

Montezuma Mining Company Limited

ABN 46 119 711 929

Annual Financial Report

for the year ended 30 June 2008

Corporate Information

ABN 46 119 711 929

Directors

Denis O'Meara (Non Executive Chairman)
Justin Brown (Managing Director)
Terrance Grammer (Non Executive Director)
Ian Cornelius (Non Executive Director)

Company Secretary

John Ribbons

Registered Office

23 Altona Street
WEST PERTH WA 6005

Principal Place of Business

133-135 Edwards Street
PERTH WA 6000

Solicitors

Wright Legal
Level 1, 103 Colin Street
WEST PERTH WA 6005

Bankers

National Australia Bank Limited
1232 Hay Street
WEST PERTH WA 6005

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

Auditors

Rothsay Chartered Accountants
Level 18, 6 O'Connell Street
SYDNEY NSW 2000

Internet Address

www.montezumamining.com.au

Stock Exchange Listing

Montezuma Mining Company Limited shares (Code: MZM) and 20 cent options expiring on or before 31 August 2011 (Code: MZMO) are listed on the Australian Stock Exchange.

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Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Montezuma Mining Company Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Denis O'Meara, JP, AMAusIMM (Non Executive Chairman)

Mr O'Meara is a Prospector and founder of De Grey Mining Ltd. Mr O'Meara has a lifelong involvement in mining, prospecting and exploration. He has been involved in several major resource and exploratory discoveries in Western Australia including Miralga Creek, Sulphur Springs, Gorge Range, Indee (Wingina and Orchard Tank Well) (Pilbara), Horans Dam (Kalgoorlie), Triangle Bore (Mt Magnet) and Weld Range (Murchison). His activities have supported several corporate fund raisings/listings since 1969. His prospecting has also led to joint ventures with 17 companies. Mr O'Meara is the discoverer of the Beyondie Bluff gold and base metal anomalies and originally sampled for gold at the Indee Turner River Gold Belt in 1987. He was awarded AMEC Prospector of the Year in 2004, jointly with Geoff Blackburn.

Mr O'Meara has served as an Executive Councillor of AMEC, a board member of AGIC (Australian Gold Industry Council) for its 10-year duration and board member of the Port Hedland Port Authority from 1972 to 1985. He also received a National Outstanding Achievement Award - Greening Australia, 1991 and served as a board member of the Kings Park and Botanical Gardens, Perth, 1994 - 1996. Denis is currently a director of Shaw River Resources Limited. Within the last 3 years Mr O'Meara has been a former director of De Grey Mining Limited.

Justin Brown, B.Sc. (Hon), (Managing Director)

Mr Brown is a geologist with extensive experience in minerals exploration in Australia and New Zealand. He has a strong technical background with experience in the full spectrum of mineral exploration and mining from grass roots target generation through to resource mining and mine production.

Mr Brown's previous experience in the mining industry culminated in a position managing exploration for a large multinational company in the Leonora, Edjudina and Marvel Loch regions of Western Australia. He is the founding Managing Director of the Company.

Mr Brown has also worked in business circles away from mining and exploration, having founded and operated a successful internet services consultancy enhancing his management expertise which he brings to the Board. Mr Brown has not held any former directorships in the last 3 years.

Terrence Grammer, (Non Executive Director, audit committee member)

Mr Grammer is a geologist with over 30 years experience in mining and mineral exploration with extensive experience in Australia, Southern Africa, East Asia & New Zealand and has operated in Western Australia since 1988. He has extensive experience in exploring for gold and base metals.

Mr Grammer was awarded The Association of Mining and Exploration Companies (AMEC) Prospector of the Year Award (jointly with Mr Anthony Rovira) in 2000 for the Discovery of Jubilee Mines NL's Cosmos Nickel Deposit. The initial Cosmos discovery defined a resource of approximately 400,000t @ 8.2% Ni. The project has grown significantly since then.

He was also a founder and promoter in 1999 of the successful nickel explorer Western Areas NL where he was the Exploration Manager from 2000 until retiring in 2004.

Mr Grammer became a Non Executive Director of Hannans Reward Ltd and, after assisting a \$3.4m refunding of Hannans, became an Executive Director in January 2007. Mr Grammer is also the Non Executive Chairman of South Boulder Mines Limited. Mr Grammer has not held any former directorships in the last 3 years.

Ian "Inky" Cornelius, (Non Executive Director, audit committee member)

Mr Cornelius has had over 40 years experience in the minerals and petroleum industry. He spent the first nine years of his career with the Western Australian Department of Mines before leaving to manage his own tenement consulting business. Since 1976 he has held senior executive positions in a number of public exploration and mining companies. In this capacity he has had extensive experience and success in the selection, management and development of deposits of many commodities. Inky is a non-executive director of Pancontinental Oil & Gas NL, Austral Africa Resources Ltd, and Alkane Exploration Ltd.

Inky has not held any former directorships in the last 3 years.

Directors' Report continued

COMPANY SECRETARY

John Ribbons, B.Bus., CPA, ACIS

Mr Ribbons is an accountant who has worked within the resources industry for over fourteen years in the capacity of company accountant, group financial controller or company secretary.

Mr Ribbons has extensive knowledge and experience with ASX listed production and exploration companies. He has considerable site based experience with operating mines and has also been involved with the listing of several exploration companies on ASX. Mr Ribbons has experience in capital raising, ASX compliance and regulatory requirements.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Montezuma Mining Company Limited were:

	Ordinary Shares	Options over Ordinary Shares
Denis O'Meara	700,000	1,102,500
Justin Brown	1,100,000	3,512,500
Terrance Grammer	1,026,000	2,006,500
Ian Cornelius	320,000	305,000

PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group's activities during the year.

DIVIDENDS

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

REVIEW OF OPERATIONS

Finance Review

The Group began the financial year with a cash reserve of \$2,742,423. During the year the Group completed two separate placements to sophisticated and institutional investors resulting in the issue of 9,187,567 ordinary shares to raise \$1.62 million (before costs). Funds were used to acquire and actively advance the Group's projects located in Australia.

During the year total tenement acquisition and exploration expenditure incurred by the Group amounted to \$1,997,325. In line with the Group's accounting policies, all exploration expenditure was written off at year end. Net administration expenditure incurred amounted to \$310,100. This has resulted in an operating loss after income tax for the year ended 30 June 2008 of \$2,307,425 (2007: \$1,535,169).

At 30 June 2008 surplus funds available totalled \$1,352,312.

Operating Results for the Year

Summarised operating results are as follows:

	2008	
	Revenues	Results
	\$	\$
Consolidated entity revenues and loss from ordinary activities before income tax expense	440,651	(2,307,425)

Shareholder Returns

	2008	2007
Basic loss per share (cents)	(6.1)	(6.5)

Directors' Report continued

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group 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 strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- During September 2007 the Company completed a placement to sophisticated and institutional investors of 4,815,900 ordinary shares, with one free attaching listed option for every four shares issued, to raise \$963,180 (before costs).
- During February 2008 the Company completed a placement to sophisticated and institutional investors of 4,371,667 ordinary shares, with one free attaching listed option for every four shares issued, to raise \$655,750 (before costs).

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 24, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company expects to maintain the present status and level of operations and hence there are no likely developments in the Company's operations.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Montezuma Mining Company Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The board of Montezuma Mining Company Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company.

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

Directors' Report continued

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation. The board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Performance based remuneration

The Company currently has no performance based remuneration component built into director and executive remuneration packages.

Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and directors and executives performance. Currently, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At commencement of mine production, performance based bonuses based on key performance indicators are expected to be introduced. For details of directors and executives interests in options at year end, refer to note 15 of the financial statements.

B Details of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Montezuma Mining Company Limited and the Montezuma Mining Company Group are set out in the following table.

The key management personnel of Montezuma Mining Company Limited and the Group include the directors and company secretary as per pages 3 and 4.

Given the size and nature of operations of Montezuma Mining Company Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

Directors' Report continued

Key management personnel and other executives of Montezuma Mining Company Limited and the Group

	Short-Term		Post Employment		Share-based Payments	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits	Options	
	\$	\$	\$	\$	\$	\$
Directors						
Denis O'Meara						
2008	50,000	1,786	4,500	-	-	56,286
2007	33,331	1,662	3,000	-	-	37,993
Justin Brown						
2008	150,385	1,786	13,535	-	164,250	329,956
2007	105,673	1,662	7,711	-	-	115,046
Terrance Grammer						
2008	25,000	1,786	2,250	-	-	29,036
2007	16,575	1,662	1,492	-	-	19,729
Ian Cornelius						
2008	35,000	1,786	-	-	-	36,786
2007	23,334	1,662	-	-	-	24,996
Other key management personnel						
John Ribbons						
2008	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total key management personnel compensation						
2008	260,385	7,144	20,285	-	164,250	452,064
2007	178,913	6,648	12,203	-	-	197,764

C Service agreements

The details of service agreements of the key management personnel of Montezuma Mining Company Limited and the Group are as follows:

Justin Brown, Managing Director:

- Term of agreement – two-year term commencing 7 November 2006.
- Annual salary of \$160,000 (plus 9% statutory superannuation) plus the provision of income protection insurance, to be reviewed annually.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to six months total salary.

D Share-based compensation

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Montezuma Mining Company Limited to increase goal congruence between executives, directors and shareholders. The following options were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
Directors								
Justin Brown	23/07/2007	1,500,000	23/07/2007	23/07/2011	35	10.9	N/A	49.8

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Montezuma Mining Company Limited during the year.

E Additional information

Performance income as a proportion of total compensation

No performance based bonuses have been paid to key management personnel during the financial year.

Directors' Report continued

DIRECTORS' MEETINGS

During the year the Company held seven meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings	
	A	B
Denis O'Meara	6	7
Justin Brown	7	7
Terrance Grammer	7	7
Ian Cornelius	4	7

Notes

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

SHARES UNDER OPTION

At the date of this report there are 23,500,267 unissued ordinary shares in respect of which options are outstanding.

	Number of options
Balance at the beginning of the year	17,713,375
Movements of share options during the year	
Issued, exercisable at 20 cents, on or before 31 August 2011	2,296,892
Issued, exercisable at 20 cents, on or before 2 March 2012	700,000
Issued, exercisable at 35 cents, on or before 23 July 2011	1,500,000
Issued, exercisable at 35 cents, on or before 31 August 2011	1,000,000
Cancelled, exercisable at 20 cents, on or before 2 March 2012	(210,000)
Total number of options outstanding as at 30 June 2008	23,000,267
Issued subsequent to year end	500,000
Total number of options outstanding at the date of this report	23,500,267

The balance is comprised of the following:

Expiry date	Exercise price (cents)	Number of options
23 July 2011	35	1,500,000
31 August 2011	20	16,150,267
31 August 2011	35	4,500,000
2 March 2012	20	1,350,000
Total number of options outstanding at the date of this report		23,500,267

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

INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums insuring all the directors of Montezuma Mining Company Limited against costs incurred in defending proceedings for conduct involving:

(a) a wilful breach of duty; or

(b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid is \$6,500.

Directors' Report continued

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Rothsay Chartered Accountants or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Rothsay Chartered Accountants received or are due to receive the following amounts for the provision of non-audit services:

	2008	2007
	\$	\$
Investigating accountants report	-	10,000
Tax compliance services	1,500	500
	<u>1,500</u>	<u>10,500</u>

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Signed in accordance with a resolution of the directors.



Justin Brown
Managing Director

Perth, 19 September 2008

ROTHSAY

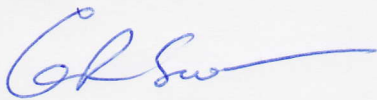
Level 18, 6 O'Connell Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 8815 5400 Facsimile 8815 5401 E-mail swan2000@bigpond.com

The Directors
Montezuma Mining Company Ltd
PO Box 8535
Perth Business Centre WA 6849

Dear Sirs,

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

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



Graham Swan (Lead auditor)



Rothsay Chartered Accountants

Dated 18 September 2008



Chartered Accountants

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

Corporate Governance Statement

The Board of Directors

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees (other than an Audit Committee) at this time. The board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Appointments to Other Boards

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

Independent Professional Advice

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

Continuous Review of Corporate Governance

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

ASX Principles of Good Corporate Governance

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has early adopted the revised Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 1:	Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	Matters reserved for the board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	N/A	The remuneration of executive and non – executive directors is reviewed by the board with the exclusion of the Director concerned. The remuneration of management and employees is reviewed by the Managing Director and approved by the Board. Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A (in part)	
Principle 2:	Structure the board to add value		
2.1	A majority of the board should be independent directors	A	
2.2	The chair should be an independent director	A	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	The positions of Chairman and Managing Director are held by separate persons.
2.4	The board should establish a nomination committee	A	The full board is the nomination committee. Acting in its ordinary capacity from time to time as required, the board carries out the process of determining the need for screening and appointing new Directors. In view of the size and resources available to the Company it is not considered that a separate nomination committee would add any substance this process.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	N/A	Given the size and nature of the Company a formal process for evaluating performance has not been developed.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A (in part)	The skills and experience of Directors are set out in the Company's Annual Report and on its website.
Principle 3:	Promote ethical and responsible decision-making		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> the practices necessary to maintain confidence in the Company's integrity the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders the responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website.
3.2	Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy	A	The Company has formulated a securities trading policy, which can be viewed on the Company's website.

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
Principle 4:	Safeguard integrity in financial reporting		
4.1	The board should establish an audit committee	A	The Company has established an audit committee which comprises two non executive directors and the company secretary. The charter for this committee is disclosed on the Company's website.
4.2	The audit committee should be structured so that it:	A	
	• consists only of non-executive directors	✓	
	• consists of a majority of independent directors	✓	
	• is chaired by an independent chair, who is not chair of the board	✓	
	• has at least three members	✓	
4.3	The audit committee should have a formal charter	A	
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	
Principle 5:	Make timely and balanced disclosure		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	The Company has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The board is acutely aware of the continuous disclosure regime and there are strong informal systems in place to ensure compliance, underpinned by experience.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	The Board receives monthly reports on the status of the Company's activities and any new or proposed activities. Disclosure is reviewed as a routine agenda item at each board meeting.
Principle 6:	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Reports, Half Yearly Reports, Quarterly Reports, the Company Website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	

A = Adopted

N/A = Not adopted

Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
Principle 7:	Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	While the Company does not have formalised policies on risk management the board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors. Determined areas of risk which are regularly considered include: <ul style="list-style-type: none"> • performance and funding of exploration activities • budget control and asset protection • status of mineral tenements • land access and native title considerations • compliance with government laws and regulations • safety and the environment • continuous disclosure obligations • share market conditions • economic risk
7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	N/A	While the Company does not have formalised policies on risk management it recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	N/A	
Principle 8:	Remunerate fairly and responsibly		
8.1	The board should establish a remuneration committee	A	The full Board carries out the duties that would normally fall to the Remuneration Committee.
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	For details on the Remuneration Committee refer to the Annual Report and the Corporate Governance section of the Company's website.

A = Adopted

N/A = Not adopted

Montezuma Mining Company Limited

Income Statement

YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
REVENUE FROM CONTINUING OPERATIONS	4	121,051	131,161	121,051	131,161
Other income	5	319,600	-	319,600	-
EXPENDITURE					
Depreciation expense		(16,015)	(3,379)	(16,015)	(3,379)
Salaries and employee benefits expense		(131,029)	(117,520)	(131,029)	(117,520)
Exploration expenditure		(1,997,325)	(1,363,187)	(1,997,325)	(1,363,187)
Secretarial and share registry expenses		(51,639)	(37,498)	(51,639)	(37,498)
Administration expenses		(145,740)	(61,754)	(145,740)	(61,754)
Share based payment expense	27	(286,210)	(38,272)	(286,210)	(38,272)
Other expenses		(120,118)	(44,720)	(120,118)	(44,720)
LOSS BEFORE INCOME TAX		(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
INCOME TAX	7	-	-	-	-
NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF MONTEZUMA MINING COMPANY LIMITED		(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the company (cents per share)	26	(6.1)	(6.5)		

The above Income Statement should be read in conjunction with the Notes to the Financial Statements.

Montezuma Mining Company Limited

Balance Sheet

AT 30 JUNE 2008

	Notes	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	8	1,352,312	2,742,423	1,352,310	2,742,423
Trade and other receivables	9	35,392	26,774	35,392	26,774
Financial assets at fair value through profit or loss	10	321,600	-	321,600	-
TOTAL CURRENT ASSETS		1,709,304	2,769,197	1,709,302	2,769,197
NON-CURRENT ASSETS					
Receivables	11	594,300	-	594,300	-
Other financial assets	12	-	-	2	-
Plant and equipment	13	41,926	20,817	41,926	20,817
TOTAL NON-CURRENT ASSETS		636,226	20,817	636,228	20,817
TOTAL ASSETS		2,345,530	2,790,014	2,345,530	2,790,014
CURRENT LIABILITIES					
Trade and other payables	14	127,541	131,790	127,541	131,790
TOTAL CURRENT LIABILITIES		127,541	131,790	127,541	131,790
TOTAL LIABILITIES		127,541	131,790	127,541	131,790
NET ASSETS		2,217,989	2,658,224	2,217,989	2,658,224
EQUITY					
Issued capital	15	5,608,610	4,027,630	5,608,610	4,027,630
Reserves	16(a)	451,982	165,772	451,982	165,772
Accumulated losses	16(b)	(3,842,603)	(1,535,178)	(3,842,603)	(1,535,178)
TOTAL EQUITY		2,217,989	2,658,224	2,217,989	2,658,224

The above Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

Statement of Changes in Equity

YEAR ENDED 30 JUNE 2008

	Notes	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
TOTAL EQUITY AT THE BEGINNING OF THE FINANCIAL YEAR		2,658,224	344	2,658,224	344
LOSS FOR THE YEAR		(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF MONTEZUMA MINING COMPANY LIMITED		(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the year	15	1,618,930	4,558,700	1,618,930	4,558,700
Transaction costs	15	(37,950)	(531,423)	(37,950)	(531,423)
Options issued to suppliers	16	-	127,500	-	127,500
Employee share options	16	286,210	38,272	286,210	38,272
		1,867,190	4,193,049	1,867,190	4,193,049
TOTAL EQUITY AT THE END OF THE FINANCIAL YEAR		2,217,989	2,658,224	2,217,989	2,658,224

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Statement of Cash Flows

YEAR ENDED 30 JUNE 2008	Notes	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(457,106)	(214,382)	(457,106)	(214,382)
Interest received		121,051	131,161	121,051	131,161
Expenditure on mining interests		(2,006,739)	(755,330)	(2,006,739)	(755,330)
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES	25	(2,342,794)	(838,551)	(2,342,794)	(838,551)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment of environmental bond		(594,300)	-	(594,300)	-
Payment for financial assets at fair value through profit or loss		(2,000)	-	(2,000)	-
Payment for subsidiary, net of cash acquired		-	-	(2)	-
Payments for plant and equipment		(31,997)	(24,196)	(31,997)	(24,196)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		(628,297)	(24,196)	(628,299)	(24,196)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		1,618,930	3,703,200	1,618,930	3,703,200
Payments of share issue costs		(37,950)	(287,923)	(37,950)	(287,923)
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,580,980	3,415,277	1,580,980	3,415,277
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,390,111)	2,552,530	(1,390,113)	2,552,530
Cash and cash equivalents at the beginning of the financial year		2,742,423	189,893	2,742,423	189,893
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	8	1,352,312	2,742,423	1,352,310	2,742,423

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Montezuma Mining Company Limited as an individual entity and the consolidated entity consisting of Montezuma Mining Company Limited and its subsidiaries. The financial report is presented in the Australian currency. Montezuma Mining Company Limited is a company limited by shares, domiciled and incorporated in Australia. The financial report was authorised for issue by the directors on 19 September 2008. The directors have the power to amend and reissue the financial report.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Montezuma Mining Company Limited complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Montezuma Mining Company Limited ("Company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. Montezuma Mining Company Limited and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Montezuma Mining Company Limited.

(c) Segment reporting

A business segment is identified for a group of assets and operations 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 identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the Financial Statements continued

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Revenue recognition

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

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

(i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Notes to the Financial Statements continued

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Investments and other financial assets

Classification

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2.

Notes to the Financial Statements continued

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment

The Company assesses at each balance date whether there is objective evidence that a financial asset or Company of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(k) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives. The rates vary between 20% and 40% per annum.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(l) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(n) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the balance sheet date are recognised in other payables in respect of employees' services up to the balance sheet date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 27.

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 fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Notes to the Financial Statements continued

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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

(o) Issued capital

Ordinary shares are classified as equity.

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

(p) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Adoption of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

Notes to the Financial Statements continued

30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

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 internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 27.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full board of directors as the Group believes that it is crucial for all board members to be involved in this process. The managing director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk

(i) Foreign exchange risk

As all operations are currently within Australia, neither the Group nor the parent entity are exposed to foreign exchange risk.

(ii) Price risk

Given the current level of operations, neither the Group nor the parent entity are exposed to price risk.

(iii) Interest rate risk

The Group and the parent entity are exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$1,352,312 (2007: \$2,742,423) and the parent entity \$1,352,310 (2007: \$2,742,423) are subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group and the parent entity was 7.5% (2007: 6.4%).

Sensitivity analysis

At 30 June 2008, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the Group and the parent entity would have been \$13,000 lower/higher (2007 - \$16,500 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

Neither the Group nor the parent entity have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the balance sheet and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group and the parent entity are confined to trade and other payables as disclosed in the Balance Sheet. All trade and other payables are non-interest bearing and due within 12 months of the balance sheet date.

Notes to the Financial Statements continued

30 JUNE 2008

2. FINANCIAL RISK MANAGEMENT (cont'd)

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group and the parent entity at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

3. SEGMENT INFORMATION

Description of segments

The Group's operations are in the mining industry in Australia.

4. REVENUE

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
From continuing operations				
<i>Other revenue</i>				
Interest	121,051	131,161	121,051	131,161

5. OTHER INCOME

Fair value gains on financial assets at fair value through profit or loss

319,600	-	319,600	-
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6. EXPENSES

Loss before income tax includes the following specific expenses:

Minimum lease payments relating to operating leases	19,500	12,752	19,500	12,752
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7. INCOME TAX

(a) Income tax expense/(benefit)

Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

Notes to the Financial Statements continued

30 JUNE 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
7. INCOME TAX (cont'd)				
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
Prima facie tax benefit at the Australian tax rate of 30% (2007: 30%)	(692,228)	(460,551)	(692,228)	(460,551)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	85,863	11,482	85,863	11,482
	(606,365)	(449,069)	(606,365)	(449,069)
Movements in unrecognised temporary differences	1,749	3,331	1,749	3,331
Tax effect of current year tax losses for which no deferred tax asset has been recognised	604,616	445,738	604,616	445,738
Income tax expense/(benefit)	-	-	-	-

(c) Unrecognised temporary differences**Deferred Tax Assets (at 30%)***On Income Tax Account*

Other	5,080	3,332	5,080	3,332
Carry forward tax losses	1,050,357	445,740	1,050,357	445,740
	1,055,437	449,072	1,055,437	449,072

Deferred Tax Liabilities (at 30%)

	-	-	-	-
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Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	352,312	42,423	352,310	42,423
Short-term deposits	1,000,000	2,700,000	1,000,000	2,700,000
Cash and cash equivalents as shown in the balance sheet and the statement of cash flows	1,352,312	2,742,423	1,352,310	2,742,423

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Sundry receivables	29,093	21,071	29,093	21,071
Prepayments	6,299	5,703	6,299	5,703
	35,392	26,774	35,392	26,774

10. CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Australian listed equity securities	321,600	-	321,600	-
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Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the income statement (notes 5 and 6 respectively).

Notes to the Financial Statements continued

30 JUNE 2008

	Notes	Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
11. NON-CURRENT ASSETS - RECEIVABLES					
Environmental bond		594,300	-	594,300	-
12. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS					
Shares in subsidiary – at cost	23	-	-	2	-
13. NON-CURRENT ASSETS - PLANT AND EQUIPMENT					
Plant and equipment					
Cost		61,320	24,196	61,320	24,196
Accumulated depreciation		(19,394)	(3,379)	(19,394)	(3,379)
Net book amount		41,926	20,817	41,926	20,817
Plant and equipment					
Opening net book amount		20,817	-	20,817	-
Additions		37,124	24,196	37,124	24,196
Depreciation charge		(16,015)	(3,379)	(16,015)	(3,379)
Closing net book amount		41,926	20,817	41,926	20,817
14. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES					
Trade payables		84,633	72,262	84,633	72,262
Other payables and accruals		42,908	59,528	42,908	59,528
		127,541	131,790	127,541	131,790
15. ISSUED CAPITAL					
(a) Share capital					
		2008		2007	
	Notes	Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	15(b), 15(d)	41,293,570	5,608,610	32,106,003	4,027,630
Total issued capital		41,293,570	5,608,610	32,106,003	4,027,630
(b) Movements in ordinary share capital					
Beginning of the financial year		32,106,003	4,027,630	3,500,003	353
Issued during the year:					
– Issued for cash at 20 cents per share		4,815,900	963,180	-	-
– Issued for cash at 15 cents per share		4,371,667	655,750	-	-
– Issued for cash at 7.5 cents per share		-	-	2,500,000	187,500
– Issued for cash at 10 cents per share		-	-	1,000,000	100,000
– Issued as consideration for the acquisition of tenements		-	-	6,000,000	450,000
– Issued as consideration for the acquisition of tenements at 20 cents per share		-	-	500,000	100,000
– Issued at IPO for 20 cents per share		-	-	18,023,500	3,604,700
– Issued as consideration for services at 20 cents per share		-	-	580,000	116,000
– Issued on conversion of options (20 cents, 31 August 2011)		-	-	2,500	500
Less: Transaction costs		-	(37,950)	-	(531,423)
End of the financial year		41,293,570	5,608,610	32,106,003	4,027,630

Notes to the Financial Statements continued

30 JUNE 2008

15. ISSUED CAPITAL (cont'd)

(c) Movements in options on issue

	Number of options	
	2008	2007
Beginning of the financial year	17,713,375	7,000,000
Issued during the year:		
– Exercisable at 20 cents, on or before 31 August 2011	2,296,892	10,255,875
– Exercisable at 20 cents, on or before 2 March 2012	700,000	460,000
– Exercisable at 35 cents, on or before 23 July 2011	1,500,000	-
– Exercisable at 35 cents, on or before 31 August 2011	1,000,000	-
Options cancelled (20 cents, 2 March 2012)	(210,000)	-
Options exercised (20 cents, 31 August 2011)	-	(2,500)
End of the financial year	23,000,267	17,713,375

(d) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(e) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group and the parent entity at 30 June 2008 and 30 June 2007 are as follows:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash and cash equivalents	1,352,312	2,742,423	1,352,310	2,742,423
Trade and other receivables	35,392	26,774	35,392	26,774
Financial assets at fair value through profit or loss	321,600	-	321,600	-
Trade and other payables	(127,541)	(131,790)	(127,541)	(131,790)
Working capital position	1,581,763	2,637,407	1,581,761	2,637,407

16. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Share-based payments reserve

Balance at beginning of year	165,772	-	165,772	-
Employee and contractor share options	286,210	38,272	286,210	38,272
Options issued to suppliers	-	127,500	-	127,500
Balance at end of year	451,982	165,772	451,982	165,772

(b) Accumulated losses

Balance at beginning of year	(1,535,178)	(9)	(1,535,178)	(9)
Net loss for the year	(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
Balance at end of year	(3,842,603)	(1,535,178)	(3,842,603)	(1,535,178)

Notes to the Financial Statements continued

30 JUNE 2008

16. RESERVES AND ACCUMULATED LOSSES (cont'd)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

17. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term benefits	267,529	185,561	267,529	185,561
Post employment benefits	20,285	12,203	20,285	12,203
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	164,250	-	164,250	-
	452,064	197,764	452,064	197,764

The Company has taken advantage of the relief provided by AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 5 to 7.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on page 7.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Montezuma Mining Company Limited and other key management personnel of the Company, including their personally related parties, are set out below:

2008	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<i>Directors of Montezuma Mining Company Limited</i>							
Denis O'Meara	1,102,500	-	-	-	1,102,500	1,102,500	-
Justin Brown	2,012,500	1,500,000	-	-	3,512,500	3,512,500	-
Terrance Grammer	2,006,500	-	-	-	2,006,500	2,006,500	-
Ian Cornelius	305,000	-	-	-	305,000	305,000	-
<i>Other key management personnel of the Company</i>							
John Ribbons	138,334	-	-	-	138,334	138,334	-

All vested options are exercisable at the end of the year.

Notes to the Financial Statements continued

30 JUNE 2008

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

2007	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<i>Directors of Montezuma Mining Company Limited</i>							
Denis O'Meara	1,000,000	-	-	102,500	1,102,500	1,102,500	-
Justin Brown	2,000,000	-	-	12,500	2,012,500	2,012,500	-
Terrance Grammer	2,000,000	-	-	6,500	2,006,500	2,006,500	-
Ian Cornelius	-	-	-	305,000	305,000	305,000	-
<i>Other key management personnel of the Company</i>							
John Ribbons	-	-	-	138,334	138,334	138,334	-

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Montezuma Mining Company Limited and other key management personnel of the Company, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2008	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<i>Directors of Montezuma Mining Company Limited</i>				
Ordinary shares				
Denis O'Meara	700,000	-	-	700,000
Justin Brown	1,100,000	-	-	1,100,000
Terrance Grammer	1,026,000	-	-	1,026,000
Ian Cornelius	320,000	-	-	320,000
<i>Other key management personnel of the Company</i>				
Ordinary shares				
John Ribbons	153,337	-	-	153,337

2007	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<i>Directors of Montezuma Mining Company Limited</i>				
Ordinary shares				
Denis O'Meara	500,000	-	200,000	700,000
Justin Brown	1,000,000	-	100,000	1,100,000
Terrance Grammer	1,000,000	-	26,000	1,026,000
Ian Cornelius	-	-	320,000	320,000
<i>Other key management personnel of the Company</i>				
Ordinary shares				
John Ribbons	3	-	153,334	153,337

(c) Loans to key management personnel

There were no loans to key management personnel during the year.

Notes to the Financial Statements continued

30 JUNE 2008

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(d) Other transactions with key management personnel

A director, Justin Brown, is a shareholder of Launchpad Creative Pty Ltd and Scope Logic Pty Ltd. Launchpad Creative Pty Ltd provided the Company with printing services during the year totalling \$14,012 (2007: \$10,151) and Scope Logic Pty Ltd provided IT services totalling \$5,119 (2007: \$17,302). The payments were based on normal commercial terms and conditions.

A director, Ian Cornelius, is a director and shareholder of Ordville Nominees Pty Ltd. During the prior year the Company entered into a lease agreement with Ordville Nominees Pty Ltd for office premises. The rental agreement was based on normal commercial terms and conditions with payments totalling \$8,853 during the year 2007 financial year. Ordville Nominees Pty Ltd sold the premises in the prior year.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

19. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) Audit services

Rothsay Chartered Accountants - audit and review of financial reports

Total remuneration for audit services

	24,500	18,000	24,500	18,000
	24,500	18,000	24,500	18,000

(b) Non-audit services

Rothsay Chartered Accountants – taxation advisory services

Rothsay Chartered Accountants – independent accountants report

Total remuneration for other services

	1,500	2,000	1,500	2,000
	-	10,000	-	10,000
	1,500	12,000	1,500	12,000

20. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Company at balance date.

21. COMMITMENTS

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year	1,154,480	815,500	1,154,480	815,500
later than one year but not later than five years	4,617,920	3,262,000	4,617,920	3,262,000
	5,772,400	4,077,500	5,772,400	4,077,500

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

Minimum lease payments

within one year

later than one year but not later than five years

Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities

	35,713	19,500	35,713	19,500
	71,425	-	71,425	-
	107,138	19,500	107,138	19,500

The property lease is a non-cancellable lease with a three year term, with rent payable monthly in advance. The rental agreement provides for an annual rent increase of the greater of market or CPI. An option exists to renew the lease at the end of the three year term for an additional term of three years. The lease allows for subletting of all lease areas.

Notes to the Financial Statements continued

30 JUNE 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

21. COMMITMENTS (cont'd)

(c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on page 7 that are not recognised as liabilities and are not included in the key management personnel compensation.

Within one year	45,000	135,000	45,000	135,000
later than one year but not later than five years	-	45,000	-	45,000
	45,000	180,000	45,000	180,000

22. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity within the Group is Montezuma Mining Company Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

23. SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding ⁽¹⁾	
			2008	2007
			%	%
Peak Hill Metals Pty Ltd ⁽²⁾	Australia	Ordinary	100	-

(1) The proportion of ownership interest is equal to the proportion of voting power held.

(2) Peak Hill Metals Pty Ltd was incorporated on 25 July 2007 with Montezuma Mining Company Limited being the sole shareholder. The company has been dormant since its incorporation.

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As approved at the General Meeting of the Company on 30 July 2008, 400,000 ordinary shares and 100,000 listed options were issued in July 2008 as consideration for the acquisition of tenement rights. Additionally, subsequent to 30 June 2008, the Company has entered into an agreement with Midwest Corporation Limited to dispose of the iron ore rights over tenement E52/1529 for consideration of up to \$6 million cash, plus a production royalty. Also subsequent to year end, the Company terminated the Robinson Range Joint Venture with Greater Pacific Gold Limited.

No other matter or circumstance has arisen since 30 June 2008, which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

Notes to the Financial Statements continued

30 JUNE 2008

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
25. CASH FLOW STATEMENT				
Reconciliation of net loss after income tax to net cash outflow from operating activities				
Net loss for the year	(2,307,425)	(1,535,169)	(2,307,425)	(1,535,169)
Non-Cash Items				
Depreciation of non-current assets	16,015	3,379	16,015	3,379
Employee and consultants option expense	286,210	38,272	286,210	38,272
Fair value gains on financial assets at fair value through profit and loss	(319,600)	-	(319,600)	-
Tenement acquisitions settled by the issue of ordinary shares	-	550,000	-	550,000
Change in operating assets and liabilities				
(Increase) in trade and other receivables	(8,618)	(25,972)	(8,618)	(25,972)
Increase/(decrease) in trade and other payables	(9,376)	130,939	(9,376)	130,939
Net cash outflow from operating activities	(2,342,794)	(838,551)	(2,342,794)	(838,551)

26. LOSS PER SHARE

	Consolidated	
	2008	2007
	\$	\$
(a) Reconciliation of earnings used in calculating loss per share		
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted loss per share	(2,307,425)	(1,535,169)
	Number of shares	Number of shares
(b) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	37,592,763	23,792,950

(c) Information on the classification of options

As the Company has made a loss for the year ended 30 June 2008, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

27. SHARE-BASED PAYMENTS

(a) Employees and Contractors Option Plan

The Company provides benefits to employees (including directors) and contractors of the Company in the form of share-based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 20 cents to 35 cents per option. All options granted have expiry dates ranging from 23 July 2011 to 2 March 2012.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Notes to the Financial Statements continued

30 JUNE 2008

27. SHARE-BASED PAYMENTS (cont'd)

Fair value of options granted

The weighted average fair value of the options granted during the year was 8.9 cents (2007: 8.3 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2008	2007
Weighted average exercise price (cents)	31.70	20.00
Weighted average life of the option (years)	3.93	5.00
Weighted average underlying share price (cents)	24.00	17.50
Expected share price volatility	50%	50%
Risk free interest rate	6.62%	6.25%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

(b) Options issued to suppliers

As part consideration for services associated with the initial public offering of the Company, suppliers were issued with listed options in the Company. A total of 1,750,000 options were issued with an exercise price of 20 cents expiring on 31 August 2011.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Fair value of options granted

The listed options granted are valued at the market closing price on the date that the options are allotted. There were no options issued to suppliers during the current year. The weighted average fair value of the options granted during the 2007 financial year was 7.3 cents.

Set out below are summaries of the share-based payment options granted per (a) and (b):

	The Company		2007	
	2008	Weighted average exercise price cents	2007	Weighted average exercise price cents
Outstanding at the beginning of the year	2,210,000	20.0	-	-
Granted	3,200,000	31.7	2,210,000	20.0
Forfeited	(210,000)	20.0	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	5,200,000	27.2	2,210,000	20.0
Exercisable at year-end	5,200,000	27.2	2,210,000	20.0

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3.23 years (2007: 4.28 years), and the exercise prices range from 20 cents to 35 cents.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Options issued to employees and consultants (shown as share based payment expense in the income statement)	286,210	38,272	286,210	38,272
Options issued to suppliers (included as a transaction cost against Issued Capital in the balance sheet)	-	127,500	-	127,500
	286,210	165,772	286,210	165,772

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 34 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on pages 5 to 7 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Justin Brown
Managing Director

Perth, 19 September 2008



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MONTEZUMA MINING COMPANY LTD

We have audited the accompanying financial report of Montezuma Mining Company Ltd (the Company") which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the company.

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

Directors Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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



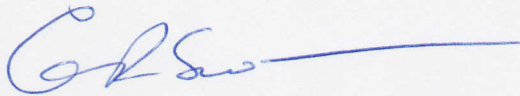
Chartered Accountants

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

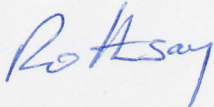
Audit opinion

In our opinion the financial report of Montezuma Mining Company Ltd is in accordance with the Corporations Act 2001, including:

- a) (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and its performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) the financial report also complies with International Financial Reporting Standards.
- c) the remuneration disclosures in the Directors' report comply with AASB 124



Rothsay



Graham R Swan
Partner

Dated 19th September 2008

ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 19 September 2008.

(a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

			Ordinary shares		Options	
			Number of holders	Number of shares	Number of holders	Number of options
1	-	1,000	14	1,536	2	1,300
1,001	-	5,000	75	273,384	124	355,394
5,001	-	10,000	128	1,217,572	24	185,500
10,001	-	100,000	222	9,111,253	85	3,666,389
100,001	-	and over	58	31,089,825	34	11,941,684
			497	41,693,570	268	16,150,267
The number of equity security holders holding less than a marketable parcel of securities are:			71	184,920	-	-

(b) Twenty largest shareholders

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

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	South Boulder Mines Ltd	4,150,000	9.95
2	Duketon Consolidated Ltd	3,125,000	7.50
3	Tao Yuan Ltd <No 2 Account>	2,763,273	6.63
4	Avania Nominees Pty Ltd	1,806,415	4.33
5	Mandies Meats Pty Ltd	1,307,000	3.13
6	Aradia Ventures Pty Ltd	1,030,000	2.47
7	Grammer Dianne Claire	1,000,000	2.40
8	Cheung Shun Resources Ltd	1,000,000	2.40
9	Mandies Meats Pty Ltd <Number 2 Account>	860,000	2.06
10	Cheung Shun Resources Ltd	850,000	2.04
11	Kongming Investments Ltd	790,000	1.89
12	ANZ Nominees Ltd	623,500	1.50
13	Rizzo Francesco <Rizzo S/F A/C>	573,884	1.38
14	O'Meara Denis William	520,000	1.25
15	DWCorporate Pty Ltd	500,000	1.20
16	Coppin Langtree C	500,000	1.20
17	Pillage Investments Pty Ltd <Pillage S/F A/C>	500,000	1.20
18	Tao Yuan Ltd <No 2 A/C>	500,000	1.20
19	Duketon Consolidated Ltd	450,000	1.08
20	Cheung Shun Resources Ltd	440,000	1.08
		23,289,072	55.87

ASX Additional Information continued

(c) Twenty largest option holders

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

		Listed options	
		Number of options	Percentage of total options
1	South Boulder Mines Ltd	1,037,500	6.42
2	Aradia Ventures Pty Ltd	1,007,500	6.24
3	Grammer Dianne Claire	1,000,000	6.19
4	Cheung Shun Resources Ltd	1,000,000	6.19
5	HSBC Custody Nominees Australia Ltd	750,000	4.64
6	Duketon Consolidated Ltd	656,250	4.06
7	DWCorporate Pty Ltd	525,000	3.25
8	O'Meara Denis William	500,000	3.10
9	Kongming Investments Ltd	422,500	2.62
10	International Business Network SV	400,000	2.48
11	Cheung Shun Resources Ltd	350,334	2.17
12	Cornelius S/F	300,000	1.86
13	Hilmed Pty Ltd	300,000	1.86
14	Maslin A & Norris M <Maslin Family A/C>	250,000	1.55
15	UBS Nominees Pty Ltd	250,000	1.55
16	Tao Yuan Ltd	241,666	1.50
17	Wilkins Marian Lesley	240,625	1.49
18	Matheson G W & Rantall K	217,124	1.34
19	Uranus Investments Pty Ltd	214,209	1.33
20	Vetter Anthony John	210,625	1.30
		9,873,333	61.14

(d) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
South Boulder Mines Ltd	4,150,000
Duketon Consolidated Ltd	3,125,000
Tao Yuan Ltd <No 2 Account>	2,763,273

(e) Voting rights

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

(f) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Talga	E45/2680	90
Talga – White Angel	P45/2680 (A)	100
Pilgangoora	E45/2375	90
Curlew	E45/2548	90
Curlew	E45/2769	90
Barite Range	E45/2925	90
Callawa	E45/2935	100
Callawa	E45/2974	100
Callawa	E45/2927	100
Copper Hills South	E46/676	90
Pilgangoora – Trafford	P45/2557	70
Pilgangoora – Trafford	P45/2558	70
Pilgangoora – Trafford	P45/2559	70
Pilgangoora – Trafford	P45/2560	70
Pilgangoora – Trafford	P45/2562	70
Pilgangoora – Trafford	P45/2563	70
Pilgangoora – Trafford	P45/2564	70
Pilgangoora – Trafford	P45/2565	70
Pilgangoora – Trafford	P45/2566	70
Pilgangoora – Trafford	P45/2567	70
Pilgangoora – Trafford	P45/2566	70
Pilgangoora – Trafford	P45/2567	70

ASX Additional Information continued

Location	Tenement	Percentage held / earning
Pilgangoora – Trafford	P45/2628 (A)	70
Pilgangoora – Trafford	P45/2629 (A)	70
Weebo	E37/802	80
Weebo	E37/833	80
Weebo	P37/7053	100
Weebo	E36/606	100
Weebo	E36/607 (A)	100
Robinson Range	E52/2061 (A)	100
Robinson Range	E52/2062 (A)	100
Robinson Range	E52/2063 (A)	100
Robinson Range	E52/2068 (A)	100
Robinson Range	E52/2069 (A)	100
Robinson Range	E52/2078 (A)	100
Robinson Range	E52/2079 (A)	100
Robinson Range	E52/2080 (A)	100
Robinson Range	E52/2081 (A)	100
Robinson Range	P52/1227 (A)	100
Robinson Range	E52/2140 (A)	70
Robinson Range	E52/2141 (A)	70
Robinson Range	P52/1233 (A)	70
Durack	M52/801	20
Eelya Hill	E20/679 (A)	100
Egerton	E52/2117 (A)	100
Lake White	E69/2366 (A)	100
Lake White	E69/2367 (A)	100
Mt Vernon	E52/2082 (A)	100
Mt Padbury	E52/1529	100
Eelya Hill	E20/659	10
Eelya Hill	P20/2018	10
Peak Hill Gold	M52/35	100
Peak Hill Gold	M52/474	100
Peak Hill Gold	M52/56	100
Peak Hill Gold	M52/297	100
Peak Hill Gold	E52/2149 (A)	100
Peak Hill Gold	P52/1234 (A)	100
Peak Hill Gold	L52/2	100
Peak Hill Gold	L52/19	100
Peak Hill Gold	L52/20	100
Peak Hill Gold	L52/39	100
Peak Hill Gold	L52/62	100
Peak Hill Gold	L52/63	100