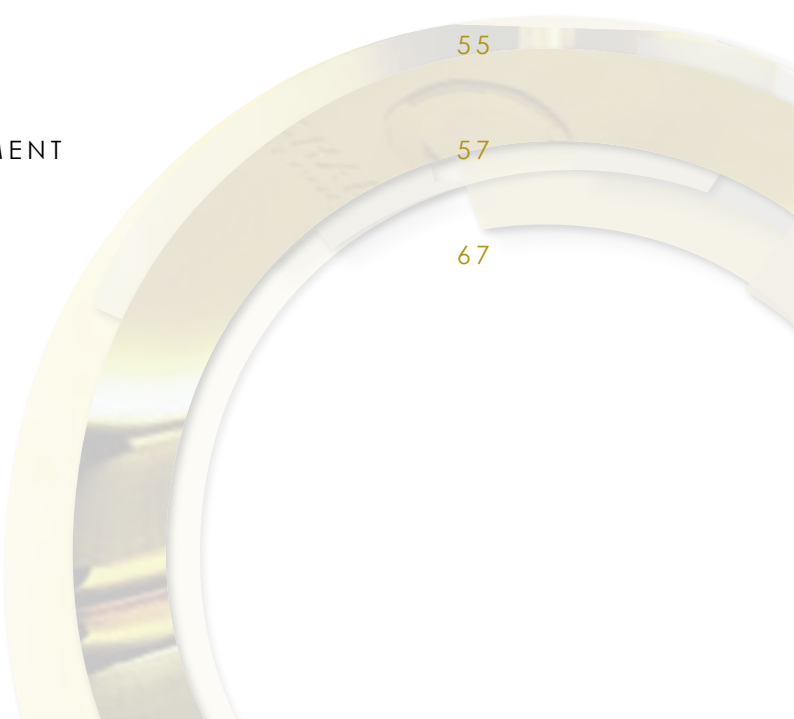




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LETTER TO SHAREHOLDERS

Dear Shareholder

Chalice Gold had an active first year.

Incorporated in October 2005, we moved quickly to acquire a portfolio of five prospective West Australian gold exploration projects and by March 2006 had attained ASX listing.

At the same time, we assembled a quality team of technical personnel, in a pressured market for such resources, providing the internal capacity to rapidly assess and evaluate both exploration programs and resource opportunities.

Drilling commenced shortly after listing with approximately 24,500 metres completed to the date of this report. This comprised 6,900 metres of RC/diamond drilling and 17,600 metres of RAB/aircore drilling - testing targets on three fronts.

Whilst initial results have indicated some areas of broad mineralization, we have yet to identify an ore source from this activity.

- At Higginsville, we tested the three northern priority targets at Poseidon Footwall and Mitchell Basement. We interpreted the presence of potentially favourable geological settings and achieved a number of narrow high grade intercepts, but these are insufficient to divert our next focus from our southern priority targets in the Nawock and greater Lake Cowan tenement areas.
- At Chalice Gold Mine, high grade intercepts were encountered in the Deeps, but are insufficient to warrant follow up drilling given their vertical depth. We subsequently downgraded the Chalice resource after reflecting the results of this drilling within an updated scoping study, which also incorporated current gold price and cost parameters.

IP geophysical work is planned in the future, to further delineate new targets in the near mine environs.

- At Yandeearra, we await final results from a drilling program which has to date broadly reflected previous first pass drilling. At 1400km² this is a large project area which offers many more potential targets, most of which remain untested by modern exploration methods.
- In addition to the above Teck Cominco has, to date, undertaken 8,000 metres of drilling at the Gnaweeda project (earning up to a 70% interest from Chalice Gold). Again, some broad areas of mineralization, but no resources yet identified.

Chalice Gold is fortunate to hold prime exploration ground in an historically buoyant external price environment, however we cannot rely on exploration success.

For this reason, we are currently seeking and will continue to actively pursue other projects and investment opportunities for shareholder returns. With an established team, coherent capital structure and \$4 million cash at bank at 30 September 2006, we commence this process from a position of relative strength.

I look forward to a second year of energy and endeavour to build a significant resource business, and on behalf of the board thank our shareholders, employees and other stakeholders for their continuing support.

Yours faithfully



Andrew Bantock
Executive Chairman

REVIEW OF OPERATIONS

Chalice Gold Mines' gold exploration portfolio comprises five major project areas (figure 1):

- 150 km² at Higginsville immediately adjacent Avoca Resources Limited's ('Avoca') Trident gold discovery, south of Kambalda, Western Australia;
- 170km² at the Chalice Gold Mine located along the western margin of the Norseman-Wiluna belt within the Widgiemooltha-Higginsville district of the Archaean Eastern Goldfields province of Western Australia;
- The large Yandeearra Gold Project (1,400 km²) in the West Pilbara region of Western Australia adjacent Range River Gold Limited's Indee Gold Project and DeGrey Mining Limited's Wingina Well and Mount Berghaus gold discoveries;
- An entire greenstone belt (over 470 km²) at Gnaweeda in the Murchison Region of Western Australia, exploration for which has been funded through a \$1,500,000 joint venture with Teck Cominco; and
- The Wilga tenement, located 50 kilometres south of Laverton and 15 kilometres south, south east of Anglogold-Ashanti's Cleo gold mine in Western Australia.

During the financial year:

- the Company completed an Initial Public Offering (IPO) on 24 March 2006, raising \$6.8 million (after costs of the issue) to fund the exploration of specific targets at the Higginsville, Chalice Gold Mine, Yandeearra and Wilga gold projects;
- the in-specie distribution of 35 million fully paid ordinary shares in the Company to Uranium Equities Limited shareholders registered on 15 May 2006 was completed;
- drilling was undertaken on four fronts:
 - drilling of discreet targets at Chalice Deepes in the Chalice Gold Mine reported significant new mineralisation at approximately 300m depth at Deepes 2 (3m @ 6.39 g/t gold in BCRD003), and at approximately 600m depth at Deepes 4 (2m @ 10.58 g/t gold in CHRD005). However a scoping study undertaken by AMC Consultants following the year end indicated that the existing resource was sub-economic. Consequently the lower cut used in reporting the resource was increased and the mineral resource inventory was restated to 77,600 ounces at 5.28 g/t gold;
 - over 4,000 metres of drilling was completed at three of the 22 target areas identified at Higginsville in the Eastern Goldfields. Whilst anomalous gold was recorded in a number of settings (including 3m @ 4.6 g/t gold in CDRC015), no potential ore zones were identified. Further work is planned in the area, including at Lake Cowan and Nawock to the south.
 - over 12,000 metres of aircore drilling was completed at Yandeearra in the West Pilbara, testing seven large geochemical anomalies. Anomalous gold has been recorded in a number of areas, with a significant proportion of assay results still awaited at the date of this report; and
 - exploration at Gnaweeda in the Murchison has been funded through a \$1.5 million joint venture with Teck Cominco Australia Pty Ltd ('Teck Cominco'). Teck Cominco completed over 8,000 metres of Rotary Air Blast/Aircore ('RAB/AC') drilling during the year, reporting anomalous gold results from several holes.

Details of exploration including key results and a description of each project area are included below.

REVIEW OF OPERATIONS

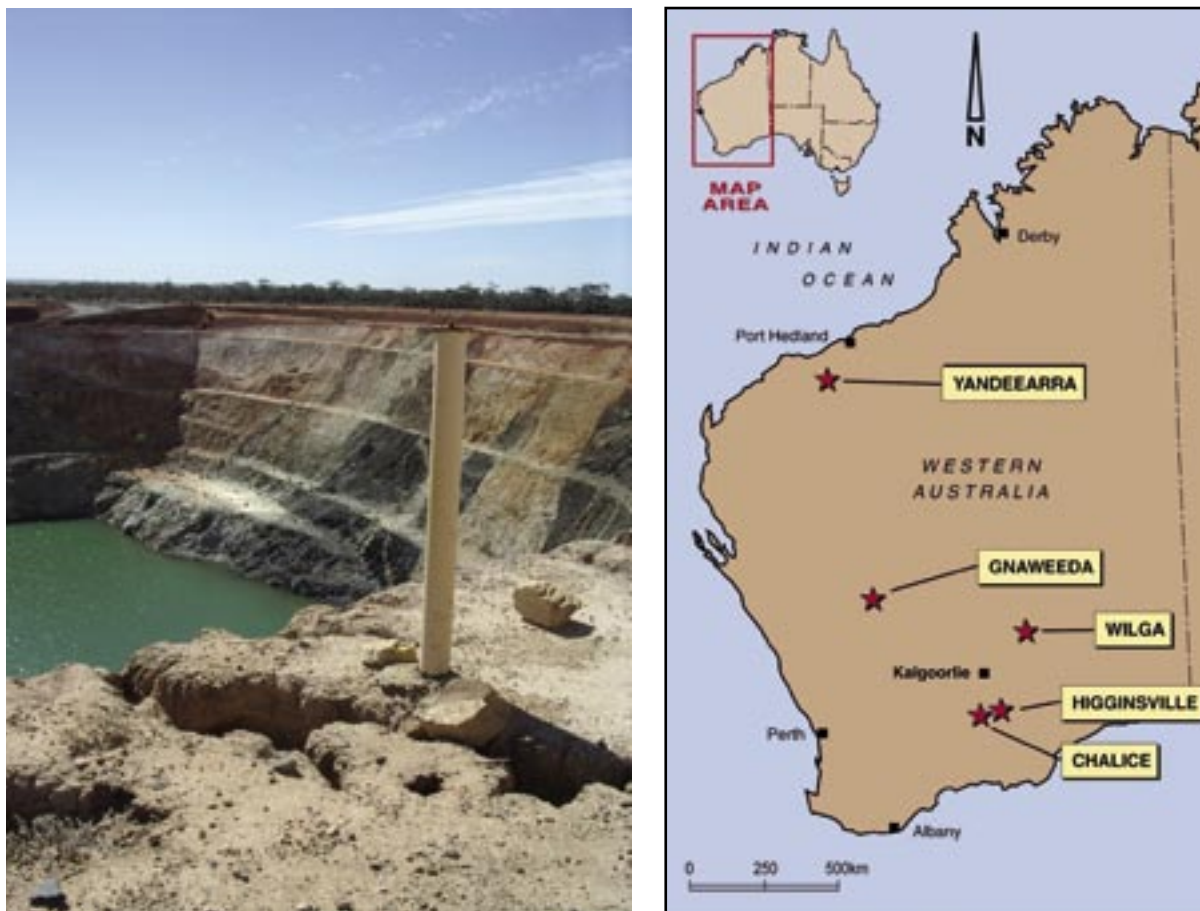


Figure 1 : Chalice Gold Mines project locations

HIGGINSVILLE

Drilling commenced at Higgsville in mid April 2006. Eighteen drill holes for 3,206m of reverse circulation ('RC') drilling were completed, testing the Poseidon Footwall and Mitchell Basement targets (Figure 2).

At the Poseidon Footwall Prospect, containing the southern extensions of the interpreted controlling structure and host stratigraphy to Avoca's Trident Gold Project (5km to the north along strike), a program of 3 east-west orientated traverses of deep RC holes (14 holes for 2,480m), was undertaken to provide geological coverage across the interpreted footwall position of the Poseidon Thrust in the central portion of the tenement area.

Drilling intersected a sequence dominated by high magnesium and tholeiitic basalts with minor gabbroic lithologies. Alteration and veining logged in the drilling is consistent with a strong multi-element geochemical anomaly developed over the trace of the Poseidon Thrust (Figure 2).

At the Poseidon Footwall Prospect, a significant intercept of 3m @ 4.60 g/t, from 85m was recorded in hole CDRC015. While follow up drilling (6 holes, 960m) around this result intersected extensions to the zone of shearing and alteration that hosted the gold intercept, no significant intersections were reported.

Significant results from the Mitchell Basement targets included 3m @ 6.18 g/t from 41 metres in Hole CHRC003 at Mitchell Basement South, hosted in Tertiary palaeochannel material (Figure 2).

REVIEW OF OPERATIONS

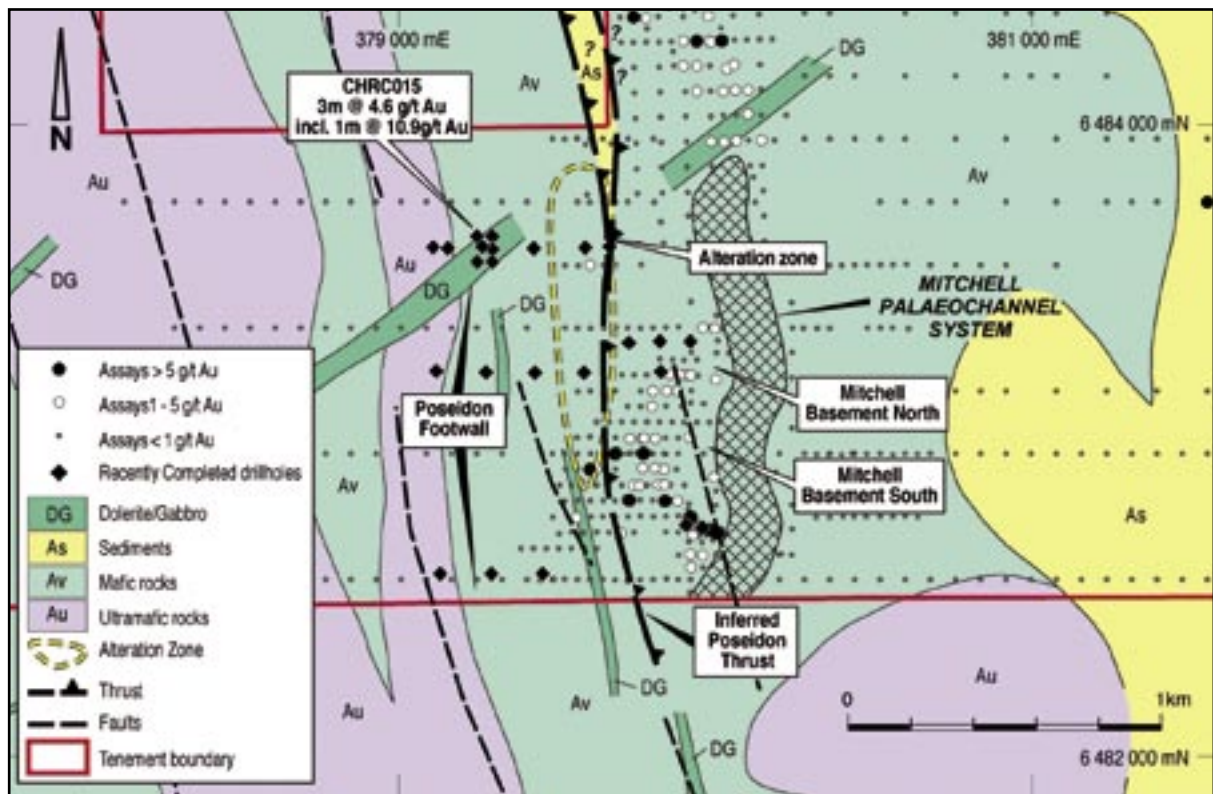


Figure 2: Poseidon Footwall and Mitchell Basement targets, showing recently completed RC drilling and newly defined alteration zone.

A program of aircore ('AC') drilling (12 holes for 1,035m) was completed on the Polar Bear Peninsular on the southern shores of Lake Cowan, following the end of the financial year. The area is interpreted to cover the southern extension of the Poseidon Thrust and north-south trending Mission Fault. Drilling intersected carbonatised, silicified dolerite cut by quartz-fuchsite veins carrying arsenopyrite and minor pyrite. Significant arsenic anomalism was reported in assays, although no significant end of hole gold values were reported. Supergene gold anomalism was recorded in holes CHAC007 and CHAC008, at the top of the saprolite horizon. Strong copper anomalism was recorded in these and several adjacent holes.

The alteration, supergene gold and arsenic and copper anomalism suggest proximity to a bedrock gold source, and further drilling is planned when a suitable drill rig can be secured.



REVIEW OF OPERATIONS

Sub-audio magnetics (SAM) geophysical surveys were conducted over the Poseidon Footwall and Nawock prospects. Preliminary interpretation has identified a number of discrete trends in this survey data. When this information is combined with previous drill identified gold anomalism, a number of follow-up targets are identified (Figure 3).

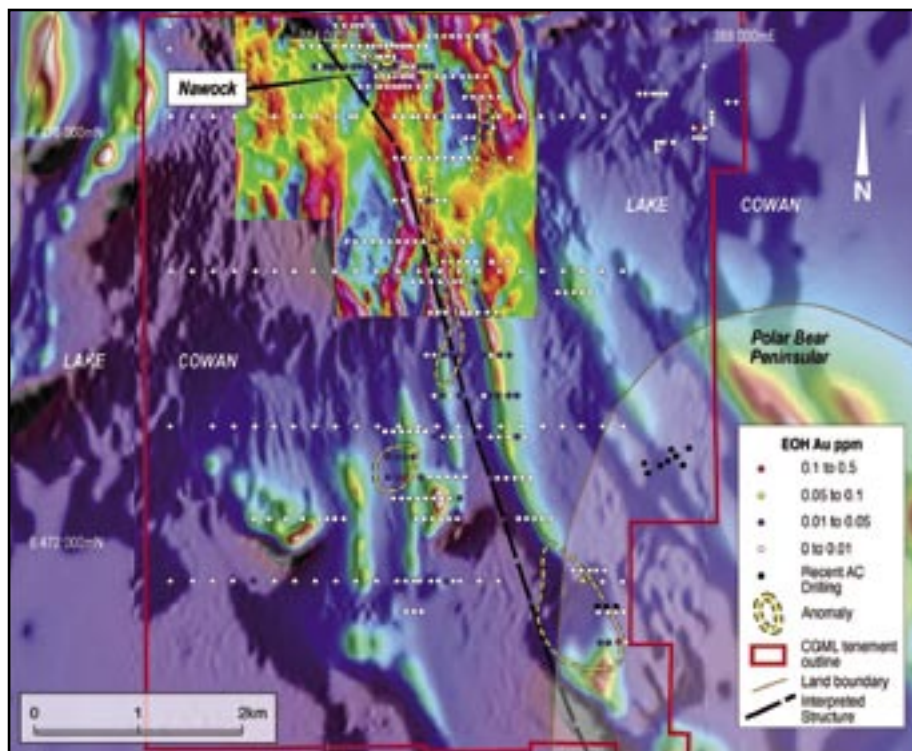


Figure 3: Nawock Prospect showing MMR image superimposed on aeromagnetics and end of hole gold anomalism.

The Nawock prospect and greater Lake Cowan area has been identified as an area of future exploration focus. Previous exploration in the area is limited and comprises broad spaced east-west traverses over the interpreted southern extension of the Zuleika Shear Zone (Poseidon Thrust) and Mission Fault (a splay off the Zuleika Shear that runs down through the Norseman gold camp).

Historical results include 5m @ 11.35 g/t gold from 30m in LCA0182 and 4m @ 33 g/t gold from 103m in LCC006 at the Nawock Prospect.

The majority of the drilling in the southern area failed to penetrate through the Tertiary cover sequence and have not provided a definitive test of the interpreted structures. Regional drill traverses, targeting geophysical and geological anomalies will be required to further test this region. This could be expedited by undertaking additional SAM surveys in order effectively define target areas.

The program of AC drilling completed on the southern shores of Lake Cowan, recorded supergene gold anomalism, which will require follow up. A number of these drill holes also recorded alteration, further enhancing the prospectivity of the target.

CHALICE GOLD MINE

Drilling at the Chalice Gold Mine commenced in late April 2006 with four diamond drill holes completed for 2,413m prior to 30 June 2006, testing several targets along strike and down plunge of the historical mineralisation. Significant results are listed in Table 1.

Results for hole BCRD003 (testing the upper part of Deeps 2) indicate good continuity of gold mineralisation in the Middle Ultramafic (MUM) Lode positions, including several stacked lode positions

REVIEW OF OPERATIONS

(drawn in long section in Figure 4 and in cross section in Figure 5). The reported intercepts correlate with historical high grade intersections (eg, BCRD002, 4.0m @ 5.73g/t Au, and WMD0131, 2m @ 12.32 g/t Au). These results suggest potential to locate further narrow but high grade mineralisation in MUM Lode positions between the base of the historic workings and the top of the Deeps 3 resource.

Results from CHRD005 (2m @ 10.58g/t Au, Figure 6) confirm that the Chalice mineralised system extends at depth below the granite sill where previously it was believed to have terminated. However, drill hole CHRD006, testing the northern edge of the Deeps 4 system, suggests the system, while open down plunge, is closed off to the north along strike, with no significant result recorded in the Main or MUM lode positions. An intercept of 4.8m @ 3.54 g/t Au was recorded from the Footwall lode in this hole, again suggesting a stacking of lode systems in the Chalice Gold Mine area.

Table 1: Significant intersections, Chalice Gold Mine

Hole No.	Depth From	Depth To	Interval	Grade g/t Au	Comment
BCRD003	344	349	5	2.01	Main Lode
and	354	355.9	1.9	1.33	Main Lode
and	362	363	1	14.1	Main Lode
BCRD003	369.6	376	6.4	2.86	MUM Lode
incl.	369.6	373	3.4	4.27	MUM Lode
and	383	386	3	6.39	MUM Lode
BCRD003	476.5	479.53	3	1.14	Footwall Lode
CHRD005	565	567	2	10.58	Main Lode
incl.	566	567	1	18.42	Main Lode
CHRD006	682.2	687	4.8	3.54	Footwall Lode
CHRD008	311	312	1	2.97	MinSys 4- Footwall
and	314	315	1	2.07	MinSys 4 - Footwall

- Based on 1 g/t Au lower cut off, minimum 1m internal waste. Results based on 50g Fire Assay/AAS analysis of orientated, 1/2 NQ2 core.
- Reported intervals are downhole widths. True widths are estimated to be approximately 80% of the downhole interval.

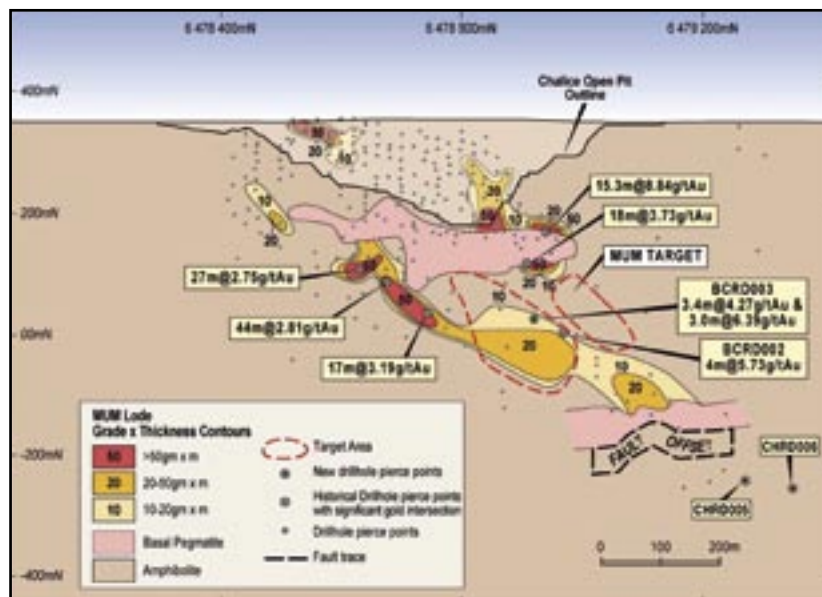


Figure 4: Chalice Project. Longitudinal section of the MUM lode, showing intersections of BCRD003 and CHRD006

REVIEW OF OPERATIONS

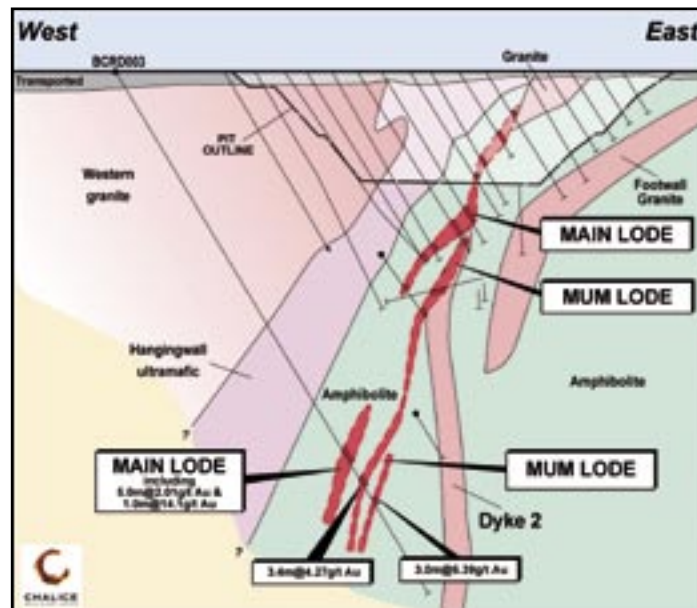


Figure 5: Chalice Project. Cross section 6478940mN

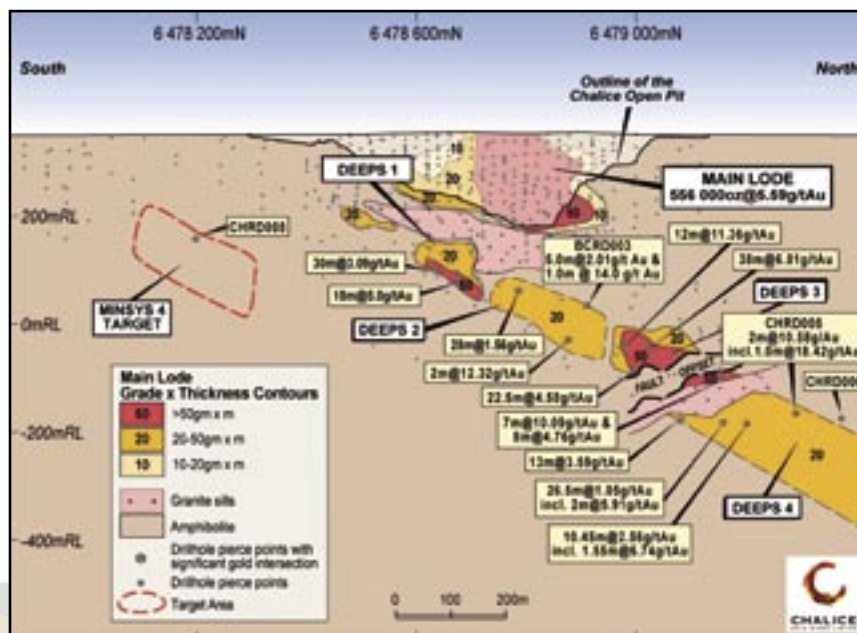


Figure 6: Chalice Project. Longitudinal section of the Main lode, showing intersection of CHRD005 and CHRD006

A single diamond drill hole (CHRD008) was completed at MinSys 4 (Figure 6), which is located immediately south of the historic open pit where the regionally north, north-west trending greenstone sequence swings into a northerly trend. It is also noted that the amphibolite package appears thickened compared to material along strike, and broad zones of alteration and gold anomalism are developed in shallow drilling. The pattern is consistent with the empirical controls on the Chalice open pit, and the system is interpreted to represent the up-plunge expression of a new Chalice system developed at moderate depths.

A broad zone of anomalism (>0.2 g/t Au) and alteration was recorded through the mine sequence in the inferred position of the Main Lode horizon. A second zone of anomalism, including 18m @ 0.54 g/t Au from 308m (in a >0.2 g/t Au envelope) was reported in a Footwall position, just above the Footwall Ultramafic. This interval included several narrow significant intercepts, reported in Table 1.

REVIEW OF OPERATIONS

The results from Minsys 4, and from the MUM and Footwall positions in the Chalice Deeps drilling, suggests that alteration and mineralisation in both the Main, MUM and possible Footwall lode positions are developed along strike of Chalice in the main mine corridor. This corridor requires further drill testing.

Chalice re-acquired original induced polarisation (IP) survey data that Resolute Limited ('Resolute') completed immediately north and south of the Chalice Gold Mine open pit in December 1997. The survey documentation was not preserved, and Chalice Gold Mines had to reacquire the data from the original contractors, reprocess it, and interpret the data.

Observations suggest the alteration halo around the Chalice gold mineralisation is visible in the IP data, and is characterised by both resistive and chargeable alteration and mineralisation (Figure 7). Also, three other mapped mineralised systems are visible as shallow and weak resistive and chargeable mineralisation. This suggests that the IP method could be used elsewhere along strike (wherever a similar regolith is developed) to target Chalice-style mineralisation. In addition to future IP work, several chargeable and resistive targets have been identified in the existing data near the Chalice Gold Mine, for further focus.

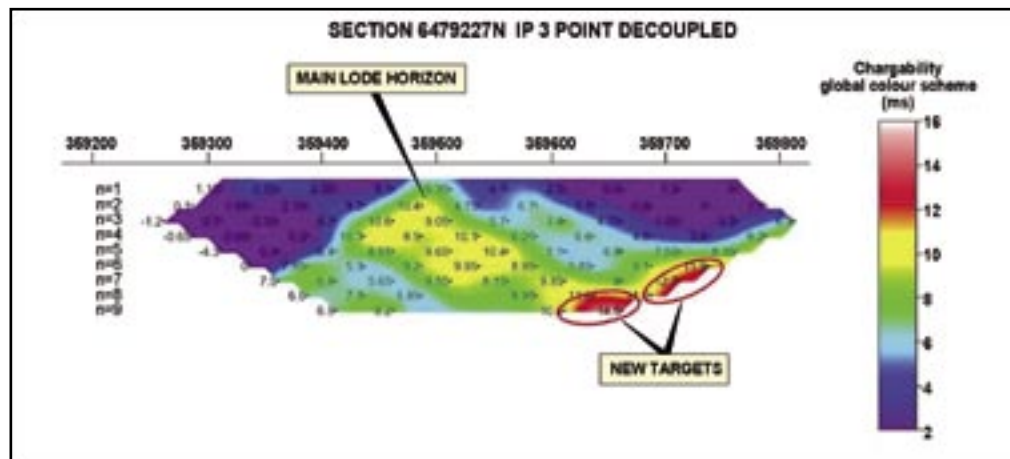


Figure 7. IP section 6479227mN, showing position of Chalice Main Lode horizon and new targets in footwall sequence.

RAB drilling was completed on regional tenements located south of the Chalice Pit in June and July 2006. A total of 112 holes for 3,897m were completed. The program was designed to test a number of gold targets within the Chalice tenement package. Many of the targets were highlighted following a regional targeting exercise. No significant gold anomalism was identified.



REVIEW OF OPERATIONS

SCOPING STUDY AND RESOURCES

AMC Consultants ('AMC') were engaged to review and update AMC's 1998 underground Pre-Feasibility Study ('PFS') on the Chalice Deeps, conducted for Resolute. The study, dated 12 July 2006, was based on the original PFS mine design and schedule, but updated with 2006 exploration results, likely costs, the gold price and, in particular, the updated study considered the extra costs involved with the requirement to transport to, and toll treat at, a third party mill.

The review indicated that, notwithstanding the improved gold price environment, the requirement to toll treat and current mining costs made mining of the existing resources uneconomic (both in the Deeps and remanent material around the base of the historical open pit and underground workings). It was concluded that either further surface resources or further resources in the Deeps area at a cut-off grade of over 3 g/t would need to be discovered to make the system economic.

Based on this cut off grade requirement, the resource at Chalice Gold Mine was recalculated with a 3g/t Au lower cut, and restated as 457,000t @ 5.28g/t Au for 77,623oz (as outlined in Table 2). These resources are located in the Deeps 1 and 3 bodies. In addition, the remanent material around the historic pit (originally quoted as 39,200 ounces of measured and indicated material) was removed from the resource inventory.

Table 2: Existing resources, Chalice Gold Mine

Category	Tonnes	Grade g/t Gold	Ounces
Inferred	457,000	5.28	77,600

Calculation Methodology:

All blocks >3.0g/t Au are reported. The estimation used an inversed distance cubed interpolation, on all material within a 0.3g/t Au wireframe (Deeps 3) or 1.0g/t Au wireframe (Deeps 1) constrained by grade and geology. Upper cuts of 14g/t Au and 25g/t Au have been applied to the Deeps 1 and Deeps 3 bodies respectively.

Footnote:

This classification under the JORC code relies on the material assumption that further mineralisation of significant grade and width be discovered near the existing resources. Should no further mineralisation be discovered, the company may need to reassess the classification of these resources under the requirement of the Australasian Code for Reporting of exploration results, Mineral Resources and Ore Reserves ("JORC code") 2004 that Resources must have reasonable prospects for eventual economic extraction.

YANDEEARRA

Work completed during the year included aircore (AC) drilling, mapping, lag and partial leach soil geochemical sampling, stream sediment sampling and an aeromagnetic survey.

The Central Shear Zone is interpreted as a significant splay off the east-west trending Mallina Shear Zone, host to Range River's Indee Gold Project, located immediately to the north of the Yandearra Project area.

Advanced exploration techniques are being applied to help target and assess the Central Shear Zone. Multi-element litho-geochemical analysis and Portable Infrared Mineral Analysis (PIMA) are being used to assist in quickly vectoring into areas of alteration and mineralisation.

An AC program, testing for Indee-style gold deposits in Mallina Formation turbiditic sediments, commenced in mid July 2006. Six geochemical anomalies along the Central Shear Zone (Holly, Connolly, Magda, Aspen and Fir) and at Woomerina were tested (Figure 8). In total, 225 holes for 12,601m were drilled. At time of writing, preliminary results had been received for 60% of the drilling.

Anomalous results received to date (>0.25 g/t gold in composite samples) are listed in Table 3.

REVIEW OF OPERATIONS

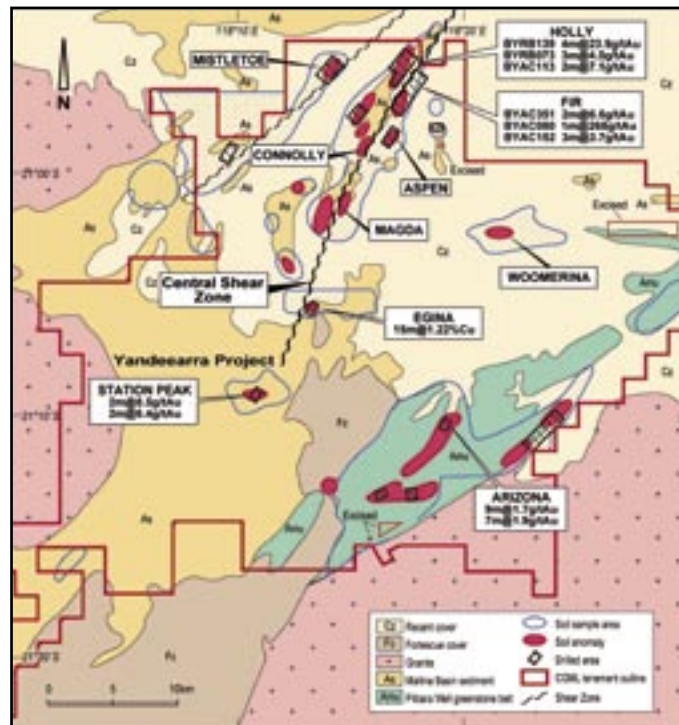
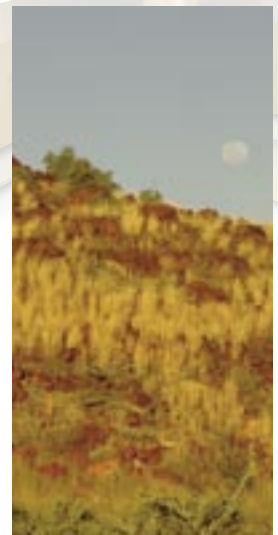


Figure 8: Yandeearra Project - surface geochemical anomalies and historical drill results

At the Holly (where previously identified anomalism has reported results including 4m @ 24g/t Au in BYRB139, and 2m @ 7.1g/t Au in BYAC113) and Aspen Prospects (Figure 8), step out drilling was undertaken in order to extend identified targets. Results received to date have been of similar order to those previously identified within the Central Shear Zone and have extended the strike of the known mineralised corridor to over 4km.

At the Connolly Prospect, within the Central Shear Zone, a coherent 1.6km x 300m gold and arsenic soil anomaly has been outlined. The extensive anomaly is located in shallow wind blown sand, and is interpreted to be sourced from blind gold mineralisation in the basement. Two similar anomalies have been tested at Magda and Hogan. Final assay results are pending.

At Woomerina, drilling tested a 1 km x 500m gold and arsenic vacuum sample anomaly, again partly buried under shallow cover. The anomaly is situated over an east-west orientated structure, parallel to the Mallina Shear Zone to the north. Final assay results are pending.



REVIEW OF OPERATIONS

Table 3. Yandeearra Project. Anomalous Assay Results.

Prospect	Hole_Id	North	East	Width	Interval	Grade (ppm Au)	Comments
HOLLY	CYAC007	7683405	633303	5m	68-73m	0.66*	
			incl	1m	70-71m	1.15*	
HOLLY	CYAC018	7683496	633413	1m	10-11m	1.75*	
HOLLY	CYAC019	7683497	633393	2m	11-13m	1.82*	
HOLLY	CYAC024	7683496	633234	1m	26-27m	2.10*	
HOLLY	CYAC035	7683303	633298	7m	40-47m	0.73*	EOH
			incl	3m	41-44m	1.32*	
ASPEN	CYAC055	7682096	633689	4m	52-56m	1.59	4m comp
ASPEN STH	CYAC059	7681596	633614	4m	16-20m	0.27	4m comp
CONNOLLY	CYAC102	7678795	631166	1m	31-32m	0.69*	
CONNOLLY	CYAC105	7678796	631072	4m	32-36m	0.40	4m comp
CONNOLLY	CYAC119	7678398	630945	4m	32-36m	0.31	4m comp
CONNOLLY	CYAC120	7678397	630917	4m	12-16m	0.31	4m comp
CONNOLLY	CYAC128	7678396	630671	1m	52-53m	0.51*	
CONNOLLY	CYAC132	7678003	630898	4m	32-36m	0.59	4m comp
CONNOLLY	CYAC133	7678003	630870	8m	44-52m	0.86	4m comp
CONNOLLY	CYAC134	7677998	630841	4m	0-4m	0.88	4m comp
CONNOLLY	CYAC135	7677999	630821	2m	52-54m	2.29	2m comp
CONNOLLY	CYAC138	7678003	630735	4m	4-8m	0.44	4m comp

- *Analysed by Fire Assay, remainder analysed by aqua regia technique.
- Based on 0.25 g/t Au lower cut off for composite samples & 0.50 g/t Au for 1m samples, minimum 1m internal waste.

Ongoing programs of partial leach soil geochemistry and stream sediment sampling are being undertaken to screen other areas within the corridor defined by the Central Shear Zone and adjacent areas to the east which are covered by variable amounts of cover. Preliminary assay results from an area south of Woomerina, have identified gold and arsenic geochemical anomalism in an area of cover. Follow up geochemical programs are underway.

The Central Shear Zone remains a priority focus area for exploration; recording mineralisation over a significant strike distance with most of the area obscured by recent transported alluvial cover.

Final results from recently completed drilling have yet to be fully assessed but reported results to date indicate potential of the Central Shear Zone to host economic mineralisation. Infill AC drilling is favoured as a first future step as drill coverage in a number of areas is broad or non-existent over the strike extent of the main mineralised structure. Deeper RC or diamond testing could be applied to test the mineralisation in the sulphide zone.

Further use of recently applied methods such as multi-element geochemical analysis and PIMA analysis, which are used to define geochemical and alteration vectors to higher grade mineralisation, could also be undertaken to rapidly and efficiently locate and target areas with higher prospectivity.

A detailed aeromagnetic survey completed over the Pilbara Well Greenstone Belt has highlighted a level of structural detail not seen in previous work. A detailed survey over the remaining northern portions of the project would assist in better definition of existing targets as well as defining structures definition. This would also help resolve definition over a distinct magnetic anomaly which remains to be tested and represents a priority target.

REVIEW OF OPERATIONS

GNAWEEDA

Teck Cominco has reported the completion of a total of 72 RAB/AC holes for a total of 3,327m during the financial year on tenements in the southern part of the Gnaweeda project area (Figure 9). In the September quarter an additional 72 RAB/AC holes for 4,831m were completed on tenements in the northern part of the project.

The programs were designed to test for gold anomalism regionally along strike of the historical mineralisation located at the Turnberry Prospect, and to provide a better understanding of the geology in the southern part of the Gnaweeda Greenstone Belt in an area that had very limited previous exploration. Teck Cominco has reported that anomalous gold results were returned from several holes, including a spot high of 4m @ 2.91 g/t Au in GNAC082. Further drilling and geochemical sampling is planned to test the extent of mineralisation and the lithological/structural framework.

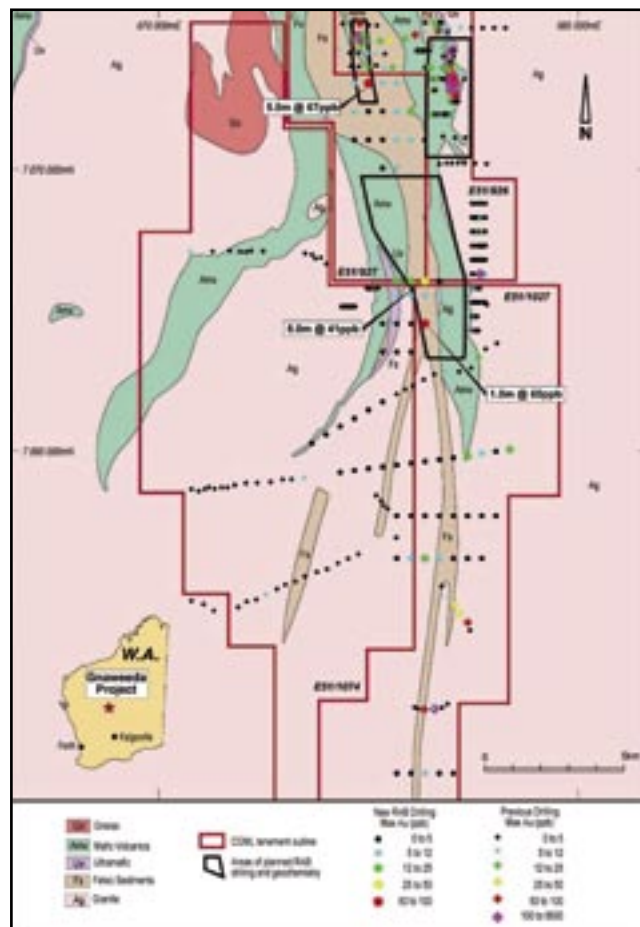


Figure 9: Gnaweeda Project – drilling summary June 2006

Surface geochemical sampling was completed over the interpreted southern extension of the Fairway Magnetic Package (FMP) and eastern sub-domain in an area of subcrop and shallow cover. Results are pending.

REVIEW OF OPERATIONS

WILGA

Compilation of open file historical exploration data and purchase of digital geophysical data over the tenement area and immediate surrounds was completed. A program of soil geochemical sampling was commenced over areas of residual regolith in the central portions of the tenement. The results of this program were not available as at the date of this report.

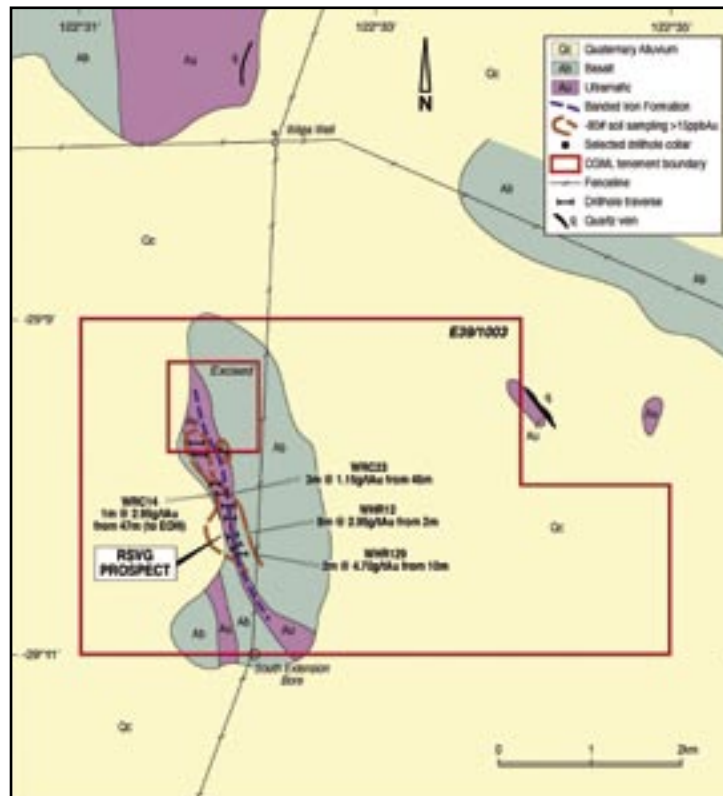


Figure 10: Wilga Project – location and regional geology

Further soil geochemical sampling and mapping work is scheduled in late 2006. Identified targets will be prioritised for appropriate follow up testing.



SCHEDULE OF TENEMENTS AS AT 30 JUNE 2006

HIGGINSVILLE

Tenement #	Nature of Interest	Current Equity
E15/828	Owned	100%
E15/829	Owned	100%
E15/838	Owned	100%
P15/4615	Owned	100%
P15/4616	Owned	100%
P15/4617	Owned	100%
P15/4618	Owned	100%
P15/4620	Owned	100%
P15/4621	Owned	100%
P15/4622	Owned	100%
P15/4624	Owned	100%
P15/4625	Owned	100%
P15/4626	Owned	100%
P15/4627	Owned	100%
P15/4628	Owned	100%
P15/4629	Owned	100%
P15/4630	Owned	100%
P15/4631	Owned	100%
P15/4632	Owned	100%
P15/4633	Owned	100%
P63/1271	Owned	100%
P63/1272	Owned	100%
P63/1273	Owned	100%
P63/1274	Owned	100%
P63/1275	Owned	100%
P63/1276	Owned	100%
P15/4644	Owned	100%
P15/4645	Owned	100%
P15/4646	Owned	100%
P15/4655	Owned	100%
E15/740	Right to purchase 100% subject to royalty	0%
E15/860	Owned	100%
P15/4647	Owned	100%
P15/4648	Owned	100%

CHALICE

Tenement #	Nature of interest	Current equity
E15/821	Owned	100%
E15/822	Owned	100%
E63/873	Owned	100%
P15/4594	Owned	100%
P15/4595	Owned	100%

SCHEDULE OF TENEMENTS AS AT 30 JUNE 2006

P15/4596	Owned	100%
P15/4597	Owned	100%
P15/4598	Owned	100%
P15/4599	Owned	100%
P15/4600	Owned	100%
P15/4601	Owned	100%
P15/4602	Owned	100%
P15/4603	Owned	100%
P15/4605	Owned	100%
P15/4606	Owned	100%
P15/4607	Owned	100%
P15/4608	Owned	100%
P15/4609	Owned	100%
P15/4610	Owned	100%
P15/4611	Owned	100%
P15/4612	Owned	100%
P15/4613	Owned	100%
P15/4614	Owned	100%
P15/4619	Option to purchase 100%, subject to royalty	0%
P15/4634	Owned	100%
P15/4635	Owned	100%
P15/4636	Owned	100%
P15/4671	Owned	100%
P63/1248	Owned	100%
P63/1249	Owned	100%
P63/1250	Owned	100%
P65/1251	Owned	100%
P63/1252	Owned	100%
P63/1253	Owned	100%
P63/1257	Owned	100%
P63/1258	Owned	100%
P63/1259	Owned	100%
P63/1260	Owned	100%
P63/1261	Owned	100%
P63/1262	Owned	100%
P63/1263	Owned	100%
P63/1264	Owned	100%
P63/1265	Owned	100%
P63/1266	Owned	100%
P63/1267	Owned	100%
P63/1268	Owned	100%
P63/1269	Owned	100%
P63/1270	Owned	100%
M15/786	Owned	100%

SCHEDULE OF TENEMENTS AS AT 30 JUNE 2006

YANDEEARRA

Tenement #	Nature of Interest	Current Equity
E47/590	Owned	100%
E47/591	Owned	100%
E47/755	Owned	100%
E47/1041	Owned	100%
E47/1161	Owned	100%
E47/1162	Owned	100%
E47/1163	Owned	100%
E47/1164	Owned	100%
E47/1165	Owned	100%
E47/1166	Owned	100%
E47/1207	Owned	100%
M47/560	Owned	100%
M47/561	Owned	100%
E47/1318	Owned	100%
P47/1060	Option to purchase 100% subject to royalty	0%
P47/1082	Option to purchase 100% subject to royalty	0%
M47/354	Option to purchase 100% subject to royalty	0%
M47/373	Option to purchase 100% subject to royalty	0%
M47/374	Option to purchase 100% subject to royalty	0%
M47/380	Option to purchase 100% subject to royalty	0%
M47/498	Option to purchase 100% subject to royalty	0%
M47/638	Option to purchase 100% subject to royalty	0%
M47/783	Owned	100%
M47/784	Owned	100%
M47/785	Owned	100%
P47/1223	Owned	100%
P47/1224	Owned	100%
P47/1225	Owned	100%
P47/1226	Owned	100%
P47/1227	Owned	100%
P47/1245	Owned	100%
P47/1246	Owned	100%
P47/1459	Owned	100%
M47/1000	Owned	100%
M47/1001	Owned	100%
M47/1002	Owned	100%
M47/1003	Owned	100%
M47/1004	Owned	100%
M47/1005	Owned	100%
M47/1114	Owned	100%
M47/1115	Owned	100%
M47/1116	Owned	100%
M47/1117	Owned	100%

SCHEDULE OF TENEMENTS AS AT 30 JUNE 2006

M47/1118	Owned	100%
M47/1119	Owned	100%
M47/1120	Owned	100%
M47/1121	Owned	100%
M47/1122	Owned	100%
M47/1123	Owned	100%
M47/1124	Owned	100%
M47/1125	Owned	100%
M47/994	Owned	100%
M47/995	Owned	100%
M47/996	Owned	100%
M47/997	Owned	100%
M47/998	Owned	100%
M47/999	Owned	100%

GNAWEEDA

Tenement #	Nature of Interest	Current Equity
E51/926	Right to earn 100% subject to royalty	0%
E51/927	Right to earn 100% subject to royalty	0%
P51/1074	Owned	100%
P51/2514	Owned	100%
P51/2515	Owned	100%
E51/1027	Owned	100%

WILGA

Tenement #	Nature of Interest	Current Equity
E39/1003	Owned	100%



CHALICE GOLD MINES LIMITED
2006 ANNUAL REPORT

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006



DIRECTORS' REPORT

The directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice Gold Mines' or 'the Company') for the period ended 30 June 2006 and the independent audit report thereon. The Company was incorporated on 13 October 2005.

1. DIRECTORS

The directors of the Company at any time during or since the end of the period are:

A R Bantock

B.Com, ACA
Executive Chairman
(appointed 13 October 2005)

Andrew has extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. He is currently Executive Director of Uranium Equities Limited, Managing Director of Base Resources Limited and is a Director of Water Corporation, Western Australia's water utility. Andrew was previously with GRD Ltd, where he served six years as Finance Director.

J R McIntyre

BSc (Hons), MAIG
Executive Director
(appointed 28 October 2005)

John has over 19 years experience in mineral exploration throughout Australia, for gold, nickel, platinum group metals, copper-gold and zinc-lead mineralisation. John graduated from the University of Western Australia in 1985 with First Class Honours in Geology, and has spent the last ten years in either senior management roles with exploration companies, or consulting to both exploration and production companies.

John is a member of the Australian Institute of Geoscientists, the Geological Society of Australia, and the Society of Economic Geologists.

T R B Goyder

Non-executive Director
(appointed 13 October 2005)

Tim has over twenty five years experience in the resource industry. He is currently Managing Director and Proprietor of Grimwood Davies Pty Ltd, a contract drilling company, based in Western Australia. Tim has been involved in the formation and management of a number of publicly-listed companies and is currently a Director of Uranium Equities Limited and Chairman of Base Resources Limited.

B W Alexander

BSc, MAusIMM
Non-executive Director
(appointed 28 October 2005)

Bryan is a qualified geologist with over 15 years experience in the exploration and mining industry. Bryan is the principal of a geological contracting and consulting services practice, Archaean Exploration Services Pty Ltd ('Archaean'). Most recently Archaean has been responsible for directing the exploration, underground mine geology and acquisition activities for a private exploration and mining syndicate.

Prior to this Bryan has been responsible for the management of regional offices and the implementation of substantial exploration and resource definition programs for several mining companies.

A W Kiernan

(appointed 13 October 2005)
(resigned 28 October 2005)

DIRECTORS' REPORT

2. COMPANY SECRETARY

R K Hacker

B.Com, ACA, ACIS

(appointed 28 October 2005)

Richard has 13 years professional and corporate experience in the resources sector in both Australia and the United Kingdom. For the last six years he has worked in senior finance roles with global energy companies including Woodside Petroleum Limited and Centrica Plc. Prior to this, Richard worked for seven years with leading accounting practices. Richard is both a Chartered Accountant and Chartered Secretary. Richard is also the Company Secretary of Uranium Equities Limited and Base Resources Limited.

3. DIRECTORS' MEETINGS

During the financial period, eight directors' meetings were held. The number of meetings attended by each of the directors of the Company during the period are:

Director	Number of board meetings attended	Number of meetings held during the time the director held office during the year
A R Bantock	8	8
J R McIntyre	8	8
T R B Goyder	8	8
B W Alexander	8	8
A W Kiernan	-	-

4. PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the period were mineral exploration and evaluation.

5. REVIEW OF OPERATIONS

Following an initial public offering ('IPO'), raising \$7.5 million, the Company has undertaken a substantial drilling and exploration program at its Higginsville, Chalice Gold Mine and Yandeearra exploration projects.

A scoping study at the Chalice Gold Mine, incorporating post IPO drilling results, was completed in July 2006, with a re-evaluation of the existing resource estimate of 162,700 ounces at 3.22 g/t gold, and consequent reduction of the resource estimate to 77,000 ounces at 5.28 g/t gold.

The Company incurred a loss of \$1,687,726 for the period, predominantly as a result of an accounting write-down of exploration and evaluation assets of \$1,317,618 relating to the Chalice Gold Mine project as a result of the above. Of the accounting write-down, \$650,664 relates to post IPO exploration expenditure and \$666,954 relates to carry forward costs of acquisition of the project.

DIRECTORS' REPORT

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company was admitted to the Official List of the Australian Stock Exchange ('ASX') on 24 March 2006 following the successful completion of an IPO by way of a prospectus, raising \$7.5 million by the allotment and issue of 37.5 million shares. Official quotation of 72.8 million securities commenced on 24 March 2006.

Other than as referred to in the Financial Report, there has not been any matter or circumstance that has arisen since the end of the period that has 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 years.

7. REMUNERATION REPORT

This report outlines remuneration arrangements in place for directors and executives of Chalice Gold Mines.

7.1 Principles of compensation

The broad remuneration policy of the Company is to ensure that remuneration levels for executive directors, secretaries and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. Remuneration packages include a combination of fixed remuneration and long term incentives.

Fixed compensation

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits, including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers the person's responsibilities, expertise, duties and personal performance.

Long-term incentives

Options may be issued under the Employee Share Option Plan to directors, employees and consultants of the Company and must be exercised within 3 months of termination. The ability to exercise the options is usually based on the option holder remaining with the Company for at least one year. Other than the vesting period, there is no performance hurdle required to be achieved by the Company to enable the options to be exercised.

The Company believes that the issue of share options in the Company aligns the interests of directors, employees and shareholders alike.

DIRECTORS' REPORT

Employment contracts

The following table sets out the contractual provisions of executive directors and senior managers.

Name and job title	Employment contract duration	Notice period	Termination provision
Executive Directors			
A R Bantock Executive Chairman	Unlimited	3 months by the Company and the employee	Other than for misconduct, the Company must pay Mr Bantock \$125,000 to terminate his contract.
J R McIntyre Executive Director	Unlimited	1 month by the Company and the employee	No termination provisions
Senior Management			
R K Hacker Company Secretary	Unlimited	1 month by the Company and the employee	No termination provisions

Non-executive directors

The Board recognises the importance of attracting and retaining talented non-executive directors and aims to remunerate these directors in line with fees paid to directors of companies in the mining and exploration industry of a similar size and complexity.

Total compensation for all non-executive directors is not to exceed \$150,000 per annum.

7.2 Directors' and executive officers' remuneration (audited)

No key management personnel received any salaries or fees until the Company listed on the ASX on 24 March 2006.

Key management personnel		Short-term			Post-em- ployment	Share-based payments		Value of options as proportion of remuneration %
		Salary & fees	Non-monetary benefits	Total	Super-annuation benefits	Options (A)	Total	
		\$	\$	\$	\$	\$	\$	
Directors								
A R Bantock	2006	31,163	3,378	34,541	2,805	43,762	81,108	54%
J R McIntyre	2006	44,426	6,775	51,201	4,487	21,881	77,569	28%
T R B Goyder	2006	12,465	3,378	15,843	1,122	43,762	60,727	72%
B W Alexander	2006	7,479	3,183	10,662	673	10,941	22,276	49%
Executives								
R K Hacker (Company Secretary)	2006	35,326	3,183	38,509	3,179	5,470	47,158	12%
Total compensation	2006	130,859	19,897	150,756	12,266	125,816	288,838	

DIRECTORS' REPORT

Notes in relation to the table of directors' and executive officers' remuneration

- A. The fair value of the options is calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. The following factors and assumptions were used in determining the fair value of options on grant date:

Grant date	Expiry date	Fair value per option	Exercise price	Price of ordinary shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
21 March 2006	21 March 2011	\$0.08	\$0.25	\$0.20	80%	5.3%	Nil

Details of performance related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance related is discussed on page 22.

7.3 Equity instruments

7.3.1 Options and rights over equity instruments granted as compensation

Details of options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value per option at grant date \$	Exercise price \$	Expiry date
Directors						
A R Bantock	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
J R McIntyre	1,000,000	21 March 2006	-	0.08	0.25	21 March 2011
T R B Goyder	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
B W Alexander	500,000	21 March 2006	-	0.08	0.25	21 March 2011
Executive						
R K Hacker	250,000	21 March 2006	-	0.08	0.25	21 March 2011

No options have been granted to key management personnel since the end of the period. The options were provided at no cost to the recipients.

7.3.2 Exercise of options granted as compensation

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

DIRECTORS' REPORT

Analysis of options and rights over equity instruments granted as compensation

Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the named Company executives are outlined below.

	Number granted	Date granted	% vested in year	Forfeited in year	Period in which grant vests
Directors					
A R Bantock	2,000,000	21 March 2006	-	-	2007
J R McIntyre	1,000,000	21 March 2006	-	-	2007
T R B Goyder	2,000,000	21 March 2006	-	-	2007
B W Alexander	500,000	21 March 2006	-	-	2007
Executive					
R K Hacker	250,000	21 March 2006	-	-	2007

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives is detailed below.

	Granted in year \$ (A)	Value of options exercised in year \$ (B)	Total option value in year \$
Directors			
A R Bantock	158,150	-	158,150
J R McIntyre	79,075	-	79,075
T R B Goyder	158,150	-	158,150
B W Alexander	39,538	-	39,538
Executive			
R K Hacker	19,769	-	19,769

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

8. DIVIDENDS

No dividends were declared or paid during the period and the directors recommend that no dividend be paid.

9. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to reporting date which require disclosure.

10. LIKELY DEVELOPMENTS

The Company will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business.

DIRECTORS' REPORT

11. DIRECTORS' INTERESTS

The relevant interest of each director in the shares, rights or options over such instruments issued by the Company and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
A R Bantock	2,431,772	2,000,000
J R McIntyre	193,336	1,000,000
T R B Goyder	9,386,816	2,000,000
B W Alexander	445,336	500,000

12. SHARE OPTIONS

Options granted to directors and officers of the Company

During or since the end of the period, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and to the most highly remunerated officers of the Company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Directors			
A R Bantock	2,000,000	\$0.25	21 March 2011
J R McIntyre	1,000,000	\$0.25	21 March 2011
T R B Goyder	2,000,000	\$0.25	21 March 2011
B W Alexander	500,000	\$0.25	21 March 2011
Officers			
R K Hacker	250,000	\$0.25	21 March 2011

All options were granted during the period. No options have been granted since the end of the period.

Unissued shares under option

At the date of this report 6,575,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

Expiry date	Exercise price	Number of shares
21 March 2011	\$0.25	6,075,000
1 May 2011	\$0.25	500,000

These options do not entitle the holder to participate in any share issue of the company or any other body corporate.

Shares issued on exercise of options

During or since the end of the period, the Company has not issued any ordinary shares as a result of the exercise of options.

DIRECTORS' REPORT

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the directors and officers who have held office of the Company during this period, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their positions as directors and officers of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the period the Company has paid insurance premiums of \$16,305 in respect of directors and officers liability and legal expenses insurance contracts, for current and former directors and officers. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their positions, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The amount of insurance paid is included in directors and executives remuneration on page 23.

14. NON-AUDIT SERVICES

During the year HLB Mann Judd, the Company's auditors, performed no other services in addition to their statutory duties other than the preparation of an Independent Accountant's Report in relation to the Company's prospectus.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 28 and forms part of the directors' report for period ended 30 June 2006.

This report is made with a resolution of the directors:



Andrew R Bantock
Executive Chairman

Dated at Perth this 29th day of September 2006.

LEAD AUDITOR'S INDEPENDENCE REPORT



Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Chalice Gold Mines Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Chalice Gold Mines Limited.

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

Perth, Western Australia
29 September 2006

L Di Giallonardo
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)
15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@mjwa.com.au. Website: <http://www.hlb.com.au>
Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

INCOME STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

	Note	2006 \$
Revenue	3	154,176
Impairment losses on exploration and evaluation expenditure		(1,339,651)
Corporate administrative expenses	4	(501,956)
Finance costs	7	(295)
Loss before tax		(1,687,726)
Income tax expense/benefit	8	-
Loss for the period		(1,687,726)
Basic earnings per share attributable to ordinary equity holders	9	(0.06)
Diluted earnings per share attributable to ordinary equity holders	9	(0.06)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 33 to 53.

BALANCE SHEET

AS AT 30 JUNE 2006

	Note	2006 \$
Current Assets		
Cash and cash equivalents	10	5,427,250
Trade and other receivables	11	328,325
Total current assets		5,755,575
Non-current assets		
Financial assets	12	43,000
Exploration and evaluation assets	13	7,175,824
Property, plant and equipment	14	199,207
Total non-current assets		7,418,031
Total assets		13,173,606
Current Liabilities		
Trade and other payables	15	697,826
Interest-bearing loans and borrowings	16	11,197
Employee benefits	17	38,931
Total current liabilities		747,954
Non-current Liabilities		
Interest-bearing loans and borrowings	16	5,771
Total non-current liabilities		5,771
Total liabilities		753,725
Net assets		12,419,881
Equity		
Issued capital	18	13,974,454
Accumulated losses	18	(1,687,726)
Reserves	18	133,153
Total equity		12,419,881

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 33 to 53.

STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2006

	Note	Share capital \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
Balance at date of incorporation		-	-	-	-
Issue of fully paid ordinary shares – tenement acquisition		7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering		7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other		60,002	-	-	60,002
Transaction costs		(585,548)	-	-	(585,548)
Employee share options vested		-	-	133,153	133,153
Loss for the period		-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	18	13,974,454	(1,687,726)	133,153	12,419,881

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 33 to 53.

CASH FLOW STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

	Note	2006 \$
Cash flows from operating activities		
Cash receipts from operations		33,871
Cash paid to suppliers and employees		(354,557)
Interest paid		(179)
Interest received		53,309
Total cash used in operating activities	21	(267,556)
Cash flows from investing activities		
Payments for mining exploration and evaluation		(1,044,271)
Acquisition of property, plant and equipment		(191,007)
Net cash from investing activities		(1,235,278)
Cash flows from financing activities		
Net proceeds from issue of shares		6,974,454
Lodgement of guarantee		(43,000)
Proceeds from borrowings		100,200
Repayment of borrowings		(101,570)
Net cash from financing activities		6,930,084
Net increase in cash and cash equivalents		5,427,250
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at 30 June 2006	10	5,427,250

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 33 to 53.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Chalice Gold Mines is a company domiciled in Australia. The financial report of the Company is for the period ended 30 June 2006.

The financial report was authorised for issue by the directors on the 29th day of September 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASB') adopted by the Australian Accounting Standards Board and the Corporations Act 2001. International Financial Reporting Standards ('IFRS') form the basis of AASB adopted by the Australian Accounting Standards Board, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the Company also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars. The Company has elected to early adopt the following accounting standards and amendments.

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1010 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
- UIG 8 *Scope of AASB 2.*

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements:

- AASB 7 Financial Instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117, Lease, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

Other standards issued and available for early adoption but not applied by the Company have not been included above as they are not expected to have a significant impact on the financial report of the Company.

The Company plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Company.

Critical accounting judgements, estimates and assumptions

(i) Recoverability of exploration expenditure

The carrying amount of Exploration and Evaluation expenditure is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest.

(ii) Shared-based payment transactions

The Company measures the cost of equity-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement.

Jointly controlled operations and assets

The interest of the Company in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of any goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)). The cost of assets includes the cost of materials, direct labour, and where appropriate, an appropriate proportion of overheads.

(ii) Leased assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

(iii) Subsequent costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(e) Depreciation

Depreciation is charged to the income statement on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- plant and equipment 7%-40%
- fixtures and fittings 11%-22%
- motor vehicles 22.5%

The residual value, if not insignificant, is reassessed annually.

(f) Exploration, evaluation, development and tenement acquisition costs

Exploration, evaluation, development and tenement acquisition costs in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the balance sheet so long as the following conditions are satisfied:

- 1) the rights to tenure of the area of interest are current; and
- 2) at least one of the following conditions is also met:
 - (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
 - (ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made. Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

(g) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses (see accounting policy (i)).

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(i) Impairment

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Receivables with a short duration are not discounted.

(j) Share capital

(i) Ordinary share capital

Ordinary shares and partly paid shares are classified as equity.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(k) Leases

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments.

(l) Employee benefits

(i) Superannuation

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Share-based payment transactions

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

The Company currently provides benefits under an Employee Share Option Plan.

The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). 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').

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

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 awards that, in the opinion of the directors, 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.

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(m) Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(n) Trade and other payables

Trade and other payables are stated at cost.

(o) Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the leave term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(q) Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(r) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(s) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

(t) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

2. SEGMENT REPORTING

The Company currently only operates in one business segment and one geographical segment being the mining and exploration industry in Australia.

3. REVENUE

	2006 \$
Interest received	105,305
Other income	48,871
	154,176

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

4. CORPORATE ADMINISTRATIVE EXPENSES

	Note	2006 \$
Accounting fees		14,655
ASX fees		32,438
Audit fees	6	10,000
Consulting fees		20,560
Depreciation and amortisation	14	12,198
Insurance		19,726
Legal fees		6,094
Marketing		9,411
Rent and outgoings		30,761
Personnel expenses	5	295,476
Printing and stationery		4,670
Share registry		7,096
Travel and accommodation		4,776
Recruitment		7,077
Other		27,018
		501,956

5. PERSONNEL EXPENSES

Wages and salaries		105,625
Directors' fees		19,944
Other associated personnel expenses		3,217
Defined contribution superannuation fund contributions		25,531
Increase in liability for annual leave		8,006
Equity-settled transactions	18	133,153
		295,476

6. AUDITOR'S REMUNERATION

Audit services

Auditors of the Company

HLB Mann Judd:

Audit and review of financial reports

10,000

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

	2006 \$
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7. FINANCE COSTS

Interest expense	295
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8. INCOME TAX

Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(1,687,726)
Tax at the Australian rate of 30%	(506,318)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:	
Non-deductible expenses	40,282
Origination and reversal of temporary differences	(40,748)
	(506,784)
Current year tax benefits not recognised	506,784
Income tax expense reported in the income statement	-

Tax losses

Unused tax losses for which no deferred tax asset has been recognised	1,806,389
Potential tax benefit at 30% tax rate	541,917



NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

9. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share for the period ended 30 June 2006 was based on the loss attributable to ordinary shareholders of \$1,687,726 and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 28,280,001.

Diluted earnings per share

The calculation of diluted earnings per share for the period ended 30 June 2006 was based on the loss attributable to ordinary shareholders of \$1,687,726 and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 28,280,001 calculated as follows:

	2006 \$
Loss attributable to ordinary shareholders (diluted)	
Loss attributable to ordinary shareholders	1,687,726
Loss attributable to ordinary shareholders (diluted)	1,687,726
Weighted average number of ordinary shares (diluted)	
Weighted average number of ordinary shares at 30 June	28,280,001
Effect of share options on issue	-
Weighted average number of ordinary shares (diluted) at 30 June	28,280,001

10. CASH AND CASH EQUIVALENTS

Bank accounts	1,521,833
Bank bills	3,905,417
Cash and cash equivalents in the cash flow statement	5,427,250

11. TRADE AND OTHER RECEIVABLES

Current

Other trade receivables	301,540
Prepayments	26,785
	328,325

12. FINANCIAL ASSETS

Non-current

Bond in relation to office premises	43,000
	43,000

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

2006
\$

13. EXPLORATION AND EVALUATION EXPENDITURE

Cost brought forward	-
Acquisition of tenements	7,034,545
Expenditure incurred during the year	1,480,930
Impairment of exploration and evaluation expenditure	(1,339,651)
	7,175,824

14. PROPERTY, PLANT AND EQUIPMENT

At cost	211,405
Less: accumulated depreciation	(12,198)
	199,207

Plant and equipment

Carrying amount at date of incorporation	-
Additions	193,183
Depreciation	(11,845)
Carrying amount at end of period	181,338

Plant and equipment under hire purchase

Carrying amount at date of incorporation	-
Additions	18,222
Amortisation	(353)
Carrying amount at end of period	17,869

15. TRADE AND OTHER PAYABLES

Trade payments	568,271
Accrued expenses	129,555
	697,826

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

16. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 19.

	2006 \$
Current liabilities	
Hire purchase liabilities	11,197
	11,197
Non-current liabilities	
Hire purchase liabilities	5,771
	5,771

Hire purchase facility

The Company's hire purchase liabilities are secured by the assets under hire purchase of \$17,869. In the event of default, these assets revert to the financier.

Hire purchase liabilities of the Company are payable as follows:

	Minimum hire purchase payments \$	2006 Interest \$	Principal \$
Less than one year	12,111	914	11,197
Between one and five years	5,858	87	5,771
More than five years	-	-	-
	17,969	1,001	16,968

17. EMPLOYEE BENEFITS

	2006 \$
Liability for annual leave	38,931
Total employee benefits	38,931

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

Share based payments

(a) Employee and Consultant Share Option Plan

The Company has an Employee and Consultant Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer free options to full-time or part-time employees (including persons engaged under a consultancy agreement) and executive and non-executive directors.

Each option entitles the holder, on exercise, to one ordinary fully paid share in the Company. There is no issue price for the options. The exercise price for the options is such price as determined by the Board.

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise satisfied. The Board may determine the vesting period, if any.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Share options were granted to employees on the following terms and conditions during the year:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
21 March 2006	6,075,000	1 year continual services	5 years
28 June 2006	250,000	1 year continual services	5 years
28 June 2006	250,000	2 years continual services	5 years

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price \$ 2006	Number of options 2006
Outstanding at the beginning of the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Granted during the period	0.25	6,575,000
Outstanding at the end of the period	0.25	6,575,000
Exercisable at the end of the period	-	-

The options outstanding at 30 June 2006 have an exercise price of \$0.25 and a weighted average contractual life of 5 years.

During the period, no share options were exercised.

The fair value of the options is estimated at the date of grant using the binomial valuation model.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2006.

Fair value of share options and assumptions	2006
Share price at grant date	\$0.20
Exercise price	\$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	80%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	5 years
Expected dividends	-
Risk-free interest rate	5.3%

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

	2006 \$
Share options granted in 2006 – equity settled	133,153
Total expense recognised as employee costs	133,153

18. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	Share capital (a) \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
Balance at date of incorporation	-	-	-	-
Issue of fully paid ordinary shares – tenement acquisition	7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering	7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other	60,002	-	-	60,002
Transaction costs	(585,548)	-	-	(585,548)
Employee share options vested	-	-	133,153	133,153
Loss for the period	-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	13,974,454	(1,687,726)	133,153	12,419,881

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

(a) Share capital

	2006 No.
On issue at 1 July	-
Exercise of share options	-
Issue of fully paid ordinary shares – tenement acquisition	34,999,998
Issue of fully paid ordinary shares – initial public offering	37,500,000
Issue of fully paid ordinary shares – other	300,002
On issue at 30 June	72,800,000

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

(b) Share options

	2006 No.
On issue at date of incorporation	-
Options issued during the year	6,575,000
On issue at 30 June 2006	6,575,000

At 30 June 2006, the Company had 6,575,000 unlisted options on issue under the following terms and conditions:

Number	Expiry date	Exercise price
6,075,000	21 March 2011	\$0.25
500,000	1 May 2011	\$0.25

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

19. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

30 June 2006	Fixed interest maturing in:				Total	Weighted average int. rate
	1 year or less	Over 1 to 5 years	Floating interest	Non-interest bearing		
	\$	\$	\$	\$	\$	\$
Financial assets						
Bank balances	-	-	1,521,633	-	1,521,633	0.25%
Bank bills	3,905,417	-	-	-	3,905,417	5.58%
Term deposits	43,000	-	-	-	43,000	5.10%
Petty cash	-	-	-	200	200	-
Trade and other receivables	-	-	-	301,540	301,540	-
Financial liabilities						
Trade payables and accrued expenses	-	-	-	697,826	697,826	-
Financial liabilities	11,917	5,771	-	-	16,968	4.45%

(b) Credit risk exposure

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

(c) Net fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities approximate the net fair values.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

20. CAPITAL AND OTHER COMMITMENTS

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Company may in certain situations apply for exemptions under relevant mining legislation. These obligations are not provided for in the financial report and are payable:

	2006 \$
Within one year	863,840
One year or later and no later than five years	1,619,700
Later than five years	-
	2,483,540

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at balance date but not recognised as liabilities, payable:

Within 1 year	125,000
Within 2-5 years	-
	125,000

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities

Loss for the period	(1,687,726)
Adjustments for:	
Depreciation and amortisation	12,198
Impairment losses on exploration and evaluation expenditure	1,339,651
Interest on finance leases	116
Equity-settled share-based payment expenses	133,153
Operating loss before changes in working capital and provisions	(202,608)
(Increase) in trade and other receivables	(246,728)
Increase in trade creditors and accruals	142,849
Increase in provisions	38,931
Net cash used in operating activities	(267,556)

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

22. KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors

A R Bantock (Executive Chairman)

J R McIntyre

Non-executive directors

T R B Goyder

B W Alexander

Executive

R K Hacker (Company Secretary)

The key management personnel compensation included in 'personnel expenses' (see note 5) is as follows:

	2006 \$
Short-term employee benefits	162,575
Post-employment benefits	12,266
Equity compensation benefits	125,816
	300,657

Individual directors' and executives' compensation disclosures

The Company has transferred the detailed remuneration disclosures to the Directors' Report in accordance with Corporations Amendment Regulations 2006 (No. 4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

Loans to key management personnel and their related parties

No loans were made to key management personnel and their related parties.

Other key management personnel transactions with the Company

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2006 \$
A R Bantock	Corporate Services		
T R B Goyder	Corporate Services	(i)	48,871
R K Hacker	Corporate Services		
J R McIntyre	Lithos-X Mineral Exploration Consultants	(ii)	15,000
B W Alexander	Archaean Exploration Services Pty Ltd	(iii)	11,705

- (i) The Company supplies corporate services including accounting and company secretarial services under a Corporate Services agreement with Uranium Equities Limited. Mr Bantock and Mr Goyder are directors of Uranium Equities Limited and Mr Hacker is the Company Secretary. Amounts were billed based on arm's length terms and conditions for such services and were due and payable under normal payment terms.
- (ii) The Company engaged Mr McIntyre to assist with preparation of the Company's business plan, IPO marketing, prospectus and due diligence activities between January 2006 and 24 March 2006.
- (iii) The Company used Archaean, a company of which Mr Alexander is a director, to undertake preparation of the Company's business plan and pre-IPO information set. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

Assets and liabilities arising from the above transactions

Current payables	(15,000)
Trade debtors	16,500
	1,500

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD OF INCORPORATION UNTIL 30 JUNE 2006

Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in Chalice Gold Mines held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at date of incorpor- ation	Granted as compen- sation	Exercised	Other changes	Held at 30 June 2006	Vested during the year	Vested and exercis- able at 30 June 2006
Directors							
A R Bantock	-	2,000,000	-	-	2,000,000	-	-
J R McIntyre	-	1,000,000	-	-	1,000,000	-	-
T R B Goyder	-	2,000,000	-	-	2,000,000	-	-
B W Alexander	-	500,000	-	-	500,000	-	-
Executive							
R K Hacker	-	250,000	-	-	250,000	-	-

Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in Chalice Gold Mines held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Additions	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
A R Bantock	-	1,675,886	-	-	1,675,886
J R McIntyre	-	146,687	-	-	146,687
T R B Goyder	-	5,228,408	-	-	5,228,408
B W Alexander	-	342,668	-	-	342,668
Executive					
R K Hacker	-	43,334	-	-	43,334

23. SUBSEQUENT EVENTS

There are no subsequent events that require disclosure.

DIRECTORS' DECLARATION

- 1 In the opinion of the directors of Chalice Gold Mines Limited ('the Company'):
 - (a) the financial statements and notes including the remuneration disclosures that are contained in sections 7.1, 7.2 and 7.3 of the Remuneration report in the Directors' report, set out on pages 22 to 25, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; 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.
- 2 The directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) for the period ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth the 29th day of September 2006.

Signed in accordance with a resolution of the directors:



ANDREW BANTOCK
Executive Chairman



INDEPENDENT AUDIT REPORT



INDEPENDENT AUDIT REPORT

To the members of
Chalice Gold Mines Limited

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for Chalice Gold Mines Limited ('the company').

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

HLB Mann Judd (WA Partnership)
15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@mjwa.com.au. Website: <http://www.hlb.com.au>
Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

INDEPENDENT AUDIT REPORT

Independent Audit Report

Independence

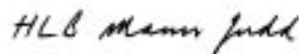
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

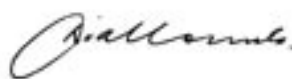
Audit Opinion

In our opinion, the financial report of Chalice Gold Mines Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position at 30 June 2006 and of its performance for the year then ended; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



HLB MANN JUDD
Chartered Accountants



L DI GIALLONARDO
Partner

Perth, Western Australia
29 September 2006



CORPORATE GOVERNANCE STATEMENT

Corporate Governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The key corporate governance practices of the Company are summarised below.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. The Board believes that this focus will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Executive Chairman is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Executive Chairman and approving senior executive remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress against them;
- Monitoring capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs; and
- Ensuring that policies and compliance systems consistent with the Company's objectives, external best practice and the Company's size and scope of operations are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

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

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-executive Chairman and additional independent Non-executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

CORPORATE GOVERNANCE STATEMENT

The composition of the Board is reviewed periodically in view of the underlying scale, scope and complexity of the Company's operations. Changes are made where appropriate.

The membership of the Board and its activities are 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 annual general meeting. Under the Company's Constitution the tenure of directors (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 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, the Board may revoke any appointment.

1.3 Committees of the Board

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 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.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committee's will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 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. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of a professional standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

CORPORATE GOVERNANCE STATEMENT

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.
- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;

CORPORATE GOVERNANCE STATEMENT

- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company. Employees must also give notice to the Chairman prior to trading in the Company's securities.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 Interests of Other Stakeholders

The Company's objective is to maximise returns to shareholders through the continued exploration and development of current projects and the identification and acquisition of quality mining and/or exploration projects.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

CORPORATE GOVERNANCE STATEMENT

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Executive Chairman or in his absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- a) a reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and
- b) the information is confidential; or
- c) one of the following applies:
 - It would breach a law or regulation to disclose the information;
 - The information concerns an incomplete proposal or negotiation;
 - The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
 - The information is generated for internal management purposes;
 - The information is a trade secret;
 - It would breach a material term of an agreement, to which the company is a party, to disclose the information;
 - It would harm the company's potential application or possible patent application; or
 - The information is scientific data that release of which may benefit the company's potential competitors.

The Executive Chairman is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders.

Mechanisms employed include:

- announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

CORPORATE GOVERNANCE STATEMENT

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. Risk Management

4.1 Identification of Risk

The Board is responsible for overseeing the Company's risk management and control framework.

Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Chairman having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Company.

4.2 Integrity of Financial Reporting

From the date the Company listed on the ASX, the Company's Managing Director and Chief Financial Officer (or equivalent) will report in writing to the Board that:

- the financial statements of the Company for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include annual performance appraisal meetings with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

CORPORATE GOVERNANCE STATEMENT

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components that reflect the person's responsibilities, duties and personal performance.

The remuneration of Non-executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

ASX Corporate Governance Council: Principles of Good Corporate Governance and Best Practice Recommendations

Council Principle 1:

Lay solid foundations for management and oversight

Council Recommendation 1.1:

Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

Council Principle 2:

Structure the board to add value

Council Recommendation 2.1:

A majority of the board should be independent directors.

The Board considers that Bryan Alexander is an independent director in accordance with Recommendation 2.1. Whilst the remainder of the Board are not independent, the Board believes that all the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2:

The chairperson should be an independent director.

The Company's Chairman, Andrew Bantock, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

CORPORATE GOVERNANCE STATEMENT

Council Recommendation 2.3:

The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Company complies with this recommendation.

Council Recommendation 2.4:

The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing directors to enable identification of attributes required in new directors. Where appropriate, independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Principle 3:

Promote ethical and responsible decision-making

Council Recommendation 3.1:

Establish a code of conduct to guide the directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity;

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2:

Disclose the policy concerning trading in company securities by directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

Council Principle 4:

Safeguard integrity in financial reporting

Council Recommendation 4.1:

Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company complies with this recommendation.

Council Recommendation 4.2:

The board should establish an audit committee.

The Board complies with this recommendation.

CORPORATE GOVERNANCE STATEMENT

Council Recommendation 4.3:

Structure the audit committee so that it consists of:

- only non-executive directors;
- a majority of independent directors;
- an independent chairperson, who is not chairperson of the board;
- at least three members.

Refer Recommendation 4.2.

Council Recommendation 4.4:

The audit committee should have a formal operating charter. Refer Recommendation 4.2.

Council Principle 5:

Make a timely and balanced disclosure

Council Recommendation 5.1:

Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

Council Principle 6:

Respect the rights of shareholders

Council Recommendation 6.1:

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2:

Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

Council Principle 7:

Recognise and manage risk

Council Recommendation 7.1:

The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2:

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state in writing that:

- 7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;
- 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

CORPORATE GOVERNANCE STATEMENT

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Principle 8:

Encourage enhanced performance

Council Recommendation 8.1:

Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

Council Principle 9:

Remunerate fairly and responsibly

Council Recommendation 9.1:

Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2

The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for directors and executives of the Company.

The Board acknowledges that this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate. Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3:

Clearly distinguish the structure of Non-executive directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4:

Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has in place an Employee and Consultant option plan. Any issue of options made to eligible participants is made in accordance with that plan.

Council Principle 10:

Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings

Substantial shareholders

The number of shares held by substantial shareholders and their associated interests as at 28 September 2006 were:

Shareholder	Number of ordinary shares held	Percentage of capital held %
Timothy R B Goyder	9,386,816	12.89
Resolute Limited	7,624,546	10.47

Class of Shares and Voting Rights

At 28 September 2006 there were 1,405 holders of the ordinary shares of the Company.

The voting rights to the ordinary shares set out in the Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or Classes of shares -

- a) at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney; and
- b) on a show of hands every person who is a member has one vote and on a poll every person in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options do not have voting rights.

Distribution of equity security holders as at 28 September 2006:

Category	Number of equity security holders	
	Ordinary shares	Unlisted share options
1 - 1,000	85	-
1,001 - 5,000	447	-
5,001 - 10,000	316	-
10,001 - 100,000	460	1
100,001 and over	97	7
Total	1,405	8

The number of shareholders holding less than a marketable parcel at 28 September 2006 was 474.

ASX ADDITIONAL INFORMATION

Twenty largest Ordinary Fully Paid Shareholders as at 28 September 2006		
Name	Number of ordinary shares held	Percentage of capital held %
Resolute Limited	7,624,546	10.47
Plato Prospecting Pty Ltd	5,027,226	6.91
Grimwood Davies Pty Ltd	3,321,584	4.56
ANZ Nominees Pty Ltd	2,475,958	3.40
Define Consulting Pty Ltd (The Define Consulting A/C)	2,391,772	3.29
Westpac Custodian Nominees Limited	1,943,344	2.67
Citicorp Nominees Pty Ltd (CFSIL Cwllth Boff Super)	1,682,841	2.31
National Nominees Limited	1,550,338	2.13
Mr Philip Scott Button & Ms Philippa Anne Nicol (Christopher Jordan A/C)	1,545,600	2.12
Tara Management Pty Ltd	1,232,012	1.69
Lost Ark Nominees Pty Limited (Tera Fam A/C)	1,200,000	1.65
Troy Resources NL	1,096,672	1.51
Darley Pty Limited	1,000,000	1.37
Mr Arnold Olschyna	1,000,000	1.37
Calm Holdings Pty Ltd (Tide A/C)	970,000	1.33
Raglan Pty Ltd	970,000	1.33
Fortis Clearing Nominees Pty Ltd (Settlement A/C)	944,240	1.30
Citicorp Nominees Pty Limited	899,016	1.23
Nefco Nominees Pty Ltd	892,004	1.23
Penally Management Limited	881,338	1.23
Total	38,648,491	53.08

