



CAZALY

RESOURCES LIMITED

ABN 23 101 049 334

AND CONTROLLED ENTITIES

Consolidated Financial Report
For the Half-Year Ended
31 December 2010

CAZALY RESOURCES LIMITED
ABN 23 101 049 334
AND CONTROLLED ENTITIES

CONSOLIDATED HALF-YEAR FINANCIAL REPORT
For the Half Year Ended 31 December 2010

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COMPANY DIRECTORY

MANAGING DIRECTOR

Nathan McMahon

MANAGING DIRECTOR

Clive Jones

NON-EXECUTIVE DIRECTOR

Kent Hunter

COMPANY SECRETARY

Lisa Wynne

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SHARE REGISTRAR

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STOCK EXCHANGE LISTING

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

Code: CAZ

BANKERS

National Australia Bank

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PERTH WA 6000

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES
ABN 23 101 049 334

HALF-YEAR FINANCIAL REPORT
DIRECTORS' REPORT

Your directors submit the financial report of the consolidated group for the half-year ended 31 December 2010.

DIRECTORS

The names of Directors who held office during or since the end of the half year:

Nathan Bruce McMahon
Clive Bruce Jones
Kent Michael Hunter

COMPANY SECRETARY

Lisa Wynne

REVIEW OF OPERATIONS

Parker Range Iron Ore Project

The Parker Range Iron Ore Project – Mt Caudan Deposit Definitive Feasibility Study (DFS) has now been substantially completed, pending economic port allocation at Kwinana Bulk Terminal (KBT) by Fremantle Ports. The results of the DFS will be finalised upon confirmation of port allocation.

Pending economic port allocation, the DFS indicates that the Parker Range Iron Ore Project is both technically and economically feasible. The DFS assessed an assumed production rate of 2.9 Mtpa from Parker Range Iron Ore Operation.

Since the PFS project evaluation, a material increase in price forecast for Parker Range Iron Ore product price realization has been estimated. This forecasting has a strongly positive material effect on the project economics and is summarised below:

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**HALF-YEAR FINANCIAL REPORT
DIRECTORS' REPORT**

Table 1 – Comparison between PFS and DFS PRIOP Fines Price Realization (Nominal Terms)

Half Yearly	Unit	Jun 11	Dec 11	Jun 12	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14	Jun 15	Long Term
<u>Prefeasibility Study</u>											
FX (PFS)	A\$/US\$	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
IOF price (PFS)	US¢/dmtu	117.29	118.75	120.26	122.41	124.31	128.44	128.44	119.80	119.80	87.0*
<u>Definitive Feasibility Study</u>											
FX (DFS)	A\$/US\$	0.98	0.94	0.90	0.86	0.85	0.85	0.84	0.84	0.80	0.80
IOF Price (DFS)	US¢/dmtu	219.05	214.29	208.73	203.17	191.27	179.37	155.56	131.75	115.87	95.24*

*Long term prices real basis.

The Project Ministerial Approvals are progressing to plan. Ministerial Approval under Part IV of the Environmental Protection Act 1986 has progressed with the Environmental Impact Assessment (PER) Report released for public comment on the 29th November 2010. Public submissions closed on the 10th January 2011. Cazaly has now received the public submissions and will complete the formal responses in February. Cazaly has submitted the Mining Proposal for the project seeking ministerial approval under the Mining Act, 1978. Works approvals under Part V of the Environmental Protection Act 1986 are in advanced preparation. Cazaly continues to consult with government departments regarding approval matters raised and is forecasting to receive all ministerial approval for Parker Range Project implementation by Q2/2011.

Cazaly has executed key agreements with the State for the lease of land at the Moorine Rocks rail terminal site (initial 10 year term) and conditional purchase lease of the Marvel Loch village site (lease, with 4 years to commence village construction then acquire site freehold).

These agreements are key milestones for the project development and the Company acknowledges the great support from the State Government thus far.

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HALF-YEAR FINANCIAL REPORT DIRECTORS' REPORT

Definitive Feasibility Study

The Parker Range Project lies approximately 15 kilometres south-east of Marvel Loch and approximately 50 kilometres by road south of the Perth–Kalgoorlie railway.

A Pre-Feasibility Study (PFS) indicated very robust economics for the project which greatly benefits from its close location to existing and accessible infrastructure including road, rail, port, power and township. This access allows for the relatively rapid development and ramp up to full production of 4 Mtpa within 1.5 years. The PFS has shown that the Company is on track to become the second major iron ore producer in the Yilgarn region of Western Australia, behind Koolyanobbing Operations who have successfully operated in the region for many years. These positive results now allow for the commencement of a Definitive Feasibility Study (DFS) into the project.

Numerous other technical programmes are on-going including hydrology, geotechnical and environmental studies.

The DFS is now substantially completed and is now largely awaiting final allocation of export availability from the Fremantle Port Authority.

Strategic Partnerships

The Company has completed negotiations that provide a full mine to market solution for the project subject to port access. The Company's partners will initially assist in the finalisation of the Definitive Feasibility Study (DFS) and will provide for the project as follows:

- **HWE Mining:** to provide financing for and the operation of the construction, mining, processing and transport of the ore to the rail head.
- **Pacific National Bulk Rail:** provision of capital items (locomotives, wagons) and rail haulage services from rail head to the Port at Kwinana.
- **Euromin/Tennant:** provision of a \$30million facility, primarily to fund the remaining capital costs of the project being the port facilities, and to jointly provide marketing for the product.

These arrangements are a major step forward for the potential development of the PRIOP. On the assumption that final agreements are successfully negotiated then they will provide a framework that will greatly reduce the capital requirements of the company whilst giving Cazaly access to highly credentialed and experienced operating partners.

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**HALF-YEAR FINANCIAL REPORT
DIRECTORS' REPORT**

Updated Resource Estimate – Mount Caudan Deposit

Following completion of infill drilling, an updated Mineral Resource Estimate has been completed. The new Estimate includes 52 RC and 14 diamond holes for over 4,000m of drilling which has provided significant new geological information and confidence in the geological model. Over 90% of the deposit is now in Measured and Indicated resource categories.

**Table 2 - Mt Caudan Iron Ore Deposit
Current Resource Estimate (52% Fe Cut-off)**

Type	Measured Mineral Resource								
	Tonnes Mt	Fe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %	CaFe %
Detrital	3.2	55.0	6.3	0.013	7.1	6.4	0.6	0.07	-
Oxide	20.2	56.3	2.0	0.020	5.9	9.3	1.3	0.07	62.1
Total	23.4	56.2	2.6	0.019	6.0	8.9	1.2	0.07	61.7

Type	Indicated Mineral Resource								
	Tonnes Mt	Fe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %	CaFe %
Detrital	0.3	53.2	7.6	0.012	7.5	7.1	0.8	0.07	57.2
Oxide	7.1	57.0	2.7	0.024	5.7	9.1	0.5	0.09	62.6
Total	7.3	56.8	2.9	0.023	5.8	9.0	0.5	0.09	62.4

Type	Inferred Mineral Resource								
	Tonnes Mt	Fe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %	CaFe %
Detrital	0.3	54.4	5.1	0.022	6.5	9.6	0.1	0.09	-
Oxide	2.6	54.1	3.4	0.016	9.1	8.6	0.5	0.15	59.2
Total	2.9	54.2	3.6	0.016	8.8	8.7	0.4	0.14	59.3

Type	Total Mineral Resource								
	Tonnes Mt	Fe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %	CaFe %
Detrital	3.8	54.9	6.3	0.014	7.1	6.8	0.6	0.07	58.9
Oxide	29.8	56.3	2.3	0.021	6.1	9.2	1.0	0.08	62.0
Total	33.6	56.1	2.7	0.020	6.2	8.9	1.0	0.08	61.6

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HALF-YEAR FINANCIAL REPORT DIRECTORS' REPORT

Pilbara Iron Ore Projects

Winmar

During the half year Cazaly divested an initial 51% interest in the Hamersley Iron Ore project, to Winmar Resources Limited (ASX:WFE). Winmar was re-instated to the official list of the ASX on 28 February 2011.

Under the agreement WFE has the right, subject to shareholder approval and compliance with all relevant ASX Listing Rules, to earn an initial 51% interest in the project by paying an immediate sum of \$100,000, paying a further sum of \$300,000 within 14 days and, a final payment of \$3,600,000 within 60 days. The initial sums totalling \$400,000 has been paid. In addition, Cazaly will manage and operate the project with WFE to provide funding of up to \$6 million for the completion of a Definitive Feasibility Study (DFS), expected within 3 years or less. During this period CAZ's interest in the project is effectively free carried.

WFE also has the right to purchase 100% equity interest in the project by paying CAZ \$0.50/tonne of its participating interest in a JORC compliant mineral resource within 18 months or, if between 18 months and 36 months, by the payment of \$1.00/tonne of CAZ's participating interest in a JORC compliant mineral resource. Current inferred resources for the project are stated at 143Mt @ 52.6% Fe (55.6% CaFe). CAZ will be managers of the project and responsible to completion of the DFS unless it sells its remaining equity to WFE.

The Hamersley project hosts the Winmar iron ore deposit located approximately 50km NE of Tom Price in the Pilbara Region of Western Australia. The project is well placed amongst existing infrastructure and lies immediately south of FMG's Solomon project and hosts the Winmar iron ore deposit. The Company previously recognised potential for the area to host Channel Iron Deposits (CID's) akin to those occurring at Solomon. Exploration over the first of these targets resulted in the discovery of the mineralisation at Winmar from which the maiden resource was delineated.

Importantly, much of the target at Winmar has yet to be explored. The resource has been estimated from over 1.5km of strike from a total target strike length of approximately 2.8km. The exploration target for the deposit is **250 to 300mt @ 52-55% Fe (55-59% CaFe)** based upon the results to date and the geometric extent of the target. Note that the Company's exploration target includes potential quantity and grade and is conceptual in nature. There has been insufficient exploration to define these extended mineral resources and it is uncertain if further exploration will result in the determination of such further mineral resources.

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HALF-YEAR FINANCIAL REPORT DIRECTORS' REPORT

Earaheedy Iron Ore Project

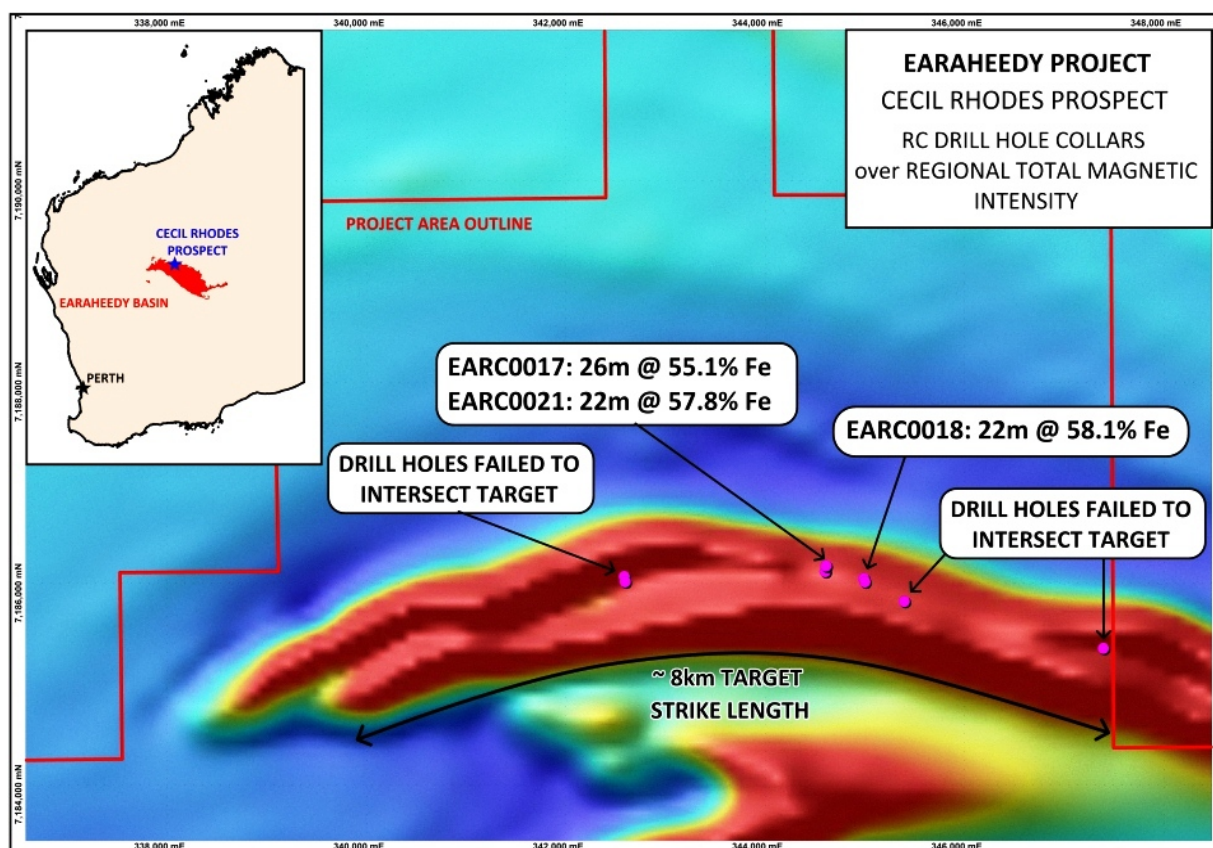
During the half year, the Company announced significant drill results from its maiden drilling programme at the Earraheedy Project, northeast of Wiluna, WA. The Earraheedy Project is a 50:50 Joint Venture with Vector Resources Limited (ASX:VEC). The drilling programme comprised 21 holes for 1,916m, testing a number of targets at the Project with the most encouraging results coming from the *Cecil Rhodes* Prospect.

Significant results from the prospect include **34m @ 54.4% Fe** (including **22m @ 58.1% Fe**), **22m @ 57.8% Fe** and **26m @ 55.1% Fe**, all with low levels of contaminants.

Iron mineralisation occurs as goethite with lesser hematite, potentially suitable as Direct Shipping Ore (DSO). Significant results have been intersected over a strike of 400m, but remain open in all directions. Due to the paucity of outcrop and the early stage of exploration a number of drill holes failed to reach the intended target horizon. Therefore, the extent of significant iron mineralisation remains unclear. The mineralisation overlies primary magnetite mineralisation and occurs within a magnetic anomaly **striking for over approximately 8km**.

Whilst very early days, the Company is encouraged by the results to date which highlight the potential of the Joint Venture's portfolio to host large-scale iron ore deposits. Numerous targets elsewhere in the Project remain to be drill tested. The Joint Venture partners are currently planning programmes for 2011 including further mapping of the mineralised horizon at Cecil Rhodes and developing follow-up drill programmes.

HALF-YEAR FINANCIAL REPORT
 DIRECTORS' REPORT



Cecil Rhodes Drilling over Aerial Magnetics

Table 3 - Earahedy Project Significant results (>4m width & >50% Fe)

Hole ID	East	North	Depth	From	Interval	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%	S%	LOI
EARC0017	344619	7186160	54	0	26	55.1	9.50	3.63	0.090	0.23	7.41
			incl	6	18	55.8	8.24	3.64	0.088	0.24	7.69
EARC0018	345009	7186003	60	2	34	54.4	10.1	4.08	0.070	0.18	7.41
			Incl	14	22	58.1	4.91	3.52	0.090	0.19	7.91
EARC0021	344620	7186164	72	0	22	57.8	7.81	2.63	0.110	0.16	6.17
				12	6	60.6	4.18	2.35	0.134	1.96	6.05

Notes: 1. All coordinates refer to GDA94 Datum Zone 51

2. Samples analysed by Kalassay Laboratories by XRF with LOI determined at 1000°C

3. Intervals are downhole thicknesses

Manganese potential

Results from reconnaissance sampling have confirmed the prospectivity of the Project to host potential deposits of manganese. Samples from the *Blue Cliffs* Prospect (E69/2063) returned values up to **37.5% Mn** whilst significant results for iron were also returned with values up to **55.6% Fe** (see Table below). This prospect is a priority target in 2011 with programmes of mapping and drilling currently being planned.

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Project Divestments

Carosue and Sunrise Dam Projects

Cazaly congratulates Cove Resources Ltd (“Cove”) who listed on the Company’s highly prospective Carosue and Sunrise Dam projects to Cove Resources Ltd (“Cove”) in January 2011. The total consideration payable to Cazaly included option fees of \$70,000, cash payments upon listing of \$300,000 and \$400,000 worth of shares in Cove. Upon completing a minimum of 5,000 metres of RC drilling on each project Cove may earn an initial 70% interest.

The Carosue Dam project is located approximately 100km’s north-east of Kalgoorlie, within the Kurnalpi District of the North East Coolgardie Mineral Field.

The project comprises three Exploration License Applications and two granted Prospecting Licenses which cover an area of over 250km². The Project lies immediately adjacent to the Carosue Dam Gold Mine (Saracen Mineral Holdings Limited) with reported gold resources of over 3.0M oz. Saracen has recently commenced production (100-120koz pa) at Carosue Dam. The Project potentially hosts extensions of known mineralised structures crossing the majority of the tenements and covers an extensive portion of greenstone terrain for over 55km.

The Sunrise Dam Project is located approximately 30km SSE of the Laverton Township and comprises four granted Exploration Licences and one Exploration Licence application.

The Project is surrounded by two world-class gold deposits including, the Sunrise Dam Deposit (AngloGold Ashanti Limited) to the south and the Wallaby Deposit (Barrick Gold Corporation) to the north. The project is largely unexplored with minimal exploration within the Project area having been undertaken.

West Kalgoorlie Project

During the half year Cazaly sold its interest in the West Kalgoorlie project and its wholly owned subsidiary, Hayes Mining Pty Ltd to Phoenix Gold Ltd who listed on the ASX on 22nd December 2010. As consideration for the sale, Cazaly received \$1.7m in cash, and shares to the value of \$1.8m in Phoenix. In addition, Cazaly will receive \$2.5m in cash upon completion of drilling and gold production milestones.

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Quartz Hill Rare Earth Project

Cazaly recently finalised the divestment of the Quartz Hill Rare Earth project to Epic Resources Ltd (“Epic”). The total consideration includes cash payments upon listing of \$125,000 and \$125,000 worth of shares in Epic. Upon completing a minimum of 2,000 metres of RC drilling Epic may earn an initial 70% interest.

The Quartz Hill Project contains uranium-REO rich pegmatites, brecciated pegmatites, tension gash mineralisation, strong “bullseye” magnetic highs and strong regional sodic/potassic alteration within the Arunta Province in the Harts Ranges, 160 km ENE of Alice Springs, Northern Territory.

The region is highly prospective for uranium mineralisation in a number of different orebody types, with several uranium anomalies identified in the general area, including Yambla. The immediate target within the project is granitic pegmatite with uraniferous rare-earth minerals, which occur in several places identified to date.

McPherson’s Reward Project

Cazaly congratulates MacPherson’s Reward Ltd (“MacPherson’s”) who listed on the ASX in 24th December 2010. Cazaly received option fees of \$25,000 and \$240,000 worth of MacPherson’s shares. Cazaly considers this to be a very positive investment and notes the current activity of MacPherson’s.

Huckitta Project – Mithril Resources Ltd (manager) earning 80%

A third new gold target has been identified by Mithril Resources Ltd on the Huckitta project where shallow orientation hand auger sampling over the Percy Prospect (located on the Cazaly JV) returned significant gold anomalism up to 1.5g/t Au at the cover/basement interface at depths of less than 3m. Shallow aircore drilling is planned for this prospect in March to verify these results and determine the extent of the anomalism.

Bryah Project – Dominion (manager) earning 70%

This tenement application was granted during the quarter and surface detailed geochemical sampling and field investigations, initially to evaluate previously outlined copper – gold anomalism, commenced in December. Results are pending.

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HALF-YEAR FINANCIAL REPORT DIRECTORS' REPORT

Rhodes Ridge

Cazaly Iron Pty Ltd has agreed, in principle, to settle its Court of Appeal proceedings against Hamersley Resources Ltd, Wright Prospecting Pty Ltd (WPPL), Hancock Prospecting Pty Ltd (HPPL) (together the Rhodes Ridge Joint Venturers), and the State of Western Australia, in relation to whether the Rhodes Ridge Joint Venturers held valid and subsisting rights of occupancy, in respect of land the subject of exploration licence applications brought by Cazaly. The parties also agreed to settle related proceedings commenced by WPPL in the Court of Appeal. By the terms of the Deed, the parties agreed to discontinue both Court of Appeal proceedings, with no order as to costs.

Corporate

During the half year, the Company entered into a Bridging Facility with a range of Institutions, Sophisticated Investors and Directors to provide a loan amount of A\$2.55 million.

The Bridging Facility has been arranged as a short-term finance for the purpose of allowing for:

- completion of the Parker Range Definitive Feasibility Study
- Parker Range environmental, mining and other permitting activities
- general working capital requirements

The information that relates to exploration targets, exploration results and drilling data of Cazaly operated projects is based on information compiled by Mr Clive Jones and Mr Gregory Miles who are Members of The Australasian Institute of Mining and Metallurgy and The Australian Institute of Geoscientists respectively and are employees of the Company. The information that relates to the Mt Caudan Mineral Resource Estimate has been authorized by Mr Rob Williams who is a member of the Australasian Institute of Mining and Metallurgy and an employee of Runge Limited. The information that relates to the West Kalgoorlie Project Mineral Resources has been authorized by Mr Jones and Mr Miles. Both Mr Jones, Mr Miles and Mr Payne have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones, Mr Miles and Mr Williams consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES
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**HALF-YEAR FINANCIAL REPORT
DIRECTORS' REPORT**

**LEAD AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001**

The lead auditor's independence declaration is set out on page 26 of the half-year ended 31 December 2010.

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



Nathan McMahon
Managing Director

Perth
Dated: 15th March 2011

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Half-Year Ended 31 December 2010

		Consolidated	
		31 December 2010 \$	31 December 2009 \$
Revenue	2	714,066	241,973
Other Income	2	1,035,097	1,877,885
Employee benefits expense		(118,527)	(416,277)
Depreciation & amortisation expense		(8,166)	(25,524)
Finance costs	2	(474,291)	(2,305)
Administration expenses		(207,359)	(231,051)
Legal fees		(35,675)	(21,550)
Advertising & Promotional expenses		(47,609)	(65,831)
Compliance & Regulatory expenses		(65,462)	(70,989)
Consultancy costs		(122,116)	(112,914)
Occupancy costs		(212,744)	(98,106)
Written-off exploration expenditure		(171,276)	(220,960)
Loss on disposal of shares		(95,591)	(1,309,511)
Loss on disposal of tenements		(238,500)	-
Other		(4,347)	(11,764)
		<u> </u>	<u> </u>
Loss before income tax (expense)/benefit		(52,500)	(466,924)
Income tax (expense)/benefit	3b	(865,246)	(8,354)
		<u> </u>	<u> </u>
Loss for the period		(917,746)	(475,278)
Loss from discontinued operations	3a	(1,379,553)	-
Net Loss for the period		(2,297,299)	-
Other comprehensive income		-	-
		<u> </u>	<u> </u>
Net Loss and Total comprehensive income for the period attributable to members		(2,297,299)	(475,278)
		<u> </u>	<u> </u>
Basic earnings / (loss) per share (cents per share)		(2.12)	(0.53)

The accompanying notes form part of this financial report.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	2,766,787	3,390,602
Trade and other receivables	715,965	335,352
Prepayments	26,595	30,015
	<u>3,509,347</u>	<u>3,755,969</u>
Non current assets held for sale	-	5,066,305
TOTAL CURRENT ASSETS	<u>3,509,347</u>	<u>8,822,274</u>
 NON-CURRENT ASSETS		
Trade and other receivables	163,429	142,839
Financial assets	2,376,172	323,722
Property, plant and equipment	120,927	122,890
Exploration, evaluation and development	16,198,671	12,083,805
Deferred tax assets	4,859,589	5,085,658
	<u>23,718,788</u>	<u>17,758,914</u>
 TOTAL NON-CURRENT ASSETS	<u>23,718,788</u>	<u>17,758,914</u>
 TOTAL ASSETS	<u>27,228,135</u>	<u>26,581,188</u>
 CURRENT LIABILITIES		
Trade and other payables	584,585	876,454
Financial liabilities	2,610,557	-
Short-term provisions	73,146	70,869
	<u>3,268,288</u>	<u>947,323</u>
TOTAL CURRENT LIABILITIES	<u>3,268,288</u>	<u>947,323</u>
 NON-CURRENT LIABILITIES		
Deferred tax liabilities	4,859,589	5,085,658
	<u>4,859,589</u>	<u>5,085,658</u>
TOTAL NON-CURRENT LIABILITIES	<u>4,859,589</u>	<u>5,085,658</u>
 TOTAL LIABILITIES	<u>8,127,877</u>	<u>6,032,981</u>
 NET ASSETS	<u>19,100,258</u>	<u>20,548,207</u>
 EQUITY		
Issued Capital	2 20,789,788	20,348,703
Reserves	1,022,009	613,744
Accumulated profits/(losses)	<u>(2,711,539)</u>	<u>(414,240)</u>
TOTAL EQUITY	<u>19,100,258</u>	<u>20,548,207</u>

The accompanying notes form part of this financial report.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONSOLIDATED CASH FLOW STATEMENT

For the Half-Year Ended 31 December 2010

	Consolidated	
	31 December 2010 \$	31 December 2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(380,045)	(648,534)
Interest and bill discounts received	53,756	49,392
Payments for exploration and evaluation	<u>(5,643,772)</u>	<u>(2,954,252)</u>
Net cash used in operating activities	<u>(5,970,061)</u>	<u>(3,553,394)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equity investment	(35,000)	(67,644)
Proceeds from sale of equity investment	77,411	460,196
Purchase of property, plant and equipment	(10,203)	(10,032)
Purchase of exploration assets	-	(267,500)
Proceeds on sale of exploration assets	701,462	684,320
Proceeds on sale of property, plant and equipment	4,000	-
Recoupment of exploration expenditure from Joint Venture operations	193,627	8,276
Proceeds from disposal of subsidiary	1,380,000	-
Proceeds for Joint Venture Management	<u>43,864</u>	<u>-</u>
Net cash provided by investing activities	<u>2,355,161</u>	<u>807,616</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,550,000	-
Proceeds from issue of shares	443,434	1,345,245
Payments for costs of issue of shares	<u>(2,349)</u>	<u>(19,128)</u>
Net cash provided by financing activities	<u>2,991,085</u>	<u>1,326,117</u>
Net (decrease) in cash held	(623,815)	(1,419,661)
Cash at beginning of period	<u>3,390,602</u>	<u>3,816,351</u>
Cash at end of reporting period	<u><u>2,766,787</u></u>	<u><u>2,396,690</u></u>

The accompanying notes form part of this financial report.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Half-Year Ended 31 December 2010

	Issued Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2009	12,783,160	(6,276,400)	7,421,043	13,927,803
Net loss and total comprehensive income for the period attributable to members	-	(475,278)	-	(475,278)
Shares issued	2,657,617	-	-	2,657,617
Options issued	-	-	321,599	321,599
Transaction costs	(19,128)	-	-	(19,128)
Transfers to retained earnings	-	7,232,323	(7,232,323)	-
Deferred tax liability component	8,354	-	-	8,354
Balance at 31 December 2009	15,430,003	480,645	510,319	16,420,967
Balance at 1 July 2010	20,348,703	(414,240)	613,744	20,548,207
Net loss and total comprehensive income for the period attributable to members	-	(2,297,299)	-	(2,297,299)
Shares issued	443,434	-	-	443,434
Options issued	-	-	408,265	408,265
Transaction costs	(2,349)	-	-	(2,349)
Deferred tax liability component				
Balance at 31 December 2010	20,789,788	(2,711,539)	1,022,009	19,100,258

The accompanying notes form part of these financial statements.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

1. STATEMENT OF SIGNIFICANT ACCOUNT POLICIES

Statement of Compliance

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Cazaly Resources Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

Basis of Preparation

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010.

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010. During the current period, no accounting policies have changed as a result of new or revised accounting standards which have become operative for the annual reporting period commencing on 1 July 2010.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

2. INCOME AND EXPENSES

	31 December 2010	31 December 2009
	\$	\$
The following revenue and expense items are relevant in explaining the income statement for the half-year:		
Revenue		
Interest received	54,714	51,327
Option fees	451,818	50,000
Management fees	43,864	-
Recoupment of office costs on-charged	163,670	116,326
Other revenue	-	24,320
	<u>714,066</u>	<u>241,973</u>
Other Income		
Profit on sale of tenement	849,644	394,930
Profit on sale of fixed asset	-	3,894
Gain on revaluation of assets held for trading	185,453	1,479,061
	<u>1,035,097</u>	<u>1,877,885</u>
Expenses		
<i>Borrowing costs:</i>		
Options issued to bridging facility lenders (Refer Note 5)	408,265	-
Interest paid to bridging facility lenders	60,557	-
Bank charges	5,469	2,305
	<u>474,291</u>	<u>2,305</u>

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

3. DISCONTINUED OPERATIONS

- (a) On 17 June 2010, the Company announced that it had signed an agreement with Phoenix Gold Pty Ltd ("Phoenix") to sell its West Kalgoorlie Gold assets, including the 100% owned subsidiary Hayes Mining Pty Ltd. The sale was conditional on Phoenix receiving approval from the ASX for admission of its securities to the official list and obtaining ministerial consents for tenement transfers to Phoenix.

Hayes Mining Pty Ltd was sold on 22 December 2010.

Financial information relating to the discontinued operation to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the statement of comprehensive income is nil.

	31 December 2010 \$	31 December 2009 \$
Net loss on disposal of Hayes Mining Pty Ltd	1,379,553	-

The net cash flows of the discontinuing division which have been incorporated into the cash flow statement are as follows:

Cash consideration for sale of Hayes Mining Pty Ltd	1,380,000	-
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Assets and liabilities held at disposal date were as follows:

Trade and other receivables	1,380,000	-
Exploration, evaluation and development	-	-
Deferred tax assets	-	-
Deferred tax liabilities	-	-
	<u> </u>	<u> </u>
Net loss	<u>(1,379,553)</u>	<u>-</u>
Net cash received	<u>1,380,000</u>	<u>-</u>

- (b) Discontinued Operations - Income Tax Expense of \$865,246

The income tax expense recognised in the current period is due to the deferred tax liability that was building up within Hayes. The tax losses were transferred to Cazaly on sale, as Cazaly did not have income to offset them against these losses the group derecognised these assets and booked a tax loss.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES
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NOTES TO THE FINANCIAL STATEMENTS
For the Half-Year Ended 31 December 2010

4. ISSUED CAPITAL

<i>(a) Movements in Ordinary Shares</i>	Notes	Number of shares	Issue price	\$
Opening balance at 1 July 2010		107,442,705	-	20,348,703
Exercise of Options	(i)	717,179	\$0.20	143,434
Exercise of Options	(ii)	1,000,000	\$0.30	300,000
Transaction costs relating to share issues		-	-	(2,349)
Closing balance at 31 December 2010		<u>109,159,884</u>		<u>20,789,788</u>

- (i) During the half year, the Company issued 717,179 ordinary shares at a price of 20 cents each due to the exercise of 717,179 20 cent Listed Options expiring 28 February 2011.
- (ii) On 25 August 2010, the Company issued 1 million ordinary shares at a price of 30 cents due to the exercise of 1 million 30 cent options expiring 31 July 2011.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

5. SHARE BASED PAYMENTS AND BRIDGING FACILITY

On 29 September 2010, the Company announced that it had entered into a bridging facility with a range of Institutions, Sophisticated Investors and Directors to provide a loan amount of a minimum of A\$2 million and maximum of A\$4 million. Kingsreef Pty Ltd provided \$700,000 and Widerange Corporation Limited provided \$100,000 to the Company by way of short-term finance under the facility. Kingsreef Pty Ltd is an entity controlled by Mr Nathan McMahon and Widerange Corporation Pty Ltd is an entity controlled by Mr Clive Jones, both of whom are Directors and therefore a related parties of the Company. The finance provided by Messers McMahon and Jones was based on the same arms length terms as the other lenders.

The bridging facility was arranged as a short-term finance for the purpose of allowing for completion of the Parker Range Bankable Feasibility Study, Parker Range environmental, mining and other permitting activities and for general working capital requirements. The Company has drawn down A\$2,550,000 to date.

In accordance with the terms of the bridging facility, the Company issued 2,550,000 Options exercisable at 53 cents, expiring 18 October 2012. The Options were issued on the basis of 100,000 Options for every \$100,000 drawn down.

The fair value of the options granted is determined by using the Black-Scholes methodology. The following table lists the inputs to the models used for the half-year ended 31 December 2010:

Allottees	Fair Value at Grant Date	Estimated Volatility	Life of Option (yrs)	Exercise Price	Share Price	Risk Free Interest Rate
Lenders – Bridging Facility ⁽¹⁾	\$0.1755	70%	2.00	\$0.53	\$0.470	5.00%
Lenders – Bridging Facility ⁽²⁾	\$0.1435	70%	1.96	\$0.53	\$0.425	5.00%
Lenders – Bridging Facility ⁽³⁾	\$0.1331	70%	1.87	\$0.53	\$0.415	5.00%

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

(1) Options issued 18 October 2010

(2) Options issued 4 November 2010

(3) Options issued 6 December 2010

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

6. SUBSEQUENT EVENTS

Since 31 December 2010, no event has arisen that would be likely to materially affect the operations of the Group, or the state of affairs of the Group not otherwise disclosed in the Group's financial report other than as set out below.

During January and March 2011, the Company issued 11,929,242 Ordinary Shares following the exercise of 11,929,242 20 cent Options with an expiry date of 28 February 2011. The funds raised are intended to be used to provide for continued exploration and to fund working capital.

On 13 January 2011, Cazaly received \$300,000 and \$400,000 worth of shares in Cove Resources Ltd as consideration for the sale of the Carosue and Sunrise Dam projects.

On 23 February 2011, Cazaly received \$3.1 million and \$500,000 worth of shares in Winmar Resources Ltd as consideration for the right for Winmar to earn-in to a 51% interest in the Hamersley Iron Ore Project.

7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

8. SEGMENT REPORTING

	Exploration	Corporate	Total
(i) Segment performance	\$	\$	\$
Six months ended 31.12.2010			
Total segment revenue	1,508,996	240,167	1,749,163
<i>Reconciliation of segment revenue to total revenue</i>			
Inter-segment elimination			-
Un-allocated revenue			-
Total revenue			1,749,163
Segment net profit/(loss) before tax	1,337,720	(638,714)	699,006
<i>Reconciliation of segment result to company net (loss) before tax</i>			
Amounts not included in segment result but reviewed by the Board:			
Un-allocated items:			
• Other			(751,506)
Net loss before tax from continuing operations			(52,500)
 Six months ended 31.12.2009			
Total segment revenue	469,250	1,530,388	1,999,638
<i>Reconciliation of segment revenue to total revenue</i>			
Inter-segment elimination			-
Un-allocated revenue			-
Total revenue			1,999,638
Segment net profit/(loss) before tax	248,290	220,877	469,167

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

8. SEGMENT REPORTING	Exploration	Corporate	Total
(i) Segment performance	\$	\$	\$
<i>Reconciliation of segment result to company net (loss) before tax</i>			
Amounts not included in segment result but reviewed by the Board:			
Un-allocated items:			
• Other			(936,091)
Net loss before tax from continuing operations			(466,924)
(ii) Segment assets			
31.12.2010			
Segment assets	16,198,671	6,169,875	22,368,546
Segment asset increases for the period:			
• Capital expenditure	5,643,772	-	5,643,772
• Acquisitions	-	45,203	45,203
• Interest received	-	53,756	53,756
• Capital raising	-	443,434	443,434
	5,643,772	542,393	6,186,165
<i>Reconciliation of segment assets to total assets</i>			
Inter-segment eliminations			
			-
Unallocated assets:			
• Deferred tax assets			4,859,589
• Other assets			-
Total assets from continuing operations			27,228,135
30.6.2010			
Segment assets	17,150,110	4,345,420	21,495,530
Segment asset increases for the period:			
• Capital expenditure	7,880,160	-	7,880,160
• Acquisitions	-	84,214	84,214
• Interest received	-	109,063	109,063
• Capital raising	-	8,004,139	8,004,139
	7,880,160	8,197,416	16,077,576
<i>Reconciliation of segment assets to total assets</i>			
Inter-segment eliminations			
			-
Unallocated assets:			
• Deferred tax assets			5,085,658
• Other assets			-
Total assets from continuing operations			26,581,188

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

NOTES TO THE FINANCIAL STATEMENTS

For the Half-Year Ended 31 December 2010

8. SEGMENT REPORTING

(iii) Segment liabilities	Exploration	Corporate	Total
31.12.2010	\$	\$	\$
Segment liabilities	-	-	-
<hr/>			
<i>Reconciliation of segment liabilities to liabilities</i>			
Inter-segment eliminations			-
Unallocated liabilities:			
• Deferred tax liabilities			4,859,589
• Other liabilities			3,268,288
Total liabilities from continuing operations			<u>8,127,877</u>
30.6.2010			
Segment liabilities	-	-	-
<hr/>			
<i>Reconciliation of segment liabilities to liabilities</i>			
Inter-segment eliminations			-
Unallocated liabilities:			
• Deferred tax liabilities			5,085,658
• Other liabilities			947,323
Total liabilities from continuing operations			<u>6,032,981</u>

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

DIRECTORS' DECLARATION

For the Half Year Ended 31 December 2010

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 13 to 24:
 - (a) comply with Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Act 2001; and
 - (b) give a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date.
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Nathan McMahon
Managing Director

PERTH

Dated this 15th day of March 2011

To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

This declaration is made in connection with our review of the financial report of Cazaly Resources Limited and Controlled Entities for the half year ended 31 December 2010 and in accordance with the provisions of the Corporations Act 2001.

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

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

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants



CHRIS WATTS CA
Director

DATED at PERTH this 15th day of March 2011

Independent Auditor's Review Report

To the Members of Cazaly Resources Limited

We have reviewed the accompanying half-year financial report of Cazaly Resources Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Cazaly Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Independent Auditor's Review Report
To the Members of Cazaly Resources Limited (Continued)



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Cazaly Resources Limited and Controlled Entities is not in accordance with the Corporations Act 2001 including:

- a. Giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

A handwritten signature in blue ink that reads "Bentleys".

BENTLEYS
Chartered Accountants

A handwritten signature in blue ink, appearing to be "Chris Watts".

CHRIS WATTS CA
Director

DATED at PERTH this 15th day of March 2011