FORTUNA MINERALS LIMITED

(formerly Marginbet Limited)

ACN 112 425 788

Financial report for the financial year ended 30 June 2008

Contents

Corporate Information

This annual report cover Fortuna Minerals Limited (ACN 112 425 788) as an individual entity. The Company's functional and presentation currency is AUD $.

A description of the Company's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 3 to 16.

Directors
Mr Mathew Walker (Non-executive Chaiman)
Mr Garry Ralston (Non-executive Director)
Mr Michael Shields (Non-executive Director)

Company Secretary
Mr Mathew Walker

Registered Office
Suite 9, 1200 Hay Street
West Perth WA 6005

Principal Place of Business
Suite 9, 1200 Hay Street
West Perth WA 6005

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Legal Advisors
Steinepreis Paganin
Lawyers and Consultants
Level 4, Next Building
16 Milligan Street
Perth WA 6000

Bankers
Westpac Banking Corporation

Auditors
PKF Chartered Accountants
Level 14, 140 William Street
Melbourne VIC 3000

Director' Report

Your directors submit their report for the period ended 30 June 2008.

Directors

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

Mr Mathew Walker	Chairman, Non-executive Director, Company Secretary	Appointed: 3/12/2007	
Mr Gary Ralston	Non-executive Director	Appointed: 3/12/2007	
Mr Michael Shields	Non-executive Director	Appointed: 5/12/2007	
Mr John Levy	Non-executive Chairman	Appointed: 10/01/2005	Resigned: 3/12/2007
Mr Robert Drake	Non-executive Director	Appointed: 14/07/2006	Resigned: 3/12/2007
Mr David Gray	Non-executive Director	Appointed: 31/05/2007	Resigned: 5/12/2007
Mr Pierre Van Der Merwe	Company Secretary	Appointed: 25/04/2007	Resigned: 3/12/2007

Names, qualifications, experience and special responsibilities

Mr Mathew Walker, B.Bus

Chairman, Non-executive Director, Company Secretary

Mr Walker has extensive experience in the provision of corporate advice and in public company management. Specialising in the mining sector, Mr Walker has served as executive Chairman and Managing Director for public companies with mining interests in North America, South America, Africa, Australia, and Central Asia. Currently he serves as Managing Director of Windy Knob Resources Limited, Executive Director of Augustus Minerals Limited and as Director of Imperium Minerals Limited. He is also a Director of boutique investment bank Alto Capital and corporate services firm Cicero Corporate Services Pty Ltd. Mr Walker is a member of the Australian Institute of Company Directors. He holds a Bachelor of Business for the University of Technology Sydney.

During the last three years, Mathew Walker has also served as a director of the following listed companies:

Citrofresh International Limited	(Resigned September 2005)
Erongo Energy Limited	(Resigned July 2007)
Pacific Ore Limited	(Resigned November 2007)
Windy Knob Resources Limited	(Appointed October 2006)
Augustus Minerals Limited	(Appointed November 2006)

Mr Gary Ralston, Licensed Finance Broker (CFB)

Non-executive Director

Mr Ralston has been directly involved in the banking and finance industry for over 35 years. He was co-founder and, until recently a director of Finance Systems and Technology Pty Ltd, one of Australia's largest mortgage aggregators. He is also a director and co-founder of Select Mortgage Services which is also a leading mortgage broker.

Mr Ralston was the founding chairman of Prudential West Pty Ltd which subsequently changed its name to Enviromission Ltd and is an ASX listed company.

During the last three years, Mr Ralston has also served as a director of the following listed companies:

Augustus Minerals Limited	(Appointed May 2007)
Tomahawk Energy Limited	(Resigned May 2007)

Mr Michael Shields, B.com

Non-executive Director
Mr Shields is a leading Western Australian farmer with significant interests in a number of large scale agricultural enterprises.
Mr Shields completed a Bachelor of Commerce Degree at the University of Western Australia and then went on to work in the USA and Australia in the agricultural services divisions of a number of organisations including John Deere, Caterpillar and Westrac.

Previously, Mr Shields was a director of Summitt Fertilizers Pty Ltd and is currently a director of Carbon Conscious Ltd (January 2008 – Present).

During the past three years, Mr Shields has served as a director on the following listed companies:
Carbon Conscious Limited (Appointed January 2008)

Dividends

No dividends were paid or declared since the start of the financial period to the date of this report. No recommendation for payments of dividends has been made.

Principal Activities

The principal activity of the Company is to explore, develop and invest in the resources sector.

Operating Result

The Company's net loss attributable to members after providing for income tax amounted to $3,074,534 (Consolidated loss 2007: $3,068,176)

Review of Operations

A desktop review was completed on all historical information available on the tenements. Following this review, the Company agreed to the purchase of magnetic data which will be processed within the current quarter and will guide further exploration activities.

Risk Management

The Company takes a proactive approach to risk management. The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the board.

The Company believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholder's needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of performance indicators of both a financial and non financial nature.

After Balance Date Event

On the 22 September 2008 the Company settled a dispute with a former employee who had initiated legal proceedings against the Company for alleged unfair dismissal. Pursuant to this agreement, the terms of the settlement are confidential.

Also on the 22 September 2008, the Company issued 1,180,000 ordinary shares at $0.05 per share to raise $59,000.

Significant Changes in State of Affairs

Discontinuation of gaming operation

The Directors of the Company advised shareholders on 18 December 2007 that gaming operations had been discontinued and the Company would now focus exclusively on investment opportunities in the mining and exploration industry.

The Company announced on the 3 December 2007 they will be considering proposals for the sale of its subsidiary Portlandbet Pty Limited. The subsidiary was sold on 29 January 2008 subject to shareholder approval.

On 28 March 2008, all equity securities in the Company were consolidated on a 5 to 1 basis. The Consolidation of equity was approved by Shareholders at an Extraordinary General Meeting held on the same day.

On 14 April 2008, the Company changed its name from Marginbet Limited to Fortuna Minerals Limited.

Other than detailed above, there were no significant changes to state of affairs of Fortuna Minerals Limited during the year.

Likely Developments and Expected Results

Likely developments, future prospects and business strategies of the operations of the Company and the expected results of those operations have not been included in this report as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental Regulation and Performance

The Company's operations are subject to significant environmental regulation under both Commonwealth and Western Australian Legislation in relation to its exploration and future mining and development activities. Exploration Licences and other tenements are issued subject to ongoing compliance with all relevant legislation.

There have been no recorded incidents of, or fines for non-compliance with any applicable regulations associated with environmental issues during the period. Accordingly, this information has not been disclosed in this report.

Directors Shareholdings

The following table sets out each Director's relevant interest in shares and options over shares of the Company or a related body corporate as at the date of this report.

Current Directors

	Number of Ordinary Shares	Number of Options over Ordinary Shares	Issuing Entity
Mathew Walker^	2,000,000	5,000,000	Fortuna Minerals Limited
Gary Ralston^	872,305	2,005,000	Fortuna Minerals Limited
Michael Shields^	-	2,000,000	Fortuna Minerals Limited
Total	**2,872,305**	**9,005,000**	

Former Directors*

	Number of Ordinary Shares	Number of Options over Ordinary Shares	Issuing Entity
John Levy	698,907	250,000	Fortuna Minerals Limited
Robert Drake	269,775	250,000	Fortuna Minerals Limited
David Gray	878,000	1,275,000	Fortuna Minerals Limited
Total	**1,846,682**	**1,775,000**	

*Former Director's shareholdings as per Final Directors Interest Notices lodged with the ASX in December 2007, and prior to the 5 for 1 equity consolidation.

^ Held by director and entities in which the director has a relevant interest.

Share Options

Interests in share and options of the Company

(a) Shares and options granted to Directors

Shares and options granted to Directors during the financial year are:

	Number of Ordinary Shares	Number of Options over Ordinary Shares	Issuing Entity
Mathew Walker^	2,000,000	5,000,000	Fortuna Minerals Limited
Gary Ralston^	872,305	2,005,000	Fortuna Minerals Limited
Michael Shields^	-	2,000,000	Fortuna Minerals Limited
Total	**2,872,305**	**9,005,000**	

^ Held by director and entities in which the director has a relevant interest.

(b) Share options on issue at year end or exercised during the year

Details of unissued ordinary shares in Fortuna Minerals Limited ('FTN') under options at the date of this report are:

Issuing Entity	Issue Date	Expiry Date	Exercise Price (pre-consolidated)	Exercise Price (post-consolidated)	Balance at 1 July 2007	Consolidation (5 for 1) opening balance	Net Issued/ (Exercised) during Year	Balance at 30 June 2008
FTN	22/08/2006	21/08/2011	$0.20	$1.00	750,000	150,000	-	150,000
FTN	22/08/2006	21/08/2011	$0.40	$2.00	250,000	50,000	-	50,000
FTN	27/04/2007	26/04/2010	$0.20	$1.00	1,987,500	397,500	-	397,500
FTN	29/05/2007	28/05/2012	$0.20	$1.00	1,750,000	350,000	-	350,000
FTN	08/06/2007	7/06/2010	$0.20	$1.00	625,000	125,000	-	125,000
FTN	19/09/2007	18/09/2010	$0.20	$1.00	-	-	1,001,000	1,001,000
FTN	04/12/2007	4/12/2010	$0.20	$1.00	-	-	200,000	200,000
FTN	14/02/2008	31/12/2012	$0.20	$0.20	-	-	9,000,000	9,000,000
					5,362,500	1,072,500	10,201,000	11,273,500

At the date of this report, there were 11,273,500 unissued ordinary shares of Fortuna Minerals Limited in respect of which they are options outstanding (2007: 5,362,500)

Each share options converts into one ordinary share of Fortuna Minerals Limited on exercise. The options carrying neither rights to dividends nor voting rights.

No options were exercised during the year ended 30 June 2008 (2007: nil)

During the financial period, on 28 March 2008, the Company undertook a 5 for 1 consolidation of equity securities.

New options issued

Pursuant to the Company's IPO, 5,005,000 options (1,001,000 post-consolidation) were issued to shareholders taking up shares in the IPO with a strike price of $0.20 and an expiry date of 18 September 2010.

On 4 December 2007 1,000,000 (200,000 post-consolidation) options were issued with an exercise price of $0.20 and an expiry date of 4 December 2010.

During the financial year and as resolved at the Company's EGM held on 28 March 2008, 9,000,000 options were issue to Messrs Walker, Ralston and Shields or their director related entities.

Shares issued as a result of the exercise of options

During the year ended 30 June 2008, a total of nil (2007: nil) fully paid ordinary shares were issued by Fortuna Minerals Limited as a result of the exercise of options for a consideration of $nil (2007: $nil). No options have been exercised since the end of the year.

Indemnification and Insurance of Directors and Officers

To the extent that is permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of $18,851.80. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company

Audited Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of the Company.

The required s300A remuneration and entitlement information is provided below.

Details of Key Management Personnel
The Key Management Personnel of Fortuna Minerals Limited during the year were:

Directors

Mr Mathew Walker	Chairman, Non-executive Director, Company Secretary	Appointed: 3/12/2007	
Mr Gary Ralston	Non-executive Director	Appointed: 3/12/2007	
Mr Michael Shields	Non-executive Director	Appointed: 5/12/2007	
Mr John Levy	Non-executive Chairman	Appointed: 10/01/2005	Resigned: 3/12/2007
Mr Robert Drake	Non-executive Director	Appointed: 14/07/2006	Resigned: 3/12/2007
Mr David Gray	Non-executive Director	Appointed: 31/05/2007	Resigned: 5/12/2007

Executives

Mr Stephen Hobbs	Chief Financial Officer	Appointed: 1/06/2007	Resigned: Jan 2008

Key Management Personnel Remuneration Policy
The board is responsible for determining remuneration policies applicable to directors and other key management personnel of the Company. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the board to the Company's financial performance.

Key Management Personnel Remuneration and Equity Holdings
The board currently determines the nature and amount of remuneration for key management personnel of the Company. The policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company’s financial results.

The non-executive directors and other key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is expensed as incurred. Key management personnel are also entitled to participate in the company share option scheme. Options are valued using the Black-Scholes pricing model.

The board policy is to remunerate non-executive directors at market rates based on comparable companies for time, commitment and responsibilities. The board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

Company performance, shareholder wealth and director and executive remuneration
The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The method applied in achieving this aim, is the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Indicators of the Company's performance of the Australian Securities Exchange are summarised in the following table:

	2008	2007
Net loss after income tax	(3,074,534)	(3,068,176)
Basic earnings per share (cents)	(30.86)	(14.92)
Diluted earnings per share (cents)	(30.86)	(14.92)
Dividends per share (cents)	-	-
Closing share price^	$0.00	$0.20*
Price increase/(decrease) $	($0.20)	-
Price increase/(decrease)%	(100%)	-
Remuneration	$ 1,102,738	$ 277,632

* Share price at date of listing (19 September 2007).

^ The closing share price of the Company's securities was $0.00 at 30 June 2008 as the Company is suspended from trading on the Australian Securities Exchange.

Detailed Remuneration

Table 1: Remuneration for the year ended 30 June 2008

	Short Term Benefits	Post Employment Benefits	Share-based payments		Total
	Salary & Fees	Superannuation	Value of options	Total remuneration consisting of options	
Directors					
Mr Mathew Walker*					
2008	57,500	-	500,500	89.70%	**558,000**
2007	-	-	-	-	**-**
Mr Gary Ralston					
2008	17,213	-	200,200	92.08%	**217,413**
2007	-	-	-	-	**-**
Mr Michael Shields					
2008	11,148	-	200,200	94.73%	**211,348**
2007	-	-	-	-	**-**
Mr John Levy					
2008	11,468	1,032	-	-	**12,500**
2007	37,300	3,357	28,886	41.54%	**69,543**
Mr Robert Drake					
2008	7,645	688	-	-	**8,333**
2007	17,727	1,595	23,850	55.24%	**43,172**
Mr David Gray					
2008	-	-	-	-	**-**
2007	1,667	-	-	-	**1,667**
Mr Nicholas Kephala					
2008	-	-	-	-	**-**
2007	-		7,105	100%	**7,105**
Key Management Personnel					
Mr Stephen Hobbs					
2008	87,500	7,644	-	-	**95,144**
2007	128,000	11,520	16,625	10.65%	**156,145**
Mr Pierre Van Der Merwe					
2008	-	-	-	-	**-**
2007	-	-	-	-	**-**
Total					
2008	192,474	9,364	900,900	81.70%	**1,102,738**
2007	184,694	16,472	76,466	27.54%	**277,632**

* Cicero Corporate Pty Ltd, of which Mathew Walker is an associate, received fees of $14,900 for rent and account administration.

Share-Based Payments

Options are issued to Key Management Personnel as part of their remuneration to attract and retain their services and to provide incentive linked to performance of the Company. The options issue will only be of benefit it the executives perform to a level whereby the value of the Company increases sufficiently to warrant exercising the options. It is considered that any additional performance criterion is not warranted. There options were valued using the Black-Scholes pricing model (Note 1(r)).

Each share option converts into one ordinary share of Fortuna Minerals Limited on exercise. The options carry neither rights to dividends nor voting rights. Options are granted for nil consideration and varying expiry dates.

The terms and conditions of each grant of options affecting remuneration in this reporting period is as follows:

Grant date	No of options	Expiry date	Vesting date	Exercise Price	Fair value per option as grant date	Date exercisable
14/02/2008	5,000,000	31/12/2012	14/02/2008	$ 0.20	$ 0.1001	14/02/2008
14/02/2008	2,000,000	31/12/2012	14/02/2008	$ 0.20	$ 0.1001	14/02/2008
14/02/2008	2,000,000	31/12/2012	14/02/2008	$ 0.20	$ 0.1001	14/02/2008
	9,000,000					

The terms and conditions of each grant of operations affecting remuneration in the prior reporting period is as follows:

Grant date	No of options	Expiry date	Vesting date	Exercise Price	Fair value per option as grant date	Date exercisable
22/08/2006	750,000	21/08/2011	18/09/2009	$ 0.20	$ 0.0954	18/09/2009
22/08/2006	250,000	21/08/2011	18/09/2009	$ 0.40	$ 0.0665	18/09/2009
	1,000,000					

Options issued to Directors and Key Management Personnel

Details of options granted over ordinary shares in the Company provided as remuneration to each Director and Key Management Personnel of Fortuna Minerals Limited as set out below:

	Number of options granted during the period	Number of options vested during the period
30 June 2008		
Directors		
Mathew Walker	5,000,000	5,000,000
Gary Ralston	2,000,000	2,000,000
Michael Shields	2,000,000	2,000,000
30 June 2007		
Directors		
John Levy	250,000	-
Robert Drake	250,000	-
Craig Astill	250,000	-
Key Management Personnel		
Stephen Hobbs	250,000	-

Value of options

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration report above. The fair value at grant date is determined using the Black-Scholes pricing model that takes into account the exercise price, the term of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Options are granted for no consideration and have varying expiry dates.

The model inputs for options granted during the year ended 30 June 2008:

Issue number	Exercise price	Grant date	Expiry Date	Share price at grant date	Expected volatility	Expected dividend yield	Risk free interest rate	Fair value per option
2007								
1	$ 0.20	22/08/2006	21/08/2011	$ 0.20	54%	nil%	5.90%	$ 0.0954
2	$ 0.40	22/08/2008	21/08/2011	$ 0.20	54%	nil%	5.90%	$ 0.0665
2008								
1	$ 0.20	14/02/2008	31/12/2012	$ 0.20	75%	nil%	6.50%	$ 0.1001

The expected price volatility is based on historical volatility (based on the remaining life of the options), adjusted for any expected changes in future volatility due to publicly available information.
The following tables set out each Key Management Personnel's relevant interest in shares or options of Fortuna Minerals Limited or a related body corporate as at the end of the reporting period:

Table 3: Options holdings of Key Management Personnel

30 June 2008	Balance at beginning of period Number	Options granted Number	Balance at end of period Number	Expiry Date Number	First exercise date Number	Last exercise date Number
Directors						
Mathew Walker	-	5,000,000	5,000,000	31/12/2012	14/02/2008	31/12/2012
Gary Ralston	-	2,000,000	2,000,000	31/12/2012	14/02/2008	31/12/2012
Michael Shields	-	2,000,000	2,000,000	31/12/2012	14/02/2008	31/12/2012
Former Directors^						
John Levy	250,000	-	250,000	21/08/2011	18/09/2009	21/08/2011
Robert Drake	250,000	-	250,000	21/08/2011	18/09/2009	21/08/2011
Craig Astil	250,000	-	250,000	21/08/2011	18/09/2009	21/08/2011
Stephen Hobbs	250,000	-	250,000	21/08/2011	18/09/2009	21/08/2011
Total	**1,000,000**	**9,000,000**	**10,000,000**			

30 June 2007	Balance at beginning of period Number	Options granted Number	Balance at end of period Number	Expiry Date Number	First exercise date Number	Last exercise date Number
Former Directors						
John Levy	-	250,000	250,000	21/08/2011	18/09/2009	21/08/2011
Robert Drake	-	250,000	250,000	21/08/2011	18/09/2009	21/08/2011
Craig Astil	-	250,000	250,000	21/08/2011	18/09/2009	21/08/2011
Former Key Management Personnel						
Stephen Hobbs	-	250,000	250,000	21/08/2011	18/09/2009	21/08/2011
Total	**-**	**1,000,000**	**1,000,000**			

Table 4: Value of options issued to Directors and Key Management Personnel

The following table discloses the value of options granted, exercised or lapsed during the year:

		Options granted	Options lapsed or forfeited	Options exercised					Proportion of option remuneration	
	Year granted	Value at grant date	Value at time of lapse or forfeited	Value at time of exercise	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest	Total value of options granted, exercised, forfeited or lapsed	Percentage of total remuneration for the year that consists of options	Performa-nce related	Non-performa-nce related
Directors		$	$	$	$	$	$	%	%	%
Mr Mathew Walker	2008	500,500	-	-	-	-	500,500	89.70	-	100.00
	2007	-	-	-	-	-	-	-	-	-
Mr Gary Ralston	2008	200,200	-	-	-	-	200,200	92.08	-	100.00
	2007	-	-	-	-	-	-	-	-	-
Mr Michael Shields	2008	200,200	-	-	-	-	200,200	94.73	-	100.00
	2007	-	-	-	-	-	-	-	-	-
Mr John Levy	2008	-	-	-	-	-	-	-	-	-
	2007	28,886	-	-	-	-	28,886	41.54	-	100.00
Mr Robert Drake	2008	-	-	-	-	-	-	-	-	-
	2007	23,850	-	-	-	-	23,850	55.24	-	100.00
Mr David Gray	2008	-	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-	-
Mr Stephen Hobbs	2008	-	-	-	-	-	-	-	-	-
	2007	16,625	-	-	-	-	16,625	10.65	-	100.00

All options granted during the year are fully vested. No options were forfeited or lapsed during the year.

Directors' Meetings

The number of meetings of directors held during the period and the number of meetings attended by each director are as follows:

	Directors' Meetings
Number of meetings held	10

	Number of meetings eligible to attend	Number of meetings attended
Mathew Walker	5	5
Gary Ralston	4	4
Michael Shields	3	3
John Levy	6	6
Robert Drake	6	6
David Gray	7	7

Audit Committee

At the present time no audit committee has been established because of the size of the Company and the involvement of the Board in the operations of the Company. The Board takes ultimate responsibility for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

Proceedings on Behalf of the Company

On the 18 August 2008 the Company settled a dispute with a former employee who had initiated legal proceedings against the Company for alleged unfair dismissal. Pursuant to this agreement, the terms of the settlement are confidential.

Non-Audit Services

The Board of Directors has considered the position and, is satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board of Directors to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the non-audit services undermine the general principles relating to auditor independence as set out in Professional Statement APES 110, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

The following fees were paid/payable for non-audit services provided by the auditors:

PKF Chartered Accountants

Preparation of Independent Accountant's Report for the Company's prospectus: $18,510 (2007: $54,500)

Auditors Independence Declaration

The auditor's independence is included in accordance with section 307C of the Corporations Act 2001 at page 15 of this report.

Signed in accordance with a resolution of the board of directors made pursuant to s. 298 (2) of the Corporations Act 2001.

Mr Mathew Walker

Chairman, Non-executive Director, Company Secretary — Perth, 23 October 2008

PKF
Chartered Accountants
& Business Advisers

23 October 2008

The Directors
Fortuna Minerals Limited
PO Box Z5223
St George's Terrace
PERTH WA 6831

Dear Directors

Auditor's Independence Declaration

As lead auditor for the audit of Fortuna Minerals Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Fortuna Minerals Limited during the year.

Yours faithfully
PKF

David Garvey

D J Garvey
Partner

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Corporate Governance Statement

Introduction

The board of directors is responsible for the corporate governance of Fortuna Minerals Limtied (the Company). The Company operates in accordance with the corporate governance principles as set out by the ASX corporate governance council and required under ASX listing rules.

The Company details below the corporate government practices in place at the end of the financial period, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated.

Principle 1: Lay solid foundations for management and oversight

Board Responsibilities

The Board are accountable to the Shareholders for the performance of the Company and have overall responsibility for its operations. Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives, are formally delegated by the Board.

The key responsibilities of the board include:

- Approving the strategic direction and related objectives of the Company and monitoring management performance in the achievement of these objectives;
- Adopting budgets and monitoring the financial performance of the Company;
- Reviewing annually the performance of the managing director against the objectives and performance indicators established by the Board.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Overseeing the implementation and management of effective safety and environmental performance systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Company meets its legal and statutory obligations.

For the purposes of the proper performance of their duties, the Directors are entitled to seek independent professional advice at the Company's expense, unless the Board determines otherwise. The Board schedules meetings on a regular basis and other meetings as and when required.

The Board has not publicly disclosed a statement of matters reserved for the Board, or the Board charter and therefore the Company has not complied with recommendation 1.3 of the Corporate Governance Council. Given the size of the Company, the Board does not consider the formation of a Board charter necessary.

Principle 2: Structure the board to add value

Size and composition of the Board

At the date of this statement the board consists of three non-executive directors. Director's are expected to bring independent views and judgment to the Board's deliberations.

- Mr Mathew Walker — Non-Executive Chairman
- Mr Gary Ralston — Non-Executive Director
- Mr Michael Shields — Non-Executive Director

The board considers this to be an appropriate composition given the size and development of the Company at the present time. The names of directors including details of their qualification and experience are set out in the Directors' Report of this Annual Report.

Independence

The Board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the Board. Those Directors who have interests in specific transactions or potential transactions do not receive Board papers related to those transactions or potential transactions, do not participate in any part of a Directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other Directors.

At the date of this Statement the Board consists of two Non-Executive Directors, Messrs Ralston and Shields who have no other material relationship with the Company other than directorships. The Company therefore has two independent directors as their relationship is currently defined. Mr Walker is not considered independent as he is the beneficial owner of 19.19% of the issued capital of the Company.

Nomination, retirement and appointment of Director's

The board has not established a nomination committee and therefore the Company has not complied with recommendation 2.4 of the Corporate Governance Council. Given the size of the Company the board does not consider a separate committee appropriate. The board takes ultimate responsibility for these matters. The composition/membership of the board is subject to review in a number of ways, as outlined below:

- The Company's constitution provides that at every Annual General Meeting, one third of the directors shall retire from office but may stand for re-election.
- Board composition is also reviewed periodically either when a vacancy arises or if it is considered that the board would benefit from the services of a new director, given the existing mix of skills and experience of the board which should match the strategic demands of the Company. Once it has been agreed that a new director is to be appointed, a search would be undertaken, sometimes using the services of external consultants. Nominations are subsequently received and reviewed by the board.

Evaluation of Board performance

The Board continually reviews its performance and identifies ways to improve performance. The Chairman is responsible for reviewing the Board performance on an Annual basis.

Board Committee's

It is the role of the Board to oversee the management of the Company and it may establish appropriate committees to assist in this role. The composition of the committees shall be as follows:

- the majority of the members of each Committee of the Board will be non-executive Directors;
- each committee will have a charter approved by the Board; and
- each committee will maintain minutes of each meeting of the committee, which will be circulated to all Directors.

The Board has not established an audit committee because of the size of the Company and the involvement of the Board in the operations of the Company. The Board takes ultimate responsibility for the operations of the Company including remuneration of Directors and executives and nominations to the Board.

The Board has not publicly disclosed the process for evaluating the performance of the Board, its committees and individual directors. Therefore, the Company has not complied with recommendation 2.5 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider disclosure of the performance evaluation necessary at this stage.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Company intends to maintain a reputation for integrity. The Company's officers and employees are required to act in accordance with the law and with the highest ethical standards. The Board has adopted a formal code of conduct applying to the Board and all Employees. However, the Company has not publicly disclosed the code of conduct and therefore the Company has not complied with recommendation 3.1 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of the code of conduct necessary at this stage.

Securities Trading Policy

The Company's constitution permits designated persons to acquire securities in the Company, however Company policy prohibits designated persons from dealing in the Company's securities at any time whilst in possession fo price sensitive information and for 24 hours after:

- Any major announcements;
- The release of the Company's quarterly, half yearly and annual financial results to the Australian Securities Exchange; and
- The Annual General Meeting.

Directors must advise the Chairman of the Board before buying or selling securities in the Company. All such transactions are reported to the Board. In accordance with the provisions of the Corporations Act and the Listing Rules of the Australian Securities Exchange, the Company advises ASX of any transaction conducted by Directors in the securities of the Company.

The Company has not established and publicly disclosed a policy concerning trading in Company securities by directors, senior executives and employees and therefore has not complied with recommendation 3.2 of the Corporate Governance Council. Given the size and of the Company, the Board does not consider establishment or disclosure of a trading policy to be appropriate. The Board take ultimate responsibility for these matters.

Principle 4: Safeguard integrity in financial reporting

The Company aims to structure management to independently verify and safeguard the integrity of their financial reporting. The structure established by the Company includes:

- Review and consideration of the financial statements by the audit committee;
- A process to ensure the independence and competence of the Company's external auditors.

Audit Committee

At the time of the report, the Company does not have an audit committee

In addition, the Board has not documented a formal committee charter and therefore the Company has not complied with recommendation 4.3 of the Corporate Governance Council. Due to the size of the Board it is not possible to meet recommendation 4.2 of the Corporate Governance Council i.e. having at least three members, the majority of which are independent.

Principle 5: Make timely and balanced disclosure

The Company has a policy that all shareholders and investors have equal access to the Company's information. The board ensures that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporation's Act and ASX Listing Rules. The company secretary has primary responsibility for all communications with the ASX and is accountable to the Board through the chair for all governance matters.

The Company has not publicly disclosed a formal disclosure policy and therefore has not complied with recommendation 5.1 of the Corporate Governance Council. Given the size of the Company, the Board does not consider public disclosure to be appropriate. The Board takes ultimate responsibility for these matters.

Principle 6: Respect the rights of shareholders

The Board strives to ensure that Shareholders are provided with sufficient information to assess the performance of the Company and its Directors and to make well-informed investment decisions.

Information is communicated to Shareholders through:

- annual and half-yearly financial reports and quarterly reports;
- annual and other general meetings convened for Shareholder review and approval of Board proposals;
- continuous disclosure of material changes to ASX for open access to the public; and
- the Company maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

The auditor is invited to attend the annual general meeting of Shareholders. The Chairman will permit Shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

The Company has not designed or publicly disclosed a communications policy and therefore has not complied with recommendation 6.1 of the Corporate Governance Council. Given the size of the Company, the Board does not consider disclosure of a communications policy to be appropriate. The Board take ultimate responsibility for these matters.

Principle 7: Recognise and manage risk

The Board has identified the significant areas of potential business and legal risk of Newport Mining Ltd. The identification, monitoring and, where appropriate, the reduction of significant risk to the Company is the responsibility of the Board.

The Board reviews and monitors the parameters under which such risks will be managed. Management accounts are prepared and reviewed at Board meetings. Budgets are prepared and compared against actual results.

Management have designed and implemented a risk management and internal control system to manage the Company's material business risks and reported to the Board as to its operating effectiveness.

The Company has not publicly disclosed a policy for the oversight and management of material business risks and therefore has not complied with recommendation 7.1 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of a risk management policy to be appropriate at this stage.

Principle 8: Remunerate fairly and responsibly

The Chairman and the Non-executive Directors are entitled to draw Directors fees and receive reimbursement of reasonable expenses for attendance at meetings. The Company is required to disclose in its annual report details of remuneration to Directors. The maximum aggregate annual remuneration which may be paid to non-executive Directors is $200,000. This amount cannot be increased without the approval of the Company's shareholders.

The board has not established a remuneration committee and therefore the Company has not complied with recommendation 8.1 and 8.3 respectively of the Corporate Governance Council. Given the size of the Company, the board does not consider a separate committee appropriate. The board takes ultimate responsibility for these matters.

Income Statement

For the Financial Year Ended 30 June 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Continuing Operations					
Revenue	**3a**	6,246	2,816	6,246	104,816
Employee benefits expense	**3b**	(1,105,192)	(423,847)	(1,105,192)	(423,847)
Finance costs		-	(196,104)	-	(196,104)
Write off IPO related costs		-	(84,894)	-	(84,894)
Audit and assurance fees	**20**	(61,828)	(64,500)	(61,828)	(64,500)
Consulting fees		(89,261)	(82,685)	(89,261)	(82,685)
Corporate advisory fees		-	(619,887)	-	(619,887)
Litigation settlement		(90,000)	-	(90,000)	-
Bad debts		(94,109)	-	(94,109)	-
Share registry expenses		(32,116)	-	(32,116)	-
Professional Fees		(217,341)	(38,187)	(217,341)	(38,187)
Impairment of investment		-	-	(1,167,364)	(2,001,459)
Marketing		(15,891)	-	(15,891)	-
Recruitment costs		(3,602)	-	(3,602)	-
Other expenses	**3c**	(204,076)	(15,084)	(204,076)	(15,084)
(Loss) before income tax expense		(1,907,170)	(1,522,373)	(3,074,534)	(3,421,831)
Income tax expense	**5**	-	-	-	-
(Loss) for the year from continuing operations		(1,907,170)	(1,522,373)	(3,074,534)	(3,421,831)
(Loss) from discontinued operations	**4**	(1,167,364)	(1,545,804)	-	-
(Loss) attributable to members of the parent entity		(3,074,534)	(3,068,176)	(3,074,534)	(3,421,831)

	Note	*Cents*	*Cents*
Earnings per share:			
Member of the parent entity			
Basic earnings per share	**6**	(30.86)	(74.60)
Diluted earnings per share	**6**	(30.86)	(74.60)
Continuing Operations:			
Basic earnings per share	**6**	(19.14)	(37.01)
Diluted earnings per share	**6**	(19.14)	(37.01)
Discontinuing Operations:			
Basic earnings per share	**6**	(11.72)	(37.58)
Diluted earnings per share	**6**	(11.72)	(37.58)

Balance Sheet

As at 30 June 2008

		Consolidated		Company	
		2008	2007	2008	2007
	Note	$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	**7**	135,506	556,407	135,506	5,375
Trade and other receivables	**8**	-	4,055	-	4,228
Other	**9**	10,919	34,320	10,919	18,099
TOTAL CURRENT ASSETS		146,425	594,782	146,425	27,702
NON-CURRENT ASSETS					
Other financial assets	**10**	-	-	-	448,541
Property, plant and equipment	**11**	-	236,607	-	-
TOTAL NON-CURRENT ASSETS		-	236,607	-	448,541
TOTAL ASSETS		146,425	831,389	146,425	476,243
CURRENT LIABILITIES					
Trade and other payables	**12**	201,024	429,360	201,024	78,480
Borrowings	**13**	-	50,000	-	75,000
Provisions	**14**	-	38,856	-	9,590
TOTAL CURRENT LIABILITIES		201,024	518,216	201,024	163,070
TOTAL NON-CURRENT LIABILITIES		-	-	-	-
TOTAL LIABILITIES		201,024	518,216	201,024	163,070
NET ASSETS		(54,599)	313,173	(54,599)	313,173
EQUITY					
Issued capital	**16**	5,705,722	3,902,860	5,705,722	3,902,860
Reserves	**17**	1,118,075	214,175	1,118,075	214,175
Accumulated losses	**18**	(6,878,396)	(3,803,862)	(6,878,396)	(3,803,862)
TOTAL EQUITY		(54,599)	313,173	(54,599)	313,173

Statement of Changes in Equity

For the Financial Year Ended 30 June 2008

	Consolidated				Company			
	Ordinary Shares $	Retained Earnings $	Convertible Notes/ Options $	Total $	Issued Capital Ordinary $	Retained Earnings $	Convertible Notes/ Options $	Total $
Balance at 1 July 2006	464,680	(735,686)	69,803	(201,203)	464,680	(382,031)	69,803	152,452
Shares issued	3,438,180	-	-	3,438,180	3,438,180	-	-	3,438,180
Convertible notes issued (reversed)	-	-	(69,803)	(69,803)	-	-	(69,803)	(69,803)
Options issued	-	-	214,175	214,175	-	-	214,175	214,175
Loss for the year	-	(3,068,176)	-	(3,068,176)	-	(3,421,831)	-	(3,421,831)
Balance at 30 June 2007	3,902,860	(3,803,862)	214,175	313,173	3,902,860	(3,803,862)	214,175	313,173
Balance at 1 July 2007	3,902,860	(3,803,862)	214,175	313,173	3,902,860	(3,803,862)	214,175	313,173
Loss attributable to members of the parent entity	-	(3,074,534)	-	(3,074,534)	-	(3,074,534)	-	(3,074,534)
Shares issued on 19 September 2007 pursuant to Initial Public Offering	2,002,000	-	-	2,002,000	2,002,000	-	-	2,002,000
Shares issued 4 December 2007 pursuant to Prospectus dated 22 June 2007	37,500	-	-	37,500	37,500	-	-	37,500
Share Options Issued pursuant to Prospectus dated 22 June 2007	-	-	3,000	3,000	-	-	3,000	3,000
Share Options issued to Directors	-	-	900,900	900,900	-	-	900,900	900,900
Transaction costs	(236,638)	-	-	(236,638)	(236,638)	-	-	(236,638)
Balance at 30 June 2008	5,705,722	(6,878,396)	1,118,075	(54,599)	5,705,722	(6,878,396)	1,118,075	(54,599)

Cash Flow Statement

For the Financial Year Ended 30 June 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers			45,867	-	102,000
Payments to suppliers and employees		(2,247,879)	(1,777,163)	(885,154)	(555,067)
Interest received		6,246	21,177	6,246	2,816
NET CASH USED IN OPERATING ACTIVITIES	7	(2,241,633)	(1,710,119)	(878,908)	(450,251)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for investment in subsidiary		-	-	(718,823)	(1,050,000)
Payment for property, plant and equipment		-	(49,303)	-	-
Disposal of discontinued operation, net of cash disposed	4	67,870	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES		67,870	(49,303)	(718,823)	(1,050,000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of equity securities		1,802,862	1,281,495	1,802,862	1,281,495
(Repayment)/proceeds from the issue of convertible notes			(96,448)	-	(96,448)
Repayment of borrowings		(50,000)	50,000	(75,000)	75,000
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,752,862	1,235,047	1,727,862	1,260,047
Net increase/(decrease) in cash and cash equivalents		(420,901)	(524,375)	130,131	(240,204)
Cash at the beginning of the financial year		556,407	1,080,782	5,375	245,579
CASH AT THE END OF THE FINANCIAL YEAR	7	135,506	556,407	135,506	5,375

Notes to the Financial Statements

For the Financial Year Ended 30 June 2008

Note 1. Summary of Significant Accounting Policies

a. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has been prepared on an accrual basis and is based on historical cost modified by the revaluation of selected non-current asset, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Fortuna Minerals Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The presentation and functional currency of the Company in Australian dollars.

The principal activity of Fortuna Minerals Limited is the exploration and growth of resources assets within the mining sector.

On 14 April 2008, the Company changed its name from Marginbet Limited to Fortuna Minerals Limited.

The financial report was authorised for issue by the Board of Directors of Fortuna Minerals Limited on the date shown on the Declaration by the Board of Directors attached to the Financial Statements.

b. Statement of compliance

The financial report has been prepared in accordance with the Australian Accounting Standards and Interpretations, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and parent entities financial statements ans accompanying notes comply with International Financial Reporting Standards (IFRS). Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting year ended 30 June 2008.

c. Going concern

The company and consolidated entity incurred net losses after discontinued operations of 3,074,534 (2007: loss $3,421,831) and $3,074,534 (2007: loss $3,068,176) respectively for the year ended 30 June 2008. The consolidated net loss from continuing operations for the year ended 30 June 2008 was $1,907,170 (2007: $1,420,373). At 30 June 2008, the company and consolidated entity had accumulated losses of $6,878,396.

The company and the consolidated entity also incurred a deficiency in operating cash flows for the financial year ended 30 June 2008 of $878,908 (2007 deficiency: $450,251), and $2,241,633 (2007 deficiency: $1,710,119) respectively. The deficiency in operating cash flows for the year ended 30 June 2008 was funded from working capital and additional capital received in 26 September 2007 of $1,802,862.

At 30 June 2008, the company had a deficiency in net assets of $54,599.

Subsequent to the disposal of Portlandbet Pty Ltd on 29 January 2008, the company attempted to raise additional capital of up to $3 million, with a minimum subscription of $2 million, via the issue of a prospectus. This additional capital raising was unsuccessful.

These conditions give rise to a material uncertainty that may cast significant doubt about the ability of the company to continue as going concern.

Notwithstanding the matters referred to above, the directors have prepared the financial statements of the company on a going concern basis. In arriving at this position, the directors have considered the following pertinent matters:

- During the year ended 30 June 2008, the Company disposed of Portlandbet Pty Ltd, which was a loss making subsidiary company. During the year ended 30 June 2008, Portlandbet Pty Ltd incurred an operating net loss of $1,167,364 (2007 loss: $1,545,804) and a positive operating cash flows of $61,448 (2007 deficiency: $234,867).
- The Directors have refocussed the company on seeking opportunities to invest in mineral exploration activities. Accordingly, the operating and administration costs of the company have been significantly reduced. At present the activities and expenses of the company are minimal until appropriate opportunities to invest in mineral exploration activities are identified and additional capital raised.
- Included within current liabilities at 30 June 2008 are amounts owed to directors for directors fees of $19,262. Expected operating costs for the period of 12 months from the date of signature of the financial report assuming the company continues to operate its current level of activity are $313,000.
- Subsequent to 30 June 2008, the company raised additional capital of $59,000, via the issue of 1,180,000 million ordinary shares at $0.05 per share to provide additional working capital to meet current accounts payable.
- It is the directors' intention to fund operating costs of the company by raising minimal additional capital to fund operating expenses for the period of 12 months from the date of signing the financial report.
- Australian Accounting Standard, AASB 101 "Accounting Policies", states that an entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Whilst the company is not actively trading or exploring at present, it is the directors' intention to raise additional capital to undertake further investment in the exploration industry and to fund exploration of existing tenements that the company has rights to explore.

  Therefore, the ability of the company to continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report is dependent upon the directors successfully achieving the following:

- Identifying opportunities for future investment in the exploration industry; and
- Raising further equity.

In directors' opinion, at the date of signature of the financial report, there are reasonable grounds to believe that the matters set out above will be achieved and therefore the financial statements have been prepared on a going concern basis.

Should the company be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

The financial report does not include adjustments relating to the recoverability or reclassification of recorded asset amounts or to the amounts or classification of liabilities, which might be necessary should the company not to able to continue as a going concern and meet its debts as and when the fall due.

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of Fortuna Minerals Limited as at 30 June each year (the Company).

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-Company transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. In respect of the Company's former subsidiary, Portlandbet Pty Ltd, the Company lost control of this subsidiary on 29 January 2008.

e. Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments. The Company's primary segment reporting format is geographical segments as the Company's risks and rates of return are affected predominantly by differences in the location of the Company's operations. The business activities of the entities in the consolidated entity are predominantly within a single business which is the exploration of resources.

f. Revenue Recognition

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

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

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

g. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

h. 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 whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company 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 recognised as an expense in profit or loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

i. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

j. Trade and other receivables

All debtors are recognised at cost less allowance for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect on all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

k. Income tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected 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 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:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and 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 and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from 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; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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 utilised.

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 are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

l. Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. 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 capitalization.

Depreciation is calculated on a straight-line over the estimated useful life of the assets as follows:

Furniture and fittings	3 – 5 years
Electronic equipment	3 – 5 years

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

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in a combination of functional expense items.

m. Exploration and Evaluation Expenditure

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

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

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

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

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

n. Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

o. Provisions

Provisions are recognised when the Company 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

p. Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

q. Share-based payment transactions

The Company provides benefits to employees and consultants of the Company in the form of share-based payments, whereby employees or consultants receive option incentives (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued. The fair value is determined using the Black Scholes option pricing model.

Upon the exercise of options, the balance of share based payments reserve relating to those options is transferred to share capital.

r. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

s. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. The weighted average number of shares has been calculated to take into account the 5 for 1 equity consolidation of the Company's equity securities on the 28 March 2008. The comparative figures are disclosed post 5 for 1 consolidation.

t. Convertible notes

The component of the convertible notes that exhibits characteristics of a liability are recognised as a liability in the balance sheet, net of issue costs.

On issue of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the conversion options that is recognised and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

Issued costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

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u. Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. *Loans and receivables*

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

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

v. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting estimates and assumptions

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an using the Black-Scholes model, with the assumptions detailed in note15. 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.

W. Adoption of new and revised accounting standards

The Company has adopted AASB 7 Financial instruments: Disclosures; Disclosures and all consequential amendments which became applicable on 1 January 2007 and AASB 101: Presentation of Financial Statements (revised October 2006). The adoption of these standards has only affected the disclosures in the financial statements of the economic entity. There has been no effect on profit and loss of the financial position of the entity.

X. New accounting standards and interpretations

The following standards have been identified as those which may impact the consolidated entity's financial report, in the period of financial application. They are available for early adoption as at 30 June 2008, but have not been applied in preparing this financial report. The directors have considered each of the below standards, and assessed the impact as follows:

AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]*

AASB 8 replaces the presentation requirements of segment reporting in *AASB 114: Segment Reporting*. These standards are applicable for reporting periods beginning of or after 1 January 2009. Application of these standards will not affect any of the amounts recognised in the Company's or Consolidated entity's financial statements as the standards are only concerned with disclosures and the Company operations in one business segment being the mining and exploration industry and one geographical segment being Australia.

AASB 3 *Business Combinations (March 2008),* AASB 127 *Consolidated and Separate Financial Statements (March 2008)* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]*

These revised standards introduce greater emphasis on the use of fair value recognition. Transaction cost will be required to be accounted for separately through the Income Statement rather than capitalised as part of the cost of the investment as is currently the case. These standards are effective for the annual reporting periods beginning on or after 1 July 2009. The impact of these standards has yet been determined.

AASB 101 *Presentation of Financial Statements (September 2007)*

This revised standard introduces as a primary statement, the "Statement of Comprehensive Income". The revised standard does not change any recognition, measurement or disclosure requirements of transactions and events that are required by other Accounting Standards. The standard is applicable for the annual reporting period beginning on or after 1 July 2009. The effect of these disclosures in the financial statements has not yet been determined.

AASB 2008-1 *Amendments to Australian Accounting Standards – Share-based payments: Vesting Conditions and Cancellations [AASB 2]*

This revised standard clarifies that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions. This standard is effective for financial reporting period beginning on or after 1 July 2009, and is not expected to have any impact on the financial statements.

AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136]*

The key revisions to this standard include the requirement for all dividends to be treated as revenue, the removal of the definition of the cost from AASB 127 *Consolidated and Separate Financial Statements,* and amendments to AASB 136 *Impairment of Assets* to include the receipt of a dividend from a subsidiary as a possible indicator of impairment. This standard is effective for financial reporting periods beginning on or after 1 January 2009, and is not expected to have any impact of the financial statements.

Note 2. Segment Information

Industry & Geographical Segment

Until 29 January 2008 the Company operated in one business segment being an internet and telephone sports bookmaker operating under a Sports Bookmakers Licence in the one geographical segment of Australia. Subsequent to the sale of its wholly owned subsidiary, the Company focuses solely on investment opportunities in the mining and exploration industry, being the one business segment, and operates in the one geographical segment of Australia.

Note 3. Revenue and Expenses

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Continuing Operations				
(a) Revenue				
Interest Revenue	6,246	2,816	6,246	2,816
Management Fees	-	-	-	102,000
Other Income	-	-	-	
	6,246	2,816	6,246	104,816
(b) Employees benefits expense				
Salary and Wages expense	191,928	180,003	191,928	180,003
Superannuation expense	9,364	17,528	9,364	17,528
Share-based options expense	903,900	226,316	903,900	226,316
	1,105,192	423,847	1,105,192	423,847
(c) Other expenses				
ASX fees	5,748	-	5,748	-
Office consumables	32,923	372	32,923	372
Rent	27,715	-	27,715	-
Travel expenses	7,616	9,577	7,616	9,577
Insurance	6,801	-	6,801	-
Exploration expenses	29,800	-	29,800	-
Other expenses	93,473	5,135	93,473	5,135
	204,076	15,084	204,076	15,084

Note 4. Discontinued Operations

On 3 December 2007 the Company announced its decision to dispose of its wholly owned subsidiary Portlandbet Pty Ltd, thereby discontinuing its operations in the consolidated Company.

The Company entered into a binding sales agreement for the sale of 100% of the issued capital of Portlandbet Pty on 29 January 2008 with shareholder approval.

The financial performance of the discontinued operation, which is included in the consolidated income statement is as follows:

	Portlandbet Pty Ltd	
	30 June 2008 $	30 June 2007 $
Revenue	**8,856**	**69,664**
Employee benefits expense	(458,394)	(749,684)
Depreciation expense	(47,230)	(91,910)
Finance costs	(218)	(12,091)
Consulting Fees	(13,479)	(111,350)
Professional Costs	(18,369)	(42,296)
Communications	(40,054)	(82,629)
Computer Related Comsumables	(4,689)	(18,098)
Legal Fees	(750)	(10,109)
Gross Bookmaking Loss	(110,300)	-
Marketing	(89,613)	(365,710)
Impairment Loss	(100,060)	-
Other expenses	(293,064)	(131,591)
Expenses	**(1,176,220)**	**(1,615,468)**
Results form operating activities, net of income tax	(1,167,364)	(1,545,804)
Loss from discontinued operations after tax	**(1,167,364)**	**(1,545,804)**

The net cash flows of the discontinued subsidiary which has been incorporated into the statement of cash flows to the date of loss of control are as follows:

	Portlandbet Pty Ltd	
	30 June 2008 $	30 June 2007 $
Net cash inflow/(outflow) from operating activities	61,448	(234,867)
Net cash inflow/(outflow) from investing activities	(3,380)	(49,304)
Net cash inflow/(outflow) from financing activities	-	-
Net cash increase/(decrease) in cash generated by the discontinuing subsidiary	58,068	(284,171)

Note 4. Discontinued Operations continued

The major classes of assets and liabilities of discontinued operations at the date of loss of control were:

	30 June 2008 $
Assets of Discontinued Operation	
Cash and cash equivalents	298,115
Trade and other receivables	12,286
Property, plant & equipment	109,654
Total assets of discontinued operation	**420,055**
Liabilities of Discontinued Operation	
Trade and other payables	363,106
Provisions	1,949
Total liabilites of discontinued operation	**365,055**
Net Assets of Discontinued Operation	**55,000**
Consideration Received, satisfied in cash	365,985
Cash disposed of	(298,115)
Net cash proceeds on disposal	**67,870**

Note 5. Income tax

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Income tax recognised in loss:				
Tax expense/(income) comprises:				
Current tax expense/(income)	(651,190)	(867,155)	(651,190)	(959,481)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	14,597	-	827
Current year tax benefit not recognised in the income statement	651,190	852,558	651,190	958,654
Total tax expense/(income)	-	-	-	-

The Prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Loss from continuting operations	(1,907,170)	(3,068,176)	(3,074,534)	(3,421,831)
Loss from discontinued operations	(1,167,364)	-	-	-
Total loss from operations	(3,074,534)	(3,068,176)	(3,074,534)	(3,421,831)
Income tax expense calculated at 30%	(922,360)	(920,453)	(922,360)	(1,026,549)
Non-deductible expenses	271,170	67,895	271,170	67,895
Current year tax benefit not recognised in the income statement	651,190	852,558	651,190	958,654
	-	0	-	(0)

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

The Company has tax losses arising in Australia of $1,503,748 (2007: $852,558).

This tax losses will only be obtained if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; and
- The conditions for deductibility imposed by tax legislation continue to be complied with; and
- No changes in tax legislation adversely affect the Company in realising the benefit.

Note 6. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Consolidated	
	2008	**2007**
	$	**$**
Net loss attributable to members of the Company	(3,074,534)	(3,068,176)
Net loss from continuing operations	(1,907,170)	(1,522,373)
Net loss from discontinued operations	(1,167,364)	(1,545,804)

Reconciliation of weighted average number of ordinary shares:

	2008	**2007**
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	9,961,954	4,113,059
Effect of dilution	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	9,961,954	4,113,059

In accordance with AASB 133 ‘Earnings per share’, as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or a decrease in profit per share from continuing operation, no dilutive effect has been taken into account in 2008 or 2007.

The 2007 weighted average number of ordinary shares comparative figure has been adjusted to reflect the 5 for 1 consolidation of equity (refer to note 1(s)).

Note 7. Cash and Cash Equivalents

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Cash at bank and in hand		135,506	556,407	135,506	5,375
		135,506	556,407	135,506	5,375

Reconciliation to Cash Flow Statement

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:					
Cash at banks and in hand		135,506	556,407	135,506	5,375
Short-term deposits		-	-	-	-
		135,506	556,407	135,506	5,375

	Note	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Reconciliation of net profit after tax to net cash flows from operations					
Net profit		(3,074,534)	(3,068,176)	(3,074,534)	(3,421,831)
Adjustments for non-cash items:					
Depreciation	4	47,230	91,910	-	-
Non-cash interest expense		21,447	196,106	-	196,106
Equity settled share based payment for non-cash employee benefits		903,900	226,316	903,900	226,316
Equtiy settled share based payments in lieu of consulting fees		-	596,000	-	596,000
Impairment loss	4	100,060	-	-	-
Changes in assets and liabilities					
(Increase)/Decrease in trade and other receivables		4,055	14,286	4,228	(3,438)
(Increase)/Decrease in prepayments		23,401	(24,348)	7,180	(18,099)
Increase/(Decrease) in trade and other payables		(228,336)	229,131	122,544	(29,519)
Increase/(Decrease) in employee entitlements		(38,856)	28,656	(9,590)	2,755
Impairment of investment		-	-	1,167,364	2,001,459
Net cash from operating activities		(2,241,633)	(1,710,119)	(878,908)	(450,251)

There were no non-cash financing and investing activities during the year (2007: $1,744,743). During the year ended 30 June 2007, the non-cash financing and investing activities related to the issue of 12,072,063 ordinary shares to settle convertible notes outstanding.

Note 8. Trade and Other Receivables

	Consolidated 2008	Consolidated 2007	Company 2008	Company 2007
Goods & Services Tax receivable	-	4,055	-	4,228
	-	4,055	-	4,228

Note 9. Other Current Assets

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Prepayments	10,919	34,320	10,919	18,099
	10,919	34,320	10,919	18,099

Note 10. Other Non-Current Financial Assets

Shares in controlled entities - cost	-	-	-	2,450,000
- impairment	-	-	-	(2,001,459)
	-	-	-	448,541

As at 30 June 2007, the Directors considered the impairment of the carrying value of the investment in the subsidiary and considered two options in determining the value of the carrying amount of the investment, namely:

1. Value in use; and
2. Fair value less cost to sell

The directors determined that the investment in Portlandbet Pty Ltd, a former subsidiary of the Company, should be recorded at fair value of the net assets of the subsidiary, less costs to sell and accordingly the investment was impaired by $2,001,459.

During the year ended 30 June 2008, the Company recorded and impaired expense in relation to the investment in Portlandbet Pty Ltd of $1,167,364. The impairment loss included the carrying value of investment at 30 June 2007 of $448,541.

Note 11. Property, Plant & Equipment

	Consolidated Plant & equipment $	Consolidated Total $
Year ended 30 June 2008		
Balance at 1 July 2007	236,607	236,607
Disposal of assets in discontinued subsidiary	(189,377)	(189,377)
Depreciation charge for the year	(47,230)	(47,230)
Balance at 30 June 2008	(0)	(0)
At 1 July 2007		
Cost	361,482	361,482
Accumulated depreciation and impairment	(124,875)	(124,875)
Net carrying amount	236,607	236,607
At 30 June 2008		
Cost	172,105	172,105
Accumulated depreciation and impairment	(172,105)	(172,105)
Net carrying amount	(0)	(0)
Year ended 30 June 2007		
Balance at 1 July 2006	279,214	279,214
Additions	49,303	49,303
Depreciation charge for the year	(91,910)	(91,910)
Balance at 30 June 2007	236,607	236,607
At 1 July 2006		
Cost	312,179	312,179
Accumulated depreciation and impairment	(32,965)	(32,965)
Net carrying amount	279,214	279,214
At 30 June 2007		
Cost	361,482	361,482
Accumulated depreciation and impairment	(124,875)	(124,875)
Net carrying amount	236,607	236,607

Note 12. Trade and Other Payables

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Trade payables	8,801	111,248	8,801	68,480
Other payables	192,223	61,166	192,223	10,000
Client liability- Portlandbet Pty Ltd	-	256,946	-	-
	201,024	429,360	201,024	78,480

Note 13. Current Borrowings

Loans from shareholder	-	50,000	-	75,000
	-	50,000	-	75,000

Note 14. Current Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Employee Benefits	-	38,856	-	9,590
	-	38,856	-	9,590

Note 15. Share Based Payments

Employee Share Option Plan

The Company has established the Fortuna Minerals Limited Employee Share Option Plan (ESOP) and a summary of the terms and conditions of the Plan are set out below:

- All employees (full time and part time) will be eligible to participate in the Plan.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue (provided all relevant vesting conditions, if applicable, have been met. Options will be issued free. The exercise price of options will be determined by the board. The total number of shares the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.
- If, prior to the expiry date of options, a person ceases to be an employee of a Company for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 30 days from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.
- Options are granted under the plan for no consideration.
- Each share options converts into one ordinary shares of Fortuna Minerals Limited.

The Board may amend the terms and conditions of the plan subject to the requirements of the Listing Rules.

No options were issued to employees under the ESOP during the year.

On the 14 February 2008, 9,000,000 share options were issued to directors to accept shares at an exercise price of $0.20. The options are exercisable on or before 31 December 2012. The options hold no voting or dividend rights and are not transferrable. At balance date, no share options had been exercised.

Note 15. Share Based Payments continued

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year:

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at the beginning of the year	5,362,500	-	-	-
Granted during the year	5,005,000	-	-	-
Granted during the year	1,000,000	-	-	-
Consolidation of issued capital (5 for 1)	**2,273,500**	**-**	**-**	**-**
Granted during the year	9,000,000	-	5,362,500	0.21
Outstanding at the end of the year	**11,273,500**	**0.37**	**5,362,500**	**0.21**
Exercisable at the end of the year	11,123,500	0.36	-	-

The balance as at 30 June 2008 is represented by:

- A total of 50,000 (post 5 for 1 consolidation “post consolidation”) options issued on 22 August 2006 and exercisable any time until 21 August 2011 with a strike price of $2.00 (post consolidation) and a fair value per option at grant date of $0.3325 (post consolidation).
- A total of 150,000 (post consolidation) options issued on 22 August 2006, vesting on 19 September 2009 and exercisable any time until 21 August 2011, with a strike price of $1.00 (post consolidation) and a fair value per option at grant date of $0.477 (post consolidation).
- A total of 397,500 (post consolidation) options issued on 27 April 2007 and exercisable any time until 26 April 2010, with a strike price of $1.00 (post consolidation).
- A total of 350,000 (post consolidation) options issued on 29 May 2007 and exercisable any time until 28 May 2012, with a strike price of $1.00 (post consolidation) and a fair value per option at grant date of $0.36 (post consolidation).
- A total of 125,000 (post consolidation) options issued on 8 June 2007 and exercisable any time until 7 June 2010, with a strike price of $1.00 (post consolidation).
- A total of 1,001,000 (post consolidation) options issued on 19 September 2007 and exercisable any time until 18 September 2010, with a strike price of $1.00 (post consolidation).
- A total of 200,000 options issued on 4 December 2007 and exercisable any time until 4 December 2010, with a strike price of $1.00 (post consolidation) and a fair value per option at grant date of $0.075 (post consolidation).
- A total of 9,000,000 options issued on 14 February 2008 and exercisable any time until 31 December 2012, with a strike price of $0.20 and a fair value per option at grant date of $0.1001.

Note 15. Share Based Payments continued

Contractual life of options

The weighted average remaining contractual life for the share options outstanding as at 30 June 2008 is 4.1 years (2007: 4.92 years).

Exercise price of options

The exercise prices of options outstanding at the end of the year was $0.20 - $2.00 (post consolidation).

Fair value of options

The weighted average fair value of options granted during the financial year is $0.0903 (2007: $0.072). The fair value of the options granted has been calculated using the Black-Scholes pricing model. The share price volatility has been measured with reference to share price of the Company and also similar companies. Given the Company has only been listed since 19 September 2007, the prospectus offer price of $0.20 per share has been taken as representing the current market value of shares in Fortuna Minerals Limited at the date of issue of the options.

The following table lists the inputs to the model used for share options granted during the period:

	2008	**2008**	**2007**	**2007**	**2007**
	14/12/2007	**14/02/2008**	**22/08/2006**	**22/08/2006**	**29/05/2007**
Expected volatility (%)	50%	75%	54%	54%	25%
Risk-free interest rate (%)	6.25%	6.50%	5.90%	5.90%	6.25%
Expected life of option (years)	3.00	4.88	6.10	6.10	5.00
Option exercise price ($)	$0.20	$0.20	$0.20	$0.40	$0.20
Weighted average share price ($)	$0.04	$0.04	$0.20	$0.20	$0.20

The expected volatility reflects the assumption that the historical volatility of the comparable companies used is indicative of future trends, which may not necessarily be the actual outcome. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. No other features of options granted were incorporated into the measurement of fair value.

Share-based payments

The amount expensed in relation to equity settled share-based payments to the income statement was $903,900 (2007: $226,316).

Note 16. Issued Capital

	Consolidated 2008 $	Consolidated 2007 $	Company 2008 $	Company 2007 $
Shares				
10,421,413 fully paid ordinary shares (post consolidation) (2007: 41,347,063 (pre consolidation))	5,942,360	3,948,060	5,942,360	3,948,060
Less: Transaction costs	(236,638)	(45,200)	(236,638)	(45,200)
	5,705,722	3,902,860	5,705,722	3,902,860

The Company does not have authorised capital no par value in respect of its issued shares.

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

At Shareholder meetings each ordinary share is entitled to one voted when a poll is called, otherwise each shareholder has on vote on a show of hands.

	2008 Number	2008 $	2007 Number	2007 $
Fully Paid Ordinary Share				
Balance at beginning of financial year	41,347,063	3,902,860	9,841,600	464,680
Shares issued via placements	-	-	19,433,400	1,738,837
Conversion of convertible notes	-	-	12,072,063	1,744,543
Shares issued on 19 September 2007 pursuant to Initial Public Offering	10,010,000	2,002,000	-	-
Shares issued 4 December 2007 pursuant to Initial Public Offering date 22 June 2007	750,000	37,500	-	-
Balance pre consolidation	52,107,063	5,942,360	41,347,063	3,948,060
Consolidation of issued capital pursuant to shareholder approval granted 28 March 2008 (5 for 1 consolidation)	10,421,413	5,942,360	-	-
Transaction costs on share issue	-	(236,638)	-	-
Balance at end of financial year	10,421,413	5,705,722	-	-

On 28 March 2008 the Company's Shareholders resolved, by way of Extraordinary General Meeting pursuant to Section 254H of the Corporations Act 2001, to consolidate the capital of the Company. The purpose of the consolidation is to implement a more appropriate capital structure for the Company going forward.

Capital risk management

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

The Company's capital includes ordinary share capital supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Note 17. Share Option Reserve

The share options reserve arises on the grant of options to directors and employees under the director and employee options plan and for cash-settled share-based payments. Amounts are transferred out of this reserve and into issued capital when the options are exercised.

a) The Share Option Reserve records items recognised as expenses on valuation of employee share options and other equity settled transactions.

Table of Share Option movements for the Company as at 30 June 2008:

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Balance at beginning of financial year	214,175	69,803	214,175	69,803
Conversion of convertible notes	-	(69,803)	-	(69,803)
2,750,000 Incentive Options Issued	-	214,175	-	214,175
200,000 Options Issued	3,000	-	3,000	-
9,000,000 Options Issued	900,900	-	900,900	
Balance at end of financial year	1,118,075	214,175	1,118,075	214,175

During the year 9,000,000 options (exercisable at $0.20 with an expiry date of 31 December 2012) were issued to Directors; and 200,000 (post consolidation- exercisable at $1.00 with an expiry date of 4 December 2010) were issued to the Lead Manager of the Initial Public Offering pursuant to the prospectus date 22 June 2007. The total fair value of these options was $900,900, which was expensed in the current financial year being the fair value of options as determined by the Black-Scholes pricing model (refer to note 15).

b) Table of Share Options movement for the Company as at 30 June 2008:

	Number of Options	Classification	Exercise Price	Fair Value Recognised	Total Option Value
Opening Balance at 1 July 2007 (post consolidation)	1,072,500			214,175	214,175
Options Issued 19 September 2007 via IPO (post consolidation)	1,001,000	Issued to shareholders via IPO	$ 1.00	-	-
Options Issued 4 December 2007 (post consolidation)	200,000	Lead Manager to IPO	$ 1.00	3,000	3,000
Options Issued 14 February 2008	9,000,000	Directors	$ 0.20	900,900	900,900
Closing Balance at 30 June 2008	**11,273,500**			**1,118,075**	**1,118,075**

Note 18. Retained Earnings

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Balance at beginning of financial year	(3,803,862)	(735,686)	(3,803,862)	(382,031)
Net loss attributable to members of the company	(3,074,534)	(3,068,176)	(3,074,534)	(3,421,831)
Balance at end of financial year	(6,878,396)	(3,803,862)	(6,878,396)	(3,803,862)

Note 19. Commitments and Contingencies

Exploration Commitments

Tenement	Grant Date	Expiry Date	Area	Expenditure
P37/6760	22/07/05	21/07/09	200 Ha	$8,000
P37/6761	22/07/05	21/07/09	200 Ha	$8,000

The Company has the right to earn a 75% joint venture interest in the two tenements from Cazaly Resources Limited by undertaking no less than 2,000 metres of RAB drilling within 3 years of the date of entering into the farm-in agreement.

No provision has been raised for this commitment.

Note 20. Auditors Remuneration

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Continuing Operations				
Audit or review of financial report	43,318	10,000	43,318	10,000
Other Non Audit Services *	18,510	54,500	18,510	54,500
	61,828	64,500	61,828	64,500
Discontinued Operations				
Audit or review of financial report	-	20,000	-	-
Other Non Audit Services *	-	-	-	-
	-	20,000	-	-

* Other services in relation to the preparation of the Independent Accountants Report for the Company's prospectus.

Note 21. Financial Instruments

a) Financial risk management

The company's principal financial instruments comprise receivables, payables, cash and short-term deposits. These activities expose the company to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The key management risk is interest rate risk. Although the group do not have documented policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and by being aware of market forecasts for interest rate. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through general business budgets and forecasts. The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

There has been no material change to the financial risk management or the manner in which it manages and measures risk from the previous period.

The company holds the following financial instruments:

	Consolidated		Company	
	2008	2007	2008	2007
Financial assets	$	$	$	$
Cash and cash equivalents	135,506	556,407	135,506	5,375
Trade and other receivables	-	4,055	-	4,228
Prepayment	10,919	34,320	10,919	18,099
	146,425	594,782	146,425	27,702
Financial liabilities				
Trade and other payables	201.024	429,360	201,024	78,480
Borrowings	-	50,000	-	75,000
	201.024	479,360	201,024	153,480

(b) Market risk

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(i) Interest rate risk

The company's exposure to market interest rates relates primarily to the company's short term deposits held. The interest income earned from these can vary due to interest rate changes.

Sensitivity Analysis

Fluctuations in interest rates would not have a material effect on the company.

(ii) Foreign currency risk

The company is not exposed to fluctuations in foreign currencies.

(iii) Liquidity risk

Liquidity risk is the risk that the company and group will not be able to pay its debts as and when they fall due. The company has no borrowings to date and the directors ensure that the cash on hand is sufficient to meet the commitments of the company. The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Financing arrangements

The company do not have access to any borrowing facilities at the reporting date.

Maturities of financial liabilities

The tables below analyse the company's financial liabilities.

Consolidated	Maturing Within Year	Maturing 1 to 5 years	Total
	$	$	$
2008			
Financial Liabilities			
Trade and other payables	201,024	-	201,024
Borrowings	-	-	-
Total Financial Liabilities	201,024	-	201,024
2007			
Financial Liabilities			
Trade and other payables	429,360	-	429,360
Borrowings	50,000	-	50,000
Total Financial Liabilities	479,360	-	479,360

Company	Maturing Within Year	Maturing 1 to 5 years	Total
	$	$	$
2008			
Financial Liabilities			
Trade and other payables	201,024	-	201,024
Borrowings	-	-	-
Total Financial Liabilities	201,024	-	201,024
2007			
Financial Liabilities			
Trade and other payables	78,480	-	78,480
Borrowings	50,000	-	50,000
Total Financial Liabilities	128,480	-	128,480

(iv) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables, net of any allowance for doubtful debts, as disclosed in the balance sheet and notes to the financial report.

The Company trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the company's policy to securitize its trade and other receivables. All sales are on cash basis as such there no credit risk on the trade receivables. It is the Group's policy to consider the credit worthiness of all customers who wish to trade on credit terms.

In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

(v) Price risk

Price risk is the risk that future cash flows derived from financial instruments will be changed as a result of a market price movement, other than interest rates. The company and group are not exposed to any material commodity price risk, other than those already described above.

(c) Net fair values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values.

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

- the net fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and the net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

Note 22. Leases

	Consolidated		Company	
	2008	2007	2008	2007
	$	$	$	$
Non-cancellable Operating Lease Payments for Premises				
Not longer than 1 year	-	48,450	-	-
Longer than 1 year and not longer than 5 years	-	250,000	-	-
Longer than 5 years	-	-	-	-
	-	298,450	-	-

All leases held at 30 June 2007 were relinquished at the time of disposal of Portlandbet Pty Ltd.

Note 23. Related Party Disclosures

Portlandbet Pty Ltd is a subsidiary which was disposed on 29 January 2008.

Payments to related parties

Cicero Corporate Pty Ltd, of which Mathew Walker is an associate, received fees of $14,900 (2007: $nil) for rent and account administration.

Details of key management personnel remuneration are disclosed in the Directors' Report accompanying the Financial Report.

Key Management Personnel Equity Holdings

Details of Key Management Personnel equity holdings are described below:

Table 1. Options holdings of Key Management Personnel

30 June 2008	Balance at beginning of period Number	Options granted as compensation Number	Other changes Number	Balance at end of period Number	Total Vested at 30 June Number	Vested and exercisable Number	Vested and not exercisable Number
Directors							
Mathew Walker	-	5,000,000		5,000,000	5,000,000	5,000,000	-
Gary Ralston	-	2,000,000	5,000	2,005,000	2,005,000	2,005,000	-
Michael Shields	-	2,000,000		2,000,000	2,000,000	2,000,000	-
Former Directors^							
John Levy	250,000	-		250,000	-	-	250,000
Robert Drake	250,000	-		250,000	-	-	250,000
Craig Astil	250,000	-		250,000	-	-	250,000
David Gray	25,000	-	250,000	275,000	275,000	275,000	-
Stephen Hobbs	250,000	-		250,000	-	-	250,000
Total	**1,025,000**	**9,000,000**	**255,000**	**10,280,000**	**9,280,000**	**9,280,000**	**1,000,000**

^ Former director's option holding at date of retirement (retirement dates can be found in Directors' Report).

30 June 2007	Balance at beginning of period Number	Options granted as compensation Number	Other changes Number	Balance at end of period Number	Total Vested at 30 June Number	Vested and exercisable Number	Not vested or exercisable Number
Former Directors							
John Levy	-	250,000		250,000	-	-	250,000
Robert Drake	-	250,000		250,000	-	-	250,000
David Gray	-	-	25,000	25,000	25,000	25,000	-
Craig Astil^	-	250,000		250,000	-	-	250,000
Management Personnel							
Stephen Hobbs	-	250,000		250,000	250,000	250,000	-
Total	**-**	**1,000,000**	**25,000**	**1,025,000**	**275,000**	**275,000**	**750,000**

^This Director resigned during the year ended 30 June 2007.

No options were exercised during the year (2007: nil).

Table 2. Shareholdings of Key Management Personnel

30 June 2008	Type of option	Balance at beginning of period	On exercise of options	Shares acquired during period	Balance at end of period
Directors					
Mathew Walker	Director	-	-	2,000,000	2,000,000
Gary Ralston*	Director	-	-	872,305	872,305
Michael Shields	Director	-	-	-	-
John Levy^	Director	698,907	-	-	698,907
Robert Drake^	Director	269,775	-	-	269,775
David Gray^	Director	50,000	-	828,000	878,000
Nicholas Kephala^	Director	53,256	-	-	53,256
Key Management Personnel					
Stephen Hobbs^	Director	5,000,000	-	-	5,000,000
Total		**6,071,938**	**-**	**3,700,305**	**9,772,243**

^ Former director's option holdings at date of retirement (retirement dates can be found in Directors' Report).

30 June 2007	Type of option	Balance at beginning of period	On exercise of options	Shares acquired during period	Balance at end of period
Directors					
John Levy	Director	541,600	-	157,307	698,907
Robert Drake	Director	50,000	-	219,775	269,775
David Gray	Director	-	-	50,000	50,000
Nicholas Kephala	Director	3,800,000	-	(3,746,744)	53,256
Key Management Personnel					
Stephen Hobbs	Director	3,000,000	-	2,000,000	5,000,000
Total		**7,391,600**	**-**	**(1,319,662)**	**6,071,938**

Note 24. After Balance Sheet Date Events

On the 22 September 2008 the Company settled a dispute with a former employee who had initiated legal proceedings against the Company for alleged unfair dismissal. Pursuant to this agreement, the terms of the settlement are confidential.

Also on the 22 September 2008, the Company issued 1,180,000 ordinary shares at $0.05 per share to raise $59,000 before transaction costs.

Directors' Declaration

In accordance with a resolution of the directors of Fortuna Minerals Limited, the Directors declare that:

1. In the opinion of the directors:

    a. the financial statements and notes thereto, comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements:

    b. give a true and fair view of the Company's financial position as at 30 June 2008 and its performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

    c. there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made by the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2008.

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

Mathew Walker

Non-Executive Chairman, Company Secretary

Perth, 23 October 2008

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Fortuna Minerals Limited

Report on the Financial Report

We have audited the accompanying financial report of Fortuna Minerals Limited (formerly Marginbet Limited), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Fortuna Minerals Limited and the consolidated entity. The consolidated entity comprises Fortuna Minerals Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Fortuna Minerals Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

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Independence

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

Basis for Adverse Auditor's Opinion

The Directors have prepared the financial report on the going concern basis as described in Note 1 and state in the Directors' declaration that in their opinion there are reasonable grounds to believe that the company will be able to pay its debt as and when they fall due.

Evidence to support the Directors assertions that the company will be able to continue as a going concern and pay its debts as and when they fall due has not been provided.

As detailed in Note 1(c) "Going Concern", as at 30 June 2008, the company and consolidated entity have a deficiency in net assets of $54,599. The directors also state in Note 1(c) that the expected operating costs for the period of 12 months from the date of signature of the financial report assuming the company continues to operate at its current level of activity are $313,000. Subsequent to 30 June 2008, the company raised additional capital of $59,000, via the issue of 1,180,000 million ordinary shares at $0.05 per share to provide additional working capital to meet current accounts payable.

The directors' have also stated in Note 1(c), that it is their intention to fund the operating costs of the company by raising minimal additional capital to fund operating expenses for the period of 12 months from the date of signing the financial report.

The company is reliant upon raising additional capital to fund its operations and its mineral exploration activities. The company attempted to raise additional capital of up to $3 million, with a minimum subscription of $2 million, via the issue of a prospectus on 28 March 2008. This additional capital raising was unsuccessful.

The financial report has been prepared on a going concern basis, whereas the company is currently not actively trading and would need to raise capital in order to commence exploration activities.

A going concern basis presumes that the company will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

Adverse Auditor's Opinion

In our opinion, for the reasons set out in the qualification paragraph above:

(a) the financial report of Fortuna Minerals Limited is not in accordance with the *Corporations Act 2001*, and does not:

   (i) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   (ii) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial reports also do not comply with International Financial Reporting Standards as disclosed in Note 1.

PKF

Chartered Accountants
& Business Advisers

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Fortuna Minerals Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Acts 2001*.

PKF

David Garvey

PKF
Chartered Accountants

D J Garvey
Partner

23 October 2008, Melbourne