,175,383	-	-	-	4,175,383
Other financial assets	-	254,415	-	-	254,415
	<b>20,540,512</b>	<b>254,415</b>	<b>-</b>	<b>-</b>	<b>20,794,927</b>
<b>Financial liabilities</b>					
Trade and other payables	18,321,041	-	-	-	18,321,041
Interest bearing loans and borrowings	-	-	30,144,000	6,325,472	36,469,472
Financial derivative liabilities	-	-	15,162,431	-	15,162,431
Other financial liabilities	76,749	-	-	-	76,749
	<b>18,397,790</b>	<b>-</b>	<b>45,306,431</b>	<b>6,325,472</b>	<b>70,029,693</b>
<b>Net maturity</b>	<b>2,142,722</b>	<b>254,415</b>	<b>(45,306,431)</b>	<b>(6,325,472)</b>	<b>(49,234,766)</b>

Year ended 31 December 2006	≤6 months US\$	6-12 months US\$	1-5 years US\$	>5 years US\$	Total US\$
<b>Financial assets</b>					
Cash and cash equivalents	38,276,017	-	-	-	38,276,017
Trade and other receivables	826,626	-	-	-	826,626
Other financial assets	-	401,758	-	-	401,758
	<b>39,102,643</b>	<b>401,758</b>	<b>-</b>	<b>-</b>	<b>39,504,401</b>
<b>Financial liabilities</b>					
Trade and other payables	1,579,575	-	-	-	1,579,575
Interest bearing loans and borrowings	-	-	-	-	-
Financial derivative liabilities	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
	<b>1,579,575</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,579,575</b>
<b>Net maturity</b>	<b>37,523,068</b>	<b>401,758</b>	<b>-</b>	<b>-</b>	<b>37,924,826</b>

**(c) Credit Risk**

The Group's maximum exposure to credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the consolidated balance sheet. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

**(d) Financing facilities**

Secured loans	Facility US\$	2007		2006
		Unused US\$	Used US\$	Used US\$
<b>Non-current</b>				
Senior debt facility (i)	60,000,000	44,000,000	16,000,000	-
Subordinated debt facility (ii)	24,480,000	4,010,528	20,469,472	-
	84,480,000	48,010,528	36,469,472	-
Less: transaction costs	-	-	(2,735,663)	-
	84,480,000	48,010,528	33,733,809	-

- (i) The Group has arranged a senior debt facility of up to US\$60 million with the European Investment Bank and Barclays Capital to partially fund the development of the Munali project. The funding is secured against the assets of the project and the loans are repayable over scheduled instalments to December 2013. Interest rates are variable based on the London Inter-bank Offered Rate (LIBOR). Interest is paid quarterly. The facilities are subject to various covenants and a negative pledge restricting the amount of future secured borrowings. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.
- (ii) A subordinated debt facility of US\$20 million plus accruing interest has been arranged with Jinchuan Group Limited in conjunction with the senior debt facility. The funding is secured against the assets of the project and the loan is repayable over scheduled instalments to June 2014. Interest rates are variable based on LIBOR with interest paid at the end of the drawdown period. The facilities are subject to various covenants and a negative pledge restricting the amount of future secured borrowings. Neither the covenants nor the negative pledge have been breached at any time during the reporting period.

in the event of a default the Common Terms Agreement relating to the funding of the Munali project gives precedent to the senior debt over the subordinated debt. Repayment obligations in respect of the amount of facilities utilised are as follows:

	2007 US\$	2006 US\$
<b>Due</b>		
No later than one year	-	-
Later than one year but no later than two years	6,606,000	-
Later than two years but no later than three years	7,846,000	-
Later than three years but no later than four years	7,846,000	-
Later than four years but no later than five years	7,846,000	-
Later than five years	6,325,472	-
	36,469,472	-

**(e) Derivative instruments**

*Commodity Prices*

The Group's future revenues are exposed to commodity prices, particularly LME nickel prices. The Group may from time to time enter into commodity price derivative instruments to manage this exposure.

Instrument	Notional amount	Rate	Expiry	Hedge type	Fair Value	
					2007 \$US	2006 \$US
Nickel	Sell	Receive		Cash flow hedge - Manages risk		
Forward sale	1,148t	US\$11.92 - 12.01/lb	2009	from anticipated production from	3,587,877	-
	1,968t	US\$11.79 - 11.91/lb	2010	the Munali project	1,282,637	-
	1,968t	US\$11.66 - 11.78/lb	2011		(3,577,626)	-
	1,968t	US\$11.52 - 11.64/lb	2012		(7,065,204)	-
	1,968t	US\$11.39 - 11.51/lb	2013		(9,390,115)	-
					(15,162,431)	-

*Hedging reserve*

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

	2007 US\$	2006 US\$
Balance at beginning of the year	-	-
Loss recognised on cash flow hedges:		
Forward sale of nickel	<b>(15,162,431)</b>	-
Income tax related to loss recognised in equity	<b>3,790,608</b>	-
Transferred to profit and loss:		
Ineffective portion on cash flow hedges	<b>5,261</b>	-
Income tax related to amounts transferred to profit and loss	-	-
<b>Balance at end of the year</b>	<b>(11,366,562)</b>	-

**(f) Fair values**

The Directors have performed a review of the financial assets and liabilities as at 31 December 2007 and have concluded that the fair value of those assets and liabilities are not materially different to book values. The methods and assumptions used to estimate the fair value of financial instruments were:

- (i) *Cash*  
The carrying amount is fair value due to the liquid nature of these assets.
- (ii) *Receivables/payables*  
Due to the short term nature of these financial rights and obligations, their carrying values are estimated to represent their fair values.
- (iii) *Other financial liabilities and derivative financial instruments*  
Fair value is established by using market accepted valuation techniques.
- (iv) *Interest bearing liabilities*  
As the liabilities carry variable interest rate, the carrying amount is the fair value.

#### **4 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgements and estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

##### **(i) Significant accounting judgements**

###### *(a) Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

###### *(b) Determination of mineral resources and ore reserves*

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration. Albidon Limited estimates its mineral resources and ore reserves in accordance with the Albidon Limited 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 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.

##### **(ii) Significant accounting estimates and assumptions**

###### *(a) 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 that could impact the future recoverability include the level of reserves and 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.

***(li) Significant accounting estimates and assumptions (continued)***

*(a) Impairment of capitalised exploration and evaluation expenditure (continued)*

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced 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 that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

*(b) Impairment of capitalised mine development expenditure*

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes that 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 mine development expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

*(c) Impairment of property, plant and equipment*

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'. In determining value in use, future cash flows are based on:

- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

*(d) Provisions for decommissioning and restoration costs*

Decommissioning and restoration costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an 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 decommissioning and restoration 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.

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

*(e) Fair value of derivatives and other financial instruments*

The directors use their judgement in selecting an appropriate valuation technique for derivative financial instruments. Assumptions are made based on quoted market rates adjusted for specific features of the instrument.

*(f) Share-based payment transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Binomial model, further details of which are given in note 20. In valuing equity-settled transactions, no account is taken of any performance conditions, other than a condition linked to the price of the shares of Albidon Limited ('market conditions').

The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

## 5 Segment information

The Group operates in one principal area of activity, namely exploration and development of base metal tenements, and two principal geographical areas, namely Australia (head office) and Africa (operations).

<b>Geographical Segments</b>	<b>Australia</b>	<b>Africa</b>	<b>Consolidated</b>
<b>Year to 31 December 2007</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Revenue</b>			
Other	1,326,638	-	1,326,638
<b>Result</b>			
Segment result	(3,466,819)	1,261,744	(2,205,075)
(Loss)/profit before related income tax expense	(3,466,819)	1,261,744	(2,205,075)
Income tax expense	-	-	-
<b>Net (loss)/profit</b>	<b>(3,466,819)</b>	<b>1,261,744</b>	<b>(2,205,075)</b>
<b>Assets and liabilities</b>			
Segment assets	9,440,831	118,666,337	128,107,168
Segment liabilities	1,449,637	66,656,583	68,106,220
<b>Other segment information</b>			
<b>Capital expenditures</b>			
Mining assets	-	81,549,145	81,549,145
Administration assets	169,903	-	169,903
<b>Non-cash expenses:</b>			
Depreciation	(48,222)	(62,140)	(110,362)
Share-based payments expense	(2,610,993)	-	(2,610,993)
Unrealised/realised foreign exchange gains/(losses)	1,154,922	1,481,237	2,636,159
<b>Geographical Segments</b>			
<b>Year to 31 December 2006</b>			
<b>Revenue</b>			
Other	732,557	-	732,557
<b>Result</b>			
Segment result	(518,966)	(2,148,668)	(2,667,634)
(Loss) before related income tax expense	(518,966)	(2,148,668)	(2,667,634)
Income tax expense	-	-	-
<b>Net (loss)</b>	<b>(518,966)</b>	<b>(2,148,668)</b>	<b>(2,667,634)</b>
<b>Assets and liabilities</b>			
Segment assets	38,157,287	22,585,149	60,742,436
Segment liabilities	796,393	880,643	1,677,036
<b>Other segment information</b>			
<b>Capital expenditures</b>			
Mining assets	-	11,776,153	11,776,153
Administration assets	124,740	-	124,740
<b>Non-cash expenses:</b>			
Depreciation	(28,017)	(10,923)	(38,940)
Share-based payments expense	(561,589)	-	(561,589)
Unrealised/realised foreign exchange gains/(losses)	1,705,845	(522,023)	1,183,822

**6 Revenue and Expenses**

	2007	2006
	US\$	US\$
<b>(a) Revenue</b>		
Interest on bank balances	1,320,466	702,716
Interest on loans to related parties	6,172	29,841
	1,326,638	732,557
<b>(b) Other income</b>		
Foreign exchange gain	2,636,159	1,183,822
Other	250,000	4,023
	2,886,159	1,187,845
<b>(c) Staff costs</b>		
Salaries and personnel expenses	2,084,377	886,759
Superannuation expenses	104,264	54,538
Share based payment	2,610,993	561,589
Consultant expenses	147,310	70,545
	4,946,944	1,573,431
<b>(d) Other expenses</b>		
Advisory and audit fees	158,078	324,541
Travel expenses	248,382	235,007
Printing, stationery and advertising expenses	140,298	199,174
Occupancy and insurance expenses	133,301	186,905
Information technology and communications expenses	151,800	171,032
Company secretarial expenses	86,771	121,156
General administration expenses	40,733	149,849
Movement in fair value of ineffective portion of hedging derivatives	5,261	-
	964,624	1,387,664

**7 Income tax expense**

	2007 US\$	2006 US\$
<b>(a) INCOME TAX EXPENSE</b>		
Current tax	-	-
Deferred tax - relating to origination and reversal of temporary differences	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>(b) Amounts charged or credited directly to equity</b>	<b>3,790,608</b>	<b>-</b>
<b>(c) Numerical reconciliation between tax expense recognised in the income statement and tax expenses calculated per the statutory income tax rate</b>		
Accounting loss before income tax	<b>(2,205,075)</b>	(2,667,634)
At the Group's statutory income tax rate	<b>(661,523)</b>	(800,290)
Foreign tax rate adjustment	<b>(27,405)</b>	23,036
Share options expenses	<b>783,298</b>	168,477
Foreign exchange gains and other translation adjustments	<b>(785,147)</b>	(355,147)
Unrecognised tax losses	<b>690,777</b>	963,924
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>(d) Recognised deferred tax assets and liabilities</b>		
	2007	2006
	Current tax	Current tax
	US\$	US\$
Opening balance	-	-
Charged to income	-	-
Charged to equity	-	-
Closing balance	-	-
	Deferred tax	Deferred tax
	US\$	US\$
Tax expense in income statement	-	-
Amounts recognised in the balance sheet		
- Deferred tax asset	3,790,608	-
- Deferred tax liability	-	-
	<u>3,790,608</u>	<u>-</u>
	2007	2006
	US\$	US\$
<b>Deferred tax at 31 December relates to:</b>		
Deferred tax assets		
- Tax losses	3,790,608	-
<b>Gross deferred tax assets</b>	<b>3,790,608</b>	<b>-</b>
Set off deferred tax assets	-	-
<b>Net deferred tax assets</b>	<b>3,790,608</b>	<b>-</b>

## 8 Loss per share

(i) *Basic*

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

(ii) *Diluted*

Diluted loss per share amounts are calculated by dividing the net loss attributable to ordinary shareholders by the weighted number of ordinary shares outstanding during the year adjusted for the effects of dilutive options.

The following table reflects the income and share data used in the basic and diluted earnings per share computations:

	2007 US\$	2006 US\$
<b>Basic</b>		
Loss attributable to equity holders of the Company	(2,205,075)	(2,667,634)
Weighted average number of ordinary shares in issue	153,207,438	108,453,205
<b>Basic loss per share (US cents per share)</b>	<b>(1.44)</b>	<b>(2.46)</b>
<b>Diluted</b>		
Loss used to determine diluted loss per share	(2,205,075)	(2,667,634)
Weighted average number of ordinary shares for diluted loss per share	153,207,438	108,453,205
<b>Diluted loss per share (US cents per share)</b>	<b>(1.44)</b>	<b>(2.46)</b>
Weighted average number of ordinary shares for basic loss per share	153,207,438	108,453,205
Effect of dilution - share options	-	-
Weighted average number of ordinary shares adjusted for the effects of dilution	153,207,438	108,453,205

Since the reporting date and before the completion of these financial statements the following transactions occurred:

In January 2008, the Company issued 3,389,831 shares at AU\$3.35/US\$2.95 cents each to ZCCM Investments Holdings Plc.

In February 2008 the Company issued 5,084,746 shares at AU\$3.35/US\$2.95 cents each to the Jinchuan Group.

On 25 February 2008, 100,000 unlisted options exercisable at AU\$3.25 expiring on or before 1 February 2011 were allocated to the key personnel.

On 17 March 2008, the Company advised that subject to Shareholder approval Mr. John Shaw, Deputy Chairman, would be allocated 300,000 unlisted options exercisable at AU\$3.47 expiring on or before 30 June 2011.

Share options are considered as anti-dilutive as their inclusion would reduce the loss per share.

## 9 Trade and other receivables

	Notes	2007 US\$	2006 US\$
Trade receivables		809,006	30,049
GST/VAT receivables		3,321,530	679,440
Related entity receivables	25	44,847	117,137
		<b>4,175,383</b>	<b>826,626</b>

Trade and other receivables are non-interest bearing and have repayment terms within one year.

**10 Inventories**

	<b>2007</b>	<b>2006</b>
	<b>US\$</b>	<b>US\$</b>
Stores and materials - at cost	106,912	-
Work in progress - at cost	-	-
Finished goods - at cost	-	-
Finished goods - at net realisable value	-	-
	<b>106,912</b>	<b>-</b>

Stores and materials consist of consumable stores and are valued at weighted average cost.

**11 Other financial assets**

		<b>2007</b>	<b>2006</b>
		<b>US\$</b>	<b>US\$</b>
Security and term deposits		254,141	192,652
Loan to other entities (i)	25	-	208,830
Other		274	276
		<b>254,415</b>	<b>401,758</b>

(i) The loan to Mr. Brian Rudd (acting for the Capital Drilling group) represented the balance loaned for the purchase of a Schramm 685 drilling rig. The rig was being used at the Company's Munali site in Zambia. This rig was owned and operated by Mr. Rudd and held under trust by Albidon (Zambia) Limited. The loan bore an interest rate of 7%. The loan was repaid during 2007.

**12 Prepayments**

		<b>2007</b>	<b>2006</b>
		<b>US\$</b>	<b>US\$</b>
Prepayments		698,257	129,384

**13 Cash and cash equivalents**

		<b>2007</b>	<b>2006</b>
		<b>US\$</b>	<b>US\$</b>
Bank balances		16,328,589	38,245,672
Other cash and cash equivalents		36,540	30,345
		<b>16,365,129</b>	<b>38,276,017</b>
Weighted average interest rate		3.17%	5.14%
Committed undrawn borrowing facilities		<b>48,010,528</b>	<b>-</b>

## 14 Plant and equipment

### (a) Reconciliation of carrying amounts at the beginning and end of the period

	Assets under construction US\$	Plant & equipment US\$	Motor vehicles US\$	Total US\$
<b>At 1 January 2007, net of accumulated depreciation</b>	-	256,905	9,829	266,734
Additions	49,242,594	182,985	41,924	49,467,503
Reclassified from mine properties and development	1,582,522	-	-	1,582,522
Depreciation charge for the period	-	(103,978)	(6,384)	(110,362)
<b>At 31 December 2007, net of accumulated depreciation</b>	<b>50,825,116</b>	<b>335,912</b>	<b>45,369</b>	<b>51,206,397</b>
<b>at 31 December 2007</b>				
Cost	50,825,116	490,290	63,387	51,378,793
Accumulated depreciation	-	(154,378)	(18,018)	(172,396)
<b>Net carrying amount</b>	<b>50,825,116</b>	<b>335,912</b>	<b>45,369</b>	<b>51,206,397</b>

	Assets under construction US\$	Plant & equipment US\$	Motor vehicles US\$	Total US\$
<b>At 1 January 2006, net of accumulated depreciation</b>	-	87,204	15,200	102,404
Additions	-	200,544	-	200,544
Depreciation charge for the period	-	(30,843)	(5,371)	(36,214)
<b>At 31 December 2006, net of accumulated depreciation</b>	-	<b>256,905</b>	<b>9,829</b>	<b>266,734</b>
<b>at 31 December 2006</b>				
Cost	-	307,305	21,463	328,768
Accumulated depreciation	-	(50,400)	(11,634)	(62,034)
<b>Net carrying amount</b>	-	<b>256,905</b>	<b>9,829</b>	<b>266,734</b>

Contractual commitments (see note 24) for the acquisition of property, plant and equipment at 31 December 2007 were US\$15,057,500 (2006: US\$4,136,925).

### (b) Property, plant and equipment pledged as security for liabilities

Plant and equipment with a carrying value of US\$50,864,320 (2006 nil) are pledged as securities for non-current liabilities as disclosed in note 3(d).

## 15 Mine properties and exploration expenditure

### (a) Mine properties and development

	2007	2006
	US\$	US\$
<b>Mine properties and development - pre-production</b>		
<b>Opening at beginning of the period</b>	<b>20,841,917</b>	-
Transferred from exploration and evaluation expenditure	-	15,664,158
Pre-production exploration	4,293,728	1,827,852
Additions	27,956,944	3,349,907
Reclassified to plant and equipment	(1,582,522)	-
<b>Closing at end of the period</b>	<b>51,510,067</b>	<b>20,841,917</b>

Mine properties and development expenditure relates to the Munali project.

The Munali nickel deposit is located approximately 60km south of Lusaka in southern Zambia. The project is served by road, rail and power infrastructure as well as water supplies. The deposit was discovered in 1969 and was held by a number of owners prior to its acquisition by the Group in September 2002. The tenement covers an area of 737 sq km.

In accordance with the Company's policy for exploration and evaluation expenditures, once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mine property and development.

### (b) Mine properties and development pledged as security for liabilities

Mine properties and development with a carrying value of US\$51,064,069 (2006 nil) are pledged as securities for non-current liabilities as disclosed in note 3(d).

### (c) Borrowing costs capitalised

In 2007 borrowing costs of US\$903,713 were capitalised to mine properties and development (2006: nil).

## 16 Trade and other payables

	2007	2006
	US\$	US\$
Trade and other payables	12,511,244	1,179,717
Accrued expenses	5,809,797	399,858
	<b>18,321,041</b>	<b>1,579,575</b>

Trade payable and accruals are non-interest bearing and have repayment terms within one year.

**17 Other financial liabilities**

	2007	2006
	US\$	US\$
Zinifex Limited imprest account	76,749	-
	76,749	-

Under the terms of the Tunisian joint venture agreement with Zinifex Limited (see note 21), Zinifex have various cash expenditure commitments. These cash expenditures are processed through Albidon's payment systems on an imprest basis whereby Zinifex provide cash ahead of the occurrence of the expenditure. The above balance represents funding in the account at the balance sheet date in relation to future expenditure on the Tunisian joint venture.

**18 Provisions**

**(a) Current**

	2007	2006
	US\$	US\$
Employee entitlements and salaries	366,592	97,461
	366,592	97,461

Employee entitlements relate to annual leave amounts outstanding at 31 December. Employees are entitled to four weeks annual leave per year.

**(b) Non current**

	2007	2006
	US\$	US\$
Provision for restoration	445,598	-
	445,598	-

**Movement in the provisions recognised in the balance sheet are as follows**

Opening provision	-	-
Movement during the year	445,598	-
<b>Provisions as at 31 December</b>	<b>445,598</b>	<b>-</b>

The Group has recognised a provision for restoration related to the anticipated future costs of decommissioning and restoring mining and processing facilities at the Munali operations. These costs are subject to potentially significant uncertainties (see note 4 (ii) (d)). The costs are expected to be incurred at the end of Munali's mine life.

## 19 Share capital and reserves

### (a) Ordinary shares

	Authorised		Issued, called up and fully paid	
	Number	US\$	Number	US\$
Ordinary shares of US\$0.01 each	5,000,000,000	50,000,000	156,065,892	73,736,062
<b>Balance 31 December 2005</b>			<b>89,368,000</b>	<b>21,806,317</b>
Issued through private placement			14,150,000	9,857,385
Capital raising costs			-	(343,535)
Issued to African Lion on exercise of options			5,000,000	1,000,000
Issued through private placement			39,500,000	34,911,291
Capital raising costs			-	(1,260,428)
Issued to contractor on exercise of options			150,000	69,120
<b>Balance 31 December 2006</b>			<b>148,168,000</b>	<b>66,040,150</b>
Issued through private placement (i)			4,190,992	5,000,000
Capital raising costs			-	(28,280)
Issued to employees and contractors on exercise of options			3,306,900	1,683,862
Capital raising costs			-	(10,252)
Issued to Mr Dale Rogers (ii)			400,000	1,052,632
Capital raising costs			-	(2,050)
<b>Balance 31 December 2007</b>			<b>156,065,892</b>	<b>73,736,062</b>
Shares to be issued (iii)				<b>5,000,000</b>
				<b>78,736,062</b>

Represented by:	Share capital	Share premium	Capital raising costs	Total
	US\$	US\$	US\$	US\$
	1,560,659	75,450,585	(3,275,182)	73,736,062

- (i) On 12 April 2007, the Company issued 4,190,992 shares to Jinchuan Group Ltd. through a placement at AU\$1.55/US\$1.19 per share.
- (ii) On 21 June 2007, following Shareholder approval, Mr Dale Rogers was issued with 400,000 shares at a purchase price of AU\$0.75 each. The closing market price on that day was AU\$3.11.
- (iii) In December 2007 the Company completed a placement with ZCCM Investments Holdings Plc ("ZCCM-IH") to raise US\$10 million at a price of US\$2.95 (AU\$3.35/£1.45) per share. As part of the conditions of the placement ZCCM-IH agreed to pay in two equal instalments of US\$5 million in December 2007 and January 2008. Both these instalments were received and the shares were issued on 31 January 2008.

Ordinary shares have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

### (b) Options

Information relating to details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 20.

### (c) Capital management

The Company's Capital Management policy and objectives are consistent with previous periods.

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company did not pay a dividend during 2007, nor has any dividend been proposed up to the reporting date.

**(c) Capital management (continued)**

The Group is not subject to any externally imposed capital requirements. The Company issued shares subsequent to the year end as disclosed in Note 27(i). Management has no current plans to issue further shares on the market.

**(d) Nature and purpose of reserves**

*Share premium reserve*

The share premium reserve represents the premium received compared to par value for shares issued.

*Option premium reserve*

The option premium reserve is used to record the value of option based payments provided to employees, contractors and others. Refer to note 20 for further details.

*Hedging reserve*

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

## 20 Share based payments

The option premium reserve is used to record the options issued as share based payments in accordance with the accounting policy set out in Note 2(u).

Option Premium Reserve	US\$
<b>Balance 31 December 2005</b>	<b>455,882</b>
Issued to Directors, employees and contractors	561,589
<b>Balance 31 December 2006</b>	<b>1,017,471</b>
Issued to Directors, employees and contractors	1,811,275
<b>Balance 31 December 2007</b>	<b>2,828,746</b>

Set out below are summaries of options granted in 2007 and 2006:

### 2007

Exercise price	Grant date	Expiry date	Opening balance	Granted during the year	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
AU\$0.60 (i)	12/02/2004	30/06/2007	1,850,000	-	(1,850,000)	-	-	-
AU\$0.60 (i)	11/05/2004	30/06/2007	500,000	-	(500,000)	-	-	-
AU\$0.60 (i)	29/03/2005	30/06/2008	300,000	-	(198,000)	-	102,000	102,000
AU\$0.60 (i)	20/07/2005	30/04/2008	300,000	-	(300,000)	-	-	-
AU\$0.60 (i)	11/11/2005	30/06/2007	100,000	-	(100,000)	-	-	-
AU\$0.75 (i)	22/11/2005	30/06/2008	400,000	-	(250,000)	-	150,000	150,000
AU\$0.60 (i)	08/05/2006	30/06/2008	165,000	-	(108,900)	-	56,100	56,100
AU\$0.75 (ii)	13/07/2006	01/12/2008	1,200,000	-	-	-	1,200,000	800,000
AU\$1.05 (i)	19/10/2006	30/06/2009	600,000	-	-	(100,000)	500,000	200,000
AU\$2.60 (iii)	23/04/2007	20/05/2010	-	350,000	-	-	350,000	100,000
AU\$2.10 (iv)	29/05/2007	27/02/2010	-	1,200,000	-	-	1,200,000	200,000
AU\$1.70 (v)	29/05/2007	01/12/2009	-	150,000	-	-	150,000	75,000
AU\$2.60 (i)	29/05/2007	20/05/2010	-	400,000	-	-	400,000	-
AU\$3.14 (i)	13/07/2007	27/07/2010	-	250,000	-	-	250,000	-
AU\$2.60 (v)	13/07/2007	20/05/2010	-	50,000	-	(50,000)	-	-
AU\$2.80 (i)	13/07/2007	12/07/2010	-	200,000	-	-	200,000	-
AU\$2.97 (i)	26/07/2007	12/07/2010	-	300,000	-	-	300,000	-
AU\$2.23 (i)	22/08/2007	01/09/2010	-	600,000	-	-	600,000	-
AU\$3.22 (v)	30/11/2007	01/11/2009	-	295,000	-	-	295,000	-
AU\$3.22 (v)	30/11/2007	01/12/2011	-	400,000	-	-	400,000	-
AU\$2.88 (i)	30/11/2007	31/12/2010	-	350,000	-	-	350,000	-
AU\$2.97 (v)	30/11/2007	31/12/2010	-	100,000	-	-	100,000	-
AU\$2.81 (vi)	21/12/2007	01/02/2011	-	400,000	-	-	400,000	-
			<b>5,415,000</b>	<b>5,045,000</b>	<b>(3,306,900)</b>	<b>(150,000)</b>	<b>7,003,100</b>	<b>1,683,100</b>
Weighted average exercise price			AU\$0.67	AU\$2.58	AU\$0.61	AU\$1.53	AU\$2.06	AU\$1.05

### 2006

Exercise price	Grant date	Expiry date	Opening balance	Granted during the year	Exercised during the year	Lapsed during the year	Balance at the end of the year	Vested and exercisable at the end of the year
AU\$0.20 (vii)	23/10/2003	30/06/2007	5,000,000	-	(5,000,000)	-	-	-
AU\$0.60 (i)	12/02/2004	30/06/2007	2,000,000	-	(150,000)	-	1,850,000	1,233,333
AU\$0.60 (i)	11/05/2004	30/06/2007	500,000	-	-	-	500,000	333,333
AU\$0.60 (i)	29/03/2005	30/06/2008	300,000	-	-	-	300,000	200,000
AU\$0.60 (i)	20/07/2005	30/04/2008	300,000	-	-	-	300,000	100,000
AU\$0.60 (i)	11/11/2005	30/06/2007	100,000	-	-	-	100,000	33,333
AU\$0.75 (i)	22/11/2005	30/06/2008	400,000	-	-	-	400,000	133,333
AU\$0.60 (i)	08/05/2006	30/06/2008	500,000	-	-	(335,000)	165,000	-
AU\$0.75 (ii)	13/07/2006	01/12/2008	-	1,200,000	-	-	1,200,000	200,000
AU\$1.05 (i)	19/10/2006	30/06/2009	-	600,000	-	-	600,000	-
			<b>9,100,000</b>	<b>1,800,000</b>	<b>(5,150,000)</b>	<b>(335,000)</b>	<b>5,415,000</b>	<b>2,233,333</b>
Weighted average exercise price			AU\$0.38	AU\$0.80	AU\$0.21	AU\$0.60	AU\$0.67	AU\$0.61

**20 Share based payments (continued)**

- (i) These options vest in three equal annual tranches, each subject to completion of a full year of service with the Company.
- (ii) These options vest in six equal tranches, each subject to a different vesting condition as follows:
  - a. 200,000 immediately on issue.
  - b. 200,000 on completion of the Munali Feasibility Study;
  - c. 200,000 on completion of debt and equity financing for the Munali Project;
  - d. 200,000 on the commencement of commercial mining at the Munali Project;
  - e. 200,000 on the first US\$50 million of sales or the market capitalisation of the Company reaching AU\$150 million; and
  - f. 200,000 on three years of service or the next US\$100 million of sales or the market capitalisation of the Company reaching AU\$200 million.
- (iii) These options vest in four equal annual tranches, each subject to completion of a full year of service with the Company.
- (iv) These options vest in six equal tranches, each subject to a different vesting condition as follows:
  - a. 200,000 to vest on continued employment by Mr Dale Clark Rogers up to 31 December 2007;
  - b. 200,000 to vest on continued employment by Mr Dale Clark Rogers up to 31 December 2008;
  - c. 200,000 to vest on continued employment by Mr Dale Clark Rogers up to 31 December 2009;
  - d. 200,000 to vest on the Mechanical Completion where it occurs on or prior to 31 July 2008;
  - e. 200,000 to vest on the occurrence of Mechanical Completion where it is on budget (within 5% of budgeted development costs for the 2007 and 2008 annual budgets); and
  - f. 200,000 to vest on the occurrence of Economic Completion where it occurs on or prior to 30 June 2009.
- (v) These options vest in two equal annual tranches, each subject to completion of a full year of service with the Company.
- (vi) These options vest on a time basis in three equal annual tranches. They were granted to Barclays Capital in relation to the funding arrangements entered into in December 2007.
- (vii) These options vested at grant date

All options granted carry no dividend or voting rights. Upon a takeover bid for the Company all unvested options vest. The Company does not have an Employee Share Plan. The following table lists the inputs to the binomial model used for calculating the option expense for the year ended 31 December 2007 and 2006.

Grant date	Share price at grant date	Exercise price	Risk-free interest rate	Volatility factor	Useful life (years)	Expiry date
08/05/2006	0.68	0.55	5.70%	50%	2.60	30/06/2008
13/07/2006	0.68	1.05	5.70%	50%	2.60	01/12/2008
19/10/2006	1.34	2.60	5.97%	53%	2.69	30/06/2009
23/04/2007	3.10	2.10	6.19%	54%	3.03	20/05/2010
29/05/2007	3.10	1.70	6.22%	54%	2.75	27/02/2010
29/05/2007	3.10	2.60	6.22%	54%	2.50	01/12/2009
29/05/2007	3.10	3.14	6.22%	54%	2.97	20/05/2010
13/07/2007	3.15	2.60	6.22%	56%	3.00	12/07/2010
13/07/2007	3.15	2.80	6.22%	55%	2.85	20/05/2010
13/07/2007	2.86	2.97	6.21%	56%	3.00	12/07/2010
26/07/2007	2.86	2.23	6.21%	55%	3.01	27/07/2010
22/08/2007	2.10	3.22	6.53%	57%	3.03	01/09/2010
30/11/2007	2.65	3.22	5.88%	50%	1.92	01/11/2009
30/11/2007	2.65	2.88	5.88%	50%	4.01	01/12/2011
30/11/2007	2.65	2.97	5.88%	50%	3.08	30/12/2010
30/11/2007	2.65	2.81	5.88%	50%	3.08	30/12/2010
21/12/2007	3.15	2.81	6.02%	49%	3.12	01/02/2011

The expected volatility was determined by using a historical sample of the daily share price movement percentages over the useful life. The resultant expected volatility therefore reflects the assumption that historical volatility is reflective of future trends, which may not necessarily be the actual outcome.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007 is 2.25 years (2006: 1.24 years)

The weighted average fair value of options granted during the year was AU\$1.16 (2006: AU\$0.51).

## **21 Interest in joint ventures**

### **Albidon and BHP Billiton Limited**

Albidon and BHP Billiton Limited ("BHP Billiton"), previously WMC Resources Exploration Pty Limited, entered into an agreement in October 2004 for the exploration and development of a number of Albidon's nickel projects in east Africa.

BHP Billiton has elected to proceed to the earn-in stage of the agreement in respect of several tenements at Songea in Tanzania. Through sole funding of agreed exploration programmes, BHP Billiton may earn a 30% interest in this project by expending US\$5 million, inclusive of the amounts expended on the project area during the initial period.

BHP Billiton may complete a Pre-feasibility Study (including a JORC Measured Resource) on the Songea project to earn a 70% interest. Albidon may then elect to fund its 30% share of project expenditures, or may reduce to a 20% equity interest in return for BHP Billiton funding the first US\$10 million of a Bankable Feasibility Study.

### **Albidon and African Energy Resources Limited**

Albidon Limited and Energy Ventures Limited ("EVE") entered into an agreement in October 2005 for the exploration and development of a number of uranium and coal prospects that have been identified on Albidon's tenements in Zambia. The exploration programme is funded and managed by African Energy Resources ("AFR"), which is owned as to approximately 70% by EVE.

Having met the initial expenditure requirement of AU\$500,000 within 2 years, AFR has elected to enter into joint ventures with Albidon on three nominated project areas, Chirundu, Kariba and Luano. AFR has earned an equity interest of 30% in the Chirundu JV and is currently completing a Pre-feasibility Study on a JORC Indicated Resource to earn a 70% interest. On each of the Kariba and Luano joint ventures AFR is funding initial exploration programmes to earn a 30% interest.

### **Albidon and Zinifex Limited**

In December 2006 Albidon and Zinifex Limited ("Zinifex") entered into an agreement in respect of zinc projects in Tunisia. Under the key terms of the agreement Zinifex will make staged cash payments to Albidon of US\$1 million, with an initial payment of US\$250,000, and a minimum commitment of US\$1.3 million of expenditure. Zinifex has now completed this expenditure within the required 12 month period. The US\$250,000 was received during the year and is included in other income in the income statement.

Zinifex may earn a 51% interest in the projects by spending a total of US\$6 million on exploration within 3 years, and making a further cash payment of US\$750,000. No interest will be earned by Zinifex in the projects until this time. The minimum initial committed expenditure of US\$1.3 million is credited towards the earn-in, however the cash payments of US\$1 million are not included as project expenditures.

Zinifex may earn a total interest of 70% by spending an additional US\$5 million within two years. Thereafter Albidon may elect to contribute to project expenditures in proportion to its 30% interest or may sell its interest for cash plus a retained royalty.

### **Albidon and MM Mining plc**

In October 2007 Albidon and MM Mining plc ('MMM') entered into an agreement for the exploration and development of the Mpemba nickel project in Malawi. Under the agreement MMM will sole-fund initial exploration expenditure of US\$200,000 within 12 months, and may then earn a 75% interest by expending an additional \$US1.2 million within 4 years. Thereafter Albidon may elect to contribute to project expenditures in proportion to its 25% interest or may convert this to a 3% NSR royalty.

Apart from the balance on the Zinifex imprest account (see note 17) the Group has no recognised assets, liabilities, outstanding commitments or contingent liabilities in relation to these joint ventures.

## 22 Investments in subsidiaries

The consolidated financial statements include the financial statements of Albidon Limited and the subsidiaries listed in the following table:

	Country of incorporation	% Equity interest	
		31 December 2007	31 December 2006
Albidon Zambia Limited	Zambia	100	100
Tumbili Ventures Limited	Tanzania	100	100
Albidon Africa Limited	British Virgin Islands	100	100
Albidon Malawi Limited	Malawi	100	100
Albidon Mocambique Limitada (i)	Mozambique	100	100
Albidon Australia Pty Ltd	Australia	100	100
Albidon Botswana Pty Ltd	Botswana	100	100
Albidon Exploration Limited	Zambia	100	100
Albidon (UK) Ltd	United Kingdom	100	100

(i) Shares held by subsidiary undertaking.

## 23 Available for sale investments

	2007 US\$	2006 US\$
At fair value:		
Investment in Tausi Mining Pty Limited (Luwumbu JV)	-	-

Albidon owns 10% of equity in Tausi Mining Pty Limited, a company incorporated in Western Australia. The wholly owned subsidiary of Tausi Mining Pty Limited, namely Tausi Minerals Company Limited, holds project tenements in Tanzania. These tenements are subject to a joint venture arrangement ("the Luwumbu joint venture"). The asset is carried at fair value and as such, recorded at nil.

**24 Commitments**

As at 31 December 2007 the Group had the following commitments (all US\$):

**(a) Albidon Tenement Commitments:**

*(i) Exploration:*

Commitment on licenses requiring expenditures within 2 years :	US\$383,505
Commitment on licenses requiring expenditures within 3 years :	US\$201,132

**(b) Other:**

At the balance sheet date the following commitments existed in relation to the development of the Munali Project.

Not later the 1 year

<b>Commitment</b>	<b>\$US</b>
Plant construction	6,743,300
Flotation cells and thickeners	1,230,700
Mill crusher, feeder and conveyor equipment	1,070,800
Grinding equipment & construction	1,790,900
Insurance spares	959,100
Plant piping	797,300
Power	2,170,700
Reagent plant modules	294,700
<b>Total</b>	<b>15,057,500</b>

These commitments have not been provided for in the financial statements.

## **25 Related party transactions**

The following transactions were carried out with related parties:

### **Directors' interests**

Mitchell River Group Pty Ltd, an entity associated with Messrs Cooke, Burton and Windrim provides office space and administrative staff, facilities and services to the Company, the costs of which are then reimbursed by the Company. For the year ended 31 December 2007, these costs totalled US\$600,130 (2006: US\$532,094). During the year the Company recharged Mitchell River Group Pty Ltd the total of US\$84,285 (2006: US\$35,366) for rent and shared overheads. At 31 December 2007 US\$8,240 (2006: US\$19,318) was owing to the Company.

Hartree Pty Ltd, a mining consulting firm of which Mr. Alasdair Cooke is a director, has received fees of US\$25,887 (2006: US\$19,671) in respect of database access, field equipment rental and office cost recovery provided to the Company in the ordinary course of business.

In 2005 the Company made a loan of US\$865,527 to Mr Brian Rudd (acting for the Capital Drilling group) for the purchase of a drilling rig, which was paid off during 2007. US\$208,830 had been outstanding at 31 December 2006. US\$6,172 interest has been charged to the loan balance during 2007 (2006: US\$31,028). The rig is owned and operated by Brian Rudd and was held under trust by Albidon Zambia Limited. Mr. Rudd and Capital Drilling are experienced operators of drilling services in Africa. The rig has been used at the Company's Munali site in Zambia. The loan bore an interest rate of 7% pa. Mr Craig Burton has a 25% equity interest in the Capital Drilling group.

African Energy Resources Ltd, a uranium exploration firm of which Mr Donal Windrim and Mr Alasdair Cooke are directors, has been invoiced for the year ended 31 December 2007 US\$133,951 (2007: USD\$112,008) in respect of operating costs recovery provided by the Company in the ordinary course of business. At 31 December 2007 US\$38,107 (2006: US\$97,819) was owing to the Company.

Mineral Commercial Services Pty Ltd (MCS), a consulting firm of which Mr Chris de Guingand is a director, has received fees of US\$51,865 (2006: US\$110,166) in respect of services provided to the Company in the ordinary course of business. At 31 December 2007 the Company owed MCS US\$1,500 (2006: nil).

At 31 December 2007 US\$198,900 (2006: US\$216,969) was owed to Peregrine Pty Ltd, a mining consulting firm of which Mr Dale Rogers is a director, in relation to services provided before Mr Rogers became a director of the Company.

All of the above transactions were entered into on normal commercial terms.

### **Directors**

The Directors of the Company during the year, and up to the date of this report, were as follows:

- Dale Rogers
- Craig Burton
- Alasdair Cooke
- Donal Windrim
- Michael Brook
- Richard (Dick) Potts
- Christopher de Guingand
- Paul Chapman
- Valentine Chitalu
- John Shaw

**Compensation of key management personnel of the Group**

	2007 US\$	2006 US\$
Short term employee benefits	878,770	573,097
Post employment pension and medical benefits	50,689	35,945
Termination benefits	-	-
Share-based payments	1,786,348	325,560
<b>Total compensation paid to key management personnel</b>	<b>2,715,807</b>	<b>934,602</b>

**Directors' Options**

AU\$	Number	Exercise price	Expiry date	Fair value
2006 - Issued to Directors	1,200,000	0.75	01/12/2008	567,000
2006 – Issued to Directors	100,000	1.05	30/06/2009	57,530
2007 - Issued to Directors	1,200,000	2.10	27/02/2010	1,833,325
2007 - Issued to Directors	400,000	2.60	20/05/2010	542,075

Fair value represents the total expense which will be reported in the income statement over the vesting period of the respective options.

**26 Contingent assets and liabilities**

There are no identified contingent assets or liabilities as at balance date or up to the date of this report.

**27 Events after the balance sheet date**

(i) *Share capital issues*

In January 2008, as part of the funding arrangements negotiated in December 2007, the Company received a second instalment of US\$5 million from ZCCM Investments Holdings Plc ("ZCCM-IH") to complete the transaction whereby the Company issued 3,389,831 shares at AU\$3.35/US\$2.95 cents each to ZCCM-IH to raise US\$10 million. The first instalment payment was received in December 2007 and is included as "Share capital to be issued" in the Balance Sheet at 31 December 2007.

In addition, in February 2008 the Company completed the final issue of 5,084,746 shares at AU\$3.35/US\$2.95 cents each to the Jinchuan Group to raise US\$15 million.

The funds raised will be used to help fund the development of the Munali Nickel Project in Zambia and will also ensure Albidon retains sufficient funds for exploration, increased drilling and business development activities.

(ii) *Hedging*

As part of the funding arrangements negotiated in December 2007, in February 2008 the Company has forward hedged 2,274 tonnes of nickel in addition to its original 9,020 tonnes hedged in May 2007. Total nickel now hedged is 11,294 tonnes which represents approximately 25% of the nickel in concentrate expected to be produced from the Munali Nickel Project over the hedging period. The weighted average hedge prices per year for all of the hedged nickel are:

	2009	2010	2011	2012	2013
Average hedge price (US\$ per tonne)	28,095	26,328	23,516	21,215	19,383
Nickel tonnes hedged	1,934	2,340	2,340	2,340	2,340

*(iii) Options*

On 25 February 2008, 100,000 unlisted options exercisable at AU\$3.25 expiring on or before 1 February 2011 were allocated to the key personnel.

On 17 March 2008, the Company advised that subject to Shareholder approval Mr John Shaw, Deputy Chairman, would be allocated 300,000 unlisted options exercisable at AU\$3.47 expiring on or before 30 June 2011.

Apart from the above there has not arisen in the interval between the end of financial period and the date of these financial statements any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the entity, the results of these operations, or the state of affairs of the entity, in future financial periods.

**DIRECTORS' DECLARATION**

In accordance with a resolution of the board of Directors of Albidon Limited, I state that:

In the opinion of the Directors:

- a) the financial statements and notes of the Consolidated Entity:
  - i. give a true and fair view of the financial position as at 31 December 2007 and the performance for the year ended on that date of the Consolidated Entity; and
  - ii. comply with International Financial Reporting Standards,
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Dale Rogers**  
Director  
31 March 2008

## **Independent auditor's report to the members of Albidon Limited**

We have audited the accompanying financial report of Albidon Limited and the entities it controlled (the "Group") during the year ended 31 December 2007, which comprises the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards. This responsibility includes establishing and maintaining internal controls 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.

### *Auditor's Responsibility*

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

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

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

### *Independence*

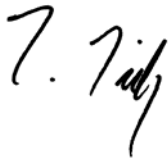
In conducting our audit we have met the independence requirements of Australian and International professional ethical pronouncements.

*Auditor's Opinion*

In our opinion the consolidated financial report presents fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'V. W. Tidy'.

V W Tidy  
Partner  
Perth  
31 March 2008