PRAIRIE DOWNS METALS LIMITED

ABN 23 008 677 852

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CORPORATE INFORMATION

Directors
Jeremy David Shervington (Non Executive Chairman)
Mark Christian Hansen (Managing Director)
Alec Christopher Pismiris

Company Secretary
Alec Christopher Pismiris

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Solicitor
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Bankers
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Perth WA 6000

Share Register
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PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

DIRECTORS' REPORT

Your directors submit their report of Prairie Downs Metals Limited ("Prairie" or "the Company") and its controlled entity ("Consolidated Group") for the year ended 30 June 2006 ('the Balance Date").

DIRECTORS

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

Names, qualifications, experience and responsibilities

Jeremy David Shervington B.Juris. LLB.
Non Executive Chairman

Mr Shervington operates a legal practice in Western Australia. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has almost 25 years experience as a lawyer, gained since his admission as a Barrister and Solicitor of the Supreme Court of Western Australia. Mr Shervington has since 1985 served as a director of various ASX listed companies as well as a number of unlisted public and private companies. Mr Shervington is a member of the Company's Audit and Compliance Committee.

During the past three years Mr Shervington has served as a director of the following other listed companies:

- Australian Zircon NL*
- Emerald Oil & Gas NL*
- Biron Apparel Limited*
- Western Uranium Limited*
- BioProspect Limited

* denotes current directorships

Mark Christian Hansen
Managing Director

Mr Hansen trained as a geologist and has over 25 years experience in the exploration and mining industry, both as an exploration and development geologist and as a consultant and independent expert. He has experience in project and corporate analysis, including employment as a mining analyst and adviser in the securities industry. He has 15 years experience as a director of listed companies in both Australia and Canada. He is currently a director of several unlisted public and private companies. Mr Hansen was appointed a director on 5 October 2005.

During the past three years Mr Hansen has served as a director of the following other listed company:

- Western Uranium Limited*

* denotes current directorship

Alec Christopher Pismiris B.Comm. AICSA.
Executive Director & Company Secretary

Mr Pismiris is currently an executive director of Capital Investment Partners Pty Ltd, a company which provides corporate advisory services. He is also the Company Secretary of several companies listed on ASX and company secretary of several public and private companies. Mr Pismiris completed a Bachelor of Commerce degree at the University of Western Australia and is an associate of Chartered Secretaries Australia. Mr Pismiris has over 20 years' experience in the securities, finance and mining industries.

During the past three years Mr Pismiris has served as a director of the following other listed companies:

- Sundance Resources Limited*
- Western Uranium Limited*

* denotes current directorship

DIRECTORS' REPORT (continued)

Adam Rankine-Wilson FAICD. ASIA.
Non Executive Director

Mr Rankine-Wilson has held directorships in numerous publicly listed companies. Over the past 15 years, Mr Rankine-Wilson has also been a director of several other private and public companies. He has extensive experience in the mining and investment industries, particularly in Western Australia. He has significant knowledge and understanding of the financial criteria and methodology used in assessing investment proposals. He has participated as a director in the negotiation and consummation of numerous and significant business acquisitions and the attendant finance raising and due diligence enquiries and processes. Mr Rankine-Wilson resigned as a director on 5 October 2005.

During the past three years Mr Rankine-Wilson has served as a director of the following other listed companies:

- Prairie Downs Metals Limited
- Grange Resources Limited
- Riversdale Mining Limited
- BMA Gold Limited

Geoffrey Ernest Lambert M.Ec. FAICD. ASIA.
Non Executive Director

Mr Lambert completed a Master of Economics degree in 1967 and has over 30 years' experience in investment banking. He joined Hambros Australia Ltd as Manager, Corporate Finance. In the early 1980's he established his own investment banking business then in the 1990's established Byrne Lambert Woolf & Co, an investment banking firm specialising in corporate finance and investment for small to medium sized companies. Mr Lambert has 25 years' experience as a director of public companies. Mr Lambert resigned as a director on 5 October 2005.

During the past three years Mr Lambert has served as a director of the following other listed companies:

- ICS Global Limited *
- Reward Minerals Limited *
- Wedgetail Exploration NL*
- Stratatel Limited *
- QMASTOR Limited
- Riversdale Mining Limited

* denotes current directorship

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this financial report, the interests of the directors in the shares and options of Prairie Downs Metals Limited were:

	Number of Ordinary Shares	Number of 20 Cent Options over Ordinary Shares	Number of 21.25 Cent Options over Ordinary Shares
J D Shervington	479,764	205,524	235,294
M C Hansen	7,120,000	1,780,000	-
A C Pismiris	264,484	103,527	235,294

DIVIDENDS

No dividends have been paid or declared since the start of the financial year and/or the directors do not recommend the payment of a dividend in respect of the financial year.

DIRECTORS' REPORT (continued)

CORPORATE INFORMATION

Corporate Structure

Prairie Downs Metals Limited is a company limited by shares that is incorporated and domiciled in Australia. Prairie Downs Metals Limited has prepared a consolidated financial annual report incorporating an entity that it controlled during the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Company throughout the financial year have been investment and consisted of the following:

- The acquisition of Mineral Investments Pty Ltd and its portfolio prospective base metal projects located within Western Australia including the Prairie Downs Zinc-Lead-Silver Project, Perenjori Copper-Gold-Zinc-Lead-Silver Project, Coppermine Bore Copper-Gold-Uranium Project and Longreach Well Zinc-Lead-Silver Project;
- Raising working capital pursuant to a Prospectus dated 15 August 2005;
- Conducting exploration activities on the Company's portfolio of base metals projects;
- Joint venturing the Coppermine Bore Project with Western Uranium Limited;
- Entering into an off-take and marketing agreement with Sempra Metals & Concentrates Corp;
- Establishment of an employee option plan;
- Investing cash assets in an interest bearing bank accounts; and
- The general administration of the Company.

Other than the acquisition of Mineral Investments Pty Ltd and subsequent minerals exploration activities there have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

GROUP OVERVIEW

In October 2005 the Company acquired a 100% interest in Mineral Investments Pty Ltd pursuant to the terms of a Heads of Agreement with Mineral Investments Pty Ltd and Mr Mark Hansen and Mr Glenn Styles. Mineral Investments Pty Ltd was the beneficial owner of a portfolio of prospective base metal projects located within Western Australia. Under the terms of the Heads of Agreement the parties agreed to the following:

- Consideration for the acquisition of the entire issued capital of Mineral Investments Pty Ltd, Prairie would issue 8.0 million shares and 2.0 million options exercisable at 25 cents on or before 31 May 2008 to Messrs Hansen and Styles;
- The Company undertaking a capital raising of $2.5 million by the issue of new shares at an issue price of 20 cents with one free attaching option for each share subscribed for, exercisable at 25 cents on or before 31 May 2008 (with the right to accept oversubscriptions to raise up to an additional $1.0 million) under a prospectus dated 15 August 2005;
- Implementation of a share consolidation in the ratio of 8.5 existing shares for 1 new share;
- The grant of one free option exercisable at 25 cents on or before 31 May 2008 for every three post consolidation shares held by shareholders of the Company;
- Reconstruction of the Board including the proposed appointment of Mr Hansen as Managing Director to oversee exploration and further assessment of the Prairie Downs Zinc-Lead Project and development of the Company's business activities; and
- Implement a change of name to "Prairie Downs Metals Limited".

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS AND HIGHLIGHTS

The Company lodged a Prospectus with ASX on 15 August 2005. Under the Prospectus, the Company made four separate offers including:

(i) A Round Up Offer to Prairie shareholders holding less than a minimum parcel of 10,000 shares on a post consolidation basis, to apply for such number of additional shares and equivalent number of options exercisable at 25 cents on or before 31 May 2008 to bring their shareholdings to at least 10,000 Shares.

(ii) A Priority Offer to Prairie shareholders to apply for additional shares and equivalent number of options exercisable at 25 cents on or before 31 May 2008 in parcels of at least 10,000 shares.

(iii) A Public Offer inviting public investors to subscribe shares on a post consolidation basis in the Company at an issue price of 20 cents each to raise up to $2,100,000 together with a free attaching option exercisable at 25 cents on or before 31 May 2008. The balance of any shares and equivalent number of options not applied for by shareholders under the Round Up and Priority Offers will form part of the Public Offer. The Company reserves the right to accept oversubscriptions pursuant to the Public Offer, of up to $1,000,000 through the issue of 5,000,000 Shares at an issue price of 20 cents per and equivalent number of options.

(iv) Bonus Option Offer to Prairie shareholders granting one free option exercisable at 25 cents on or before 31 May 2008 for every three post consolidation shares held.

At a general meeting of shareholders held on 12 September 2005, the Company received approval for the acquisition of a 100% interest in Mineral Investments Pty Ltd and its portfolio of base metals projects located within Western Australia. The following resolutions put to shareholders at the meeting were passed:

- Implementation of a share consolidation in the ratio of 8.5 existing shares for 1 new share;
- The allotment and issue of 8,000,000 Shares and 2,000,000 Options to the vendors of Mineral Investments Pty Ltd which included Mr Hansen;
- The allotment and issue of up to a maximum of 17.5 million Shares together with 17.5 million free attaching Options pursuant to a Prospectus dated 15 August 2005;
- The allotment and issue of 750,000 Shares and 750,000 free attaching Options to directors pursuant to the Prospectus dated 15 August 2005; and
- The name of the Company be changed to "Prairie Downs Metals Limited".

On 21 October 2005 Prairie was reinstated to official quotation on the Australian Stock Exchange Limited. The Company's issued capital consisted of 34.47 million shares, 941,176 options are exercisable at 21.25c on or before 31 December 2006 and 22.47 million options exercisable at 25c on or before 31 May 2008.

During the quarter ended September 2005, exploration commenced on three projects including the Prairie Downs Zinc-Lead-Silver Project, Coppermine Bore Copper-Gold-Uranium Project and Longreach Well Zinc-Lead-Silver Project, with most work and expenditure focused on research, database construction, data acquisition, drilling and geophysics. An initial RC drill program at the Prairie Downs zinc-lead project comprising of 22 holes for 3,100 metres was completed in October 2005 at Zone 1. The program was designed to confirm previous results, infill around previous drill holes and explore for extensions to mineralisation along strike.

In December 2005 the Company announced commencement of a second drilling program on the Prairie Downs zinc-lead project designed to confirm the geological model, explore for extensions to known mineralisation along strike and down dip and commence testing geophysical targets. The first drill program undertaken in October 2005 showed that the inferred resource at Zone 1 remained open at depth and along strike.

In March 2006 the Company announced an upgraded resource of 820,000 tonnes at 6.8% zinc, 1.7% lead and 17g/t silver for the Main Lode, including an indicated resource of 300,000 tonnes at 8.4% zinc, 1.5% lead and 17g/t silver. The upgraded resource was of higher tonnage, lower grade and similar metal content to the previous inferred resource.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS AND HIGHLIGHTS (continued)

On 4 May 2006 the Company announced its intention to joint venture the Coppermine Bore Copper-Gold-Uranium Project with Western Uranium Limited a company that planned to seek official quotation on the Australian Stock Exchange Limited in conjunction with a $2.5 million capital raising. Under the terms of the joint venture Western Uranium could earn up a 50% interest in the project through expenditure of $1.0 million, and a further 25% through a further $2.0 million expenditure.

On 5 June 2006 the Company announced it has accepted an proposal from Sempra Metals & Concentrates Corp ("Sempra") whereby Sempra agreed to invest $2.0 million in the Company, as well as enter into an off-take and marketing agreement for the purchase of all base metal concentrate production from the Prairie Downs Zinc Project. Sempra's investment was by way of share placement at a minimum price of 60 cents. Sempra could also invest a further $6.0 million in the Company by way of convertible notes, conditional on the Company achieving certain milestones.

On 6 June 2006 the Company announced completion of a highly successful drilling program at the Prairie Downs Zinc Project. The results indicated the potential for a substantial increase in grade and tonnage, for the resource at the Main Lode. The program also intersected a new lode, the East Lode, which showed excellent grades and provided further potential to significantly increase tonnage at the Project.

On 6 June 2006 the Company announced its intention to establish an Employee Option Plan ("Plan"). The objective of the plan was to provide current and future employees the opportunity to share in the benefits of the potential development of the Prairie Downs zinc-lead project.

MINING AND EXPLORATION HIGHLIGHTS

Prairie Downs Zinc-Lead-Silver Project

The initial focus of RC drilling at Prairie Downs during the year has been the Main, East and Gabbro Lodes which host a total resource of one million tonnes at a grade of 8.3% zinc, 1.7% lead and 22g/t silver. All lodes remain open, both at depth and along strike, and there is also strong geological evidence to suggest that there will be repetitions of the Main Lode at depth. The initial objective of ongoing drilling is to increase this resource to two million tonnes at a similar grade with a view to develop a zinc mining operation at the earliest opportunity.

Exploration during the year included drilling, mapping and rock chip sampling, digitising and processing of soil sample results and geophysical modelling and interpretation. This work has greatly improved the Company's understanding of the geology and substantially enhanced the exploration potential.

The results of metallurgical testwork are excellent and indicate that the Company should have no difficulty producing high quality zinc and lead concentrates for sale to end users. The flotation tests show good concentrate grades, high recovery and fast process time. Zinc recovery was 94% and lead recovery 84%.

A preliminary scoping study shows that an operation processing 250,000 tonnes per annum for a mine life of 5 to 6 years is an appropriate minimum target for development. The project is more sensitive to the zinc price and the zinc grade than other variables. Production costs are evenly spread between on and off site costs. On site costs include mining and treatment, off site costs include shipping and smelter charges. The expected payback period for capital expenditure would be one to two years, depending upon price and grade.

The next RC drill program is expected to commence in October 2006. A diamond drilling program is also expected to commence in December. In addition to the Main, East and Gabbro Lodes RC drilling will also commence testing a number of recently defined geophysical anomalies that have not previously been drilled. A gravity survey is also planned to assist in drill targeting.

DIRECTORS' REPORT (continued)

Perenjori Copper-Gold-Zinc-Lead-Silver Project

The Perenjori project covers a 2km long gossan anomalous in base metals and gold. Drilling by previous explorers is wide spaced and shallow and most anomalous intercepts are open down dip and down plunge. Separate zones of copper, zinc-lead and gold have been intersected.

A digital database was constructed during the year and an initial drill programme designed to test a zone of copper mineralisation. Previous shallow drilling beneath an outcropping gossan intersected a best result of 5 metres @ 1.9% copper & 18g/t silver from a vertical depth of 32 metres. The copper mineralisation has been intersected over a strike length in excess of 400 metres and remains open along strike. This first RC drill program at Perenjori is planned for the September 2006 quarter.

Coppermine Bore Copper-Gold-Uranium Project

This project is joint ventured with Western Uranium Limited, an ASX listed company. Western Uranium has the right to earn a 50% interest in the Coppermine Bore Project through expenditure of $1 million, and a further 25% through a further $2 million expenditure. In that event, Prairie Downs Metals' 25% interest will be free carried through to a decision to mine.

Coppermine Bore was historically mined for copper and was drilled for uranium in 1977, returning best results of 3m @ 2.5% Cu, 9g/t Ag, 120ppm U & 2m @1.43% Cu, 4.5g/t Ag, 62ppm U (no gold assays). Rock chip sampling at Coppermine Bore in 1977, 1996 and 2005 returned strongly anomalous values in copper, gold, uranium, silver, cerium, lanthanum and lead. This is a very unusual suite of elements and shows a remarkable correlation with the suite of elements at Olympic Dam. Olympic Dam is the world's largest copper-gold-uranium-silver-rare earth element ("REE") deposit with ore reserves at 31 December 2004 of 761 million tonnes at 1.5 per cent copper, 0.6 kg/tonne (600ppm) uranium and 0.5 g/tonne gold.

Interpretation of airborne magnetic and radiometric data has lead to the definition of 15 targets prospective for uranium. A heritage survey has been completed over the most prospective targets and the radiation management plan has been approved. A geological mapping program is nearing completion and recommendations from this program will be important in refining drill targeting. The first drill program is expected to commence in the December quarter.

Longreach Well Zinc-Lead-Silver Project

Longreach Well is located 200 kilometres northeast of Carnarvon in Western Australia. Geophysical interpretation of an airborne magnetic survey completed during the March quarter has identified a number of targets potentially prospective for Mississippi Valley-type zinc mineralisation. These targets, along with conceptually developed structural targets, will be reviewed during the September 2006 quarter.

Tenement Schedule
31 August 2006

Prospect	Tenement	Interest
Prairie Downs	E52/1758	100%
Prairie Downs	E52/1926	100%
Perenjori	E59/1144	100%
Coppermine Bore	E08/1436	100% [1]
Longreach Well	E09/1154	100%
Longreach Well	E52/1262	100%

Notes:
1. Subject to joint venture agreement with Western Uranium Limited.

DIRECTORS' REPORT (continued)

OPERATING RESULTS FOR THE YEAR

The Company recorded a consolidated operating loss $834,974 for the financial year ended 30 June 2006 compared to an operating loss of $196,212 in the previous financial year. The increase in the operating loss over the financial year was attributable to the commencement of operations associated with exploration activities conducted on the Company's portfolio of base metals projects and the general administration of the Company.

Prairie had consolidated net assets of $6,810,961 at the end of the financial year, consisting largely of the following:

- $3,300,261 held in cash assets including a cash backed security deposit;
- $154,980 being receivables;
- Plant and equipment of $253,858;
- $3,612,348 representing the value attributable to capitalised exploration and evaluation associated with the Prairie Downs Zinc-Lead-Silver Project, Perenjori Copper-Gold-Zinc-Lead-Silver Project, Coppermine Bore Copper-Gold-Uranium Project and Longreach Well Zinc-Lead-Silver Project; and
- $460,958 being payables largely associated with exploration and evaluation activities.

The Company's cash reserves increased by $2,620,562 during the financial year, reflecting a deficit from operations of $1,050,743, a deficit of $1,767,812 from investing activities and a surplus from financing activities of $5,439,117.

REVIEW OF FINANCIAL CONDITION

Liquidity and Capital Resources

The consolidated cash flow statement illustrates an increase in cash and cash equivalents in the year ended 30 June 2006 of $2,620,562 (2005: decrease $223,831). The significant increase in cash inflow in comparison with the prior period was attributable to an increase in cash in-flows from financing activities due to completion of the capital raising pursuant to the Prospectus dated 15 August 2005 and share placement to Sempra Metals & Concentrates Corp. The cash out-flow from investing activities of $1,767,812 (2005: cash in-flow $42,425) consisted largely of expenditure related to exploration and evaluation of the Company's mining projects and acquisitions of plant and equipment.

The Company has agreed to a proposal that would allow Sempra Metals & Concentrates Corp to invest a further $6.0 million in the Company by way of convertible notes, conditional on the Company achieving certain milestones.

The Company has sufficient funds to finance its current operations.

Share Issues During the Year

The acquisition of Mineral Investments Pty Ltd was funded by the issue of 8,000,000 shares at a price of 20 cents per share.

The Company issued 17,500,000 shares at an issue price of 20 cents pursuant to the offers made under the Prospectus dated 15 August 2005.

During the financial year ended 30 June 2006 the Company issued 806,494 shares pursuant to the exercise of 25 cent options.

The Company issued 3,333,333 shares at an issue price of 60 cents pursuant to a share placement to Sempra Metals & Concentrates Corp.

DIRECTORS' REPORT (continued)

RISK MANAGEMENT

The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. All directors are part of this process, and as such the Board has not established a separate risk management committee.

SIGNIFICANT CHANGES IN THE STATE OF THE AFFAIRS

The following significant changes in the state of affairs of the Company occurred during the year:

- The issue of 8,000,000 fully paid shares in the company at 20 cents each pursuant to the acquisition of Mineral Investments Pty Ltd;
- The issue of 17,500,000 fully paid shares in the company at 20 cents each pursuant to offers made under the Prospectus dated 15 August 2005;
- The issue of 806,494 fully paid shares in the company at 25 cents each pursuant to the exercise of 25 cent options;
- The issue of 3,333,333 fully paid shares in the company at an issue price of 60 cents pursuant to a share placement;
- Incurring capital raising expenses $262,506; and
- The consolidated operating loss from ordinary activities of $834,974.

The directors are not aware of any other significant changes in the state of affairs that occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The directors are not aware of any other matters or circumstances at the date of this report, other than those referred to in this report or financial statements that have significantly affected or may significantly affect:

- The Company's operations;
- The results of those operations; or
- The state of affairs of the Company;

in subsequent financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Western Uranium Limited lodged a Prospectus with ASIC on 25 July 2006 offering 12,500,000 shares at 20 cents each together with two free attaching options for every three shares offered to raise $2,500,000 with capacity to accept oversubscriptions of up to a further 2,500,000 shares at 20 cents each together with two free attaching options for every three shares offered to raise an additional $500,000 to ensure a minimum spread of shareholders. Western Uranium's capital raising comprised of a priority offer to Prairie shareholders in conjunction with a public offer. The offer details are:

- A priority offer to Prairie Downs shareholders of up to 7,500,000 shares and up to 5,000,000 free attaching options; and
- A public offer for a total (depending on the level of application for the priority offer) of up to 12,500,000 shares and up to 8,333,333 free attaching options.

The priority and public offers closed oversubscribed on 17 August 2006.

Prairie has entered into a joint venture agreement with Western Uranium, whereby Western Uranium has the right to earn a 50% interest in the Coppermine Bore Project from Prairie through the expenditure of $1 million on the Project, and a further 25% interest through additional expenditure on the Project of $2 million. Prairie's 25% interest in the Project will be free carried through to a decision to mine.

DIRECTORS' REPORT (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS (continued)

The Company will continue exploration and evaluation of Prairie Downs Zinc-Lead-Silver Project, Perenjori Copper-Gold-Zinc-Lead-Silver Project, Longreach Well Zinc-Lead-Silver Project and through its joint venture the Coppermine Bore Copper-Gold-Uranium Project.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The exploration tenements held by the Consolidated Entity contain environmental requirements and conditions that the entities must comply with in the course of normal operations. There have been no significant known breaches of the Consolidated Entity's environmental regulations.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Consolidated Entity has paid premiums totalling $18,949 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all directors and officers of the Consolidated Entity. The policy conditions preclude the Consolidated Entity from any detailed disclosures.

SHARE OPTIONS

Refer to additional ASX information for details on options outstanding at the date of this report.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Prairie Downs Metals Limited.

Remuneration philosophy

The performance of the Company largely depends upon the quality of its directors and executives. To prosper the Company must be able to attract, motivate and retain directors and executives with the appropriate skills. To achieve this, the Company adheres to the following principles in formulating its remuneration framework:
- Provide competitive rewards to attract executives;
- Link executive rewards to shareholder value creation; and
- Establish appropriate performance hurdles in relation to variable executive remuneration.

Remuneration committee

The Board has elected not to appoint a Remuneration Committee due to the scale of the Company's activities.

The Board of Prairie assumes responsibility for assessing the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

DIRECTORS' REPORT (continued)

Non-executive director remuneration (continued)

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a reasonable cost to shareholders.

Structure

The Constitution specifies that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external sources as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director is entitled to receive a fee for being a director of the Company and may receive an additional fee for serving on committees of the Board.

Non-executive directors are encouraged to hold shares in the Company (acquired by the director on terms comparable to shareholders). It is considered good governance for directors to have a stake in the Company which they have Board membership. The non-executive directors are also entitled to participate in director and executive incentive plans where certain criteria are met.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level of remuneration commensurate with their position and responsibilities within the Company that:

- Reward executives for company and individual performance against appropriate benchmarks;
- Align the interests of the executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure remuneration is comparable to market standards.

In determining executive remuneration, the Board considers advice from external independent sources as well as fees paid for comparable executive when undertaking the review process.

It is the preferred policy of the Board to enter into employment agreements with senior executives.

Remuneration of executives consists of the following key elements:

- fixed remuneration; and
- variable remuneration.

Fixed Remuneration

The level of fixed remuneration is set to provide a level of remuneration that is appropriate to the position and is competitive in the market. The fixed remuneration is reviewed annually by the Board with a review of individual performance, comparative remuneration in the market and external advice where appropriate.

DIRECTORS' REPORT (continued)

Variable Remuneration

The objective of variable remuneration will be to reward executives in a manner that aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration is made to executives who can influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Variable remuneration to executives is delivered by the grant of options under the Employee Option Plan established during the financial year. During the financial year there were no options granted under the Employee Option Plan. Subsequent to the Balance Date 300,000 options were granted to Mr David Broomfield under the Employee Option Plan.

Managing Director
The Company has entered into an Employment Services Agreement with Market Capital Pty Ltd setting out the terms for engaging Mr Hansen to provide services in the capacity as the Company's Managing Director.

The Employment Services Agreement which commenced on 1 May 2005 was for a minimum term of one year and subsequently extended for a further year. The Company has the right to terminate the Employment Services Agreement without notice on the grounds of misconduct with the termination payment payable up to the date of termination.

Mr Hansen is employed on a full time basis and must perform the duties and exercise the powers as determined from time to time by the Board. In particular, Mr Hansen's duties include the day to day management of the Company, negotiating joint venture and other arrangements with third parties, advising the Board on the strategic direction of the Company, assessing new opportunities and risks and monitoring the operating performance of the Company.

Mr Hansen may be paid bonuses at the discretion of the Board from time to time and reimbursed for certain expenses, provided they have been properly incurred.
Mr Hansen is eligible to participate in the Employee Option Plan established during the financial year.

In the event the Company terminates the Employment Services Agreement immediately on grounds of misconduct, a fee is payable for the period up to the date of dismissal only .

DIRECTORS' REPORT (continued)

Remuneration of directors and named executive

Table 1: Director remuneration for the year ended 30 June 2006

	Short Term			**Post Employment**			**Share Based Payment**	**Other**	**Total**	**% perform-ance related**
	Salary & Fees	Cash bonus	Non cash benefit	Super'n	Retire-ment	Long term incentive plans	Options	Fees		
	$	$	$	$	$	$	$	$	$	
J D Shervington										
2006	**50,505**	**-**	**-**	**495**	**-**	**-**	**-**	**-**	**51,000**	**-**
2005	22,018	-	-	1,982	-	-	-	-	24,000	-
M C Hansen**										
2006	**252,390**	**-**	**-**	**2,393**	**-**	**-**	**-**	**-**	**254,783**	**-**
2005	-	-	-	-	-	-	-	-	-	-
A C Pismiris										
2006	**75,300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75,300**	**-**
2005	34,500	-	-	-	-	-	-	-	34,500	-
G E Lambert*										
2006	**5,505**	**-**	**-**	**495**	**-**	**-**	**-**	**-**	**6,000**	**-**
2005	22,018	-	-	1,982	-	-	34,500	-	58,500	-
A Rankine-Wilson*										
2006	**5,505**	**-**	**-**	**495**	**-**	**-**	**-**	**-**	**6,000**	**-**
2005	22,018	-	-	1,982	-	-	-	-	24,000	-

* Resigned 5 October 2005
** Appointed 5 October 2005

Note: The Consolidated Entity has paid premiums totaling $18,949 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all directors and officers of the Consolidated Entity. The premium paid cannot be allocated to the individual directors and officers.

Table 2: Remuneration of the named executive for the year ended 30 June 2006

	Short Term			**Post Employment**			**Share Based Payment**	**Other**	**Total**	**% perform-ance related**
	Salary & Fees	Cash bonus	Non cash benefit	Super'n	Retire-ment	Long term incentive plans	Options	Fees		
	$	$	$	$	$	$	$	$	$	
D Broomfield										
2006	**64,719**	**-**	**-**	**5,825**	**-**	**-**	**-**	**-**	**70,544**	**-**
2005	-	-	-	-	-	-	-	-	-	-

DIRECTORS' REPORT (continued)

During the financial year the Company's affairs were managed by the directors and company secretary. Therefore the Company did not require the services of any other officers.

Options granted as part of remuneration for the year ended 30 June 2006

During the financial year ended 30 June 2006 there were no options issued as part of remuneration.

Other transactions and balances with key management personnel

(i) During the financial year fees of $222,805 (2005: Nil) exclusive of GST were paid and accrued under normal terms and conditions to Market Capital Group Pty Ltd, of which Mr M C Hansen was a partner, for the provision of services at normal commercial rates.

(ii) During the financial year fees of $42,300 (2005: $10,500) exclusive of GST were accrued under normal terms and conditions to Lexcon Services Pty Ltd and Capital Investment Partners Pty Ltd, of which Mr A C Pismiris is a director and shareholder, for the provision of company secretarial services at commercial rates.

(iii) During the financial year fees of $40,000 (2005: Nil) exclusive of GST were accrued under normal terms and conditions to Capital Investment Partners Pty Ltd, of which Mr A C Pismiris is a director and shareholder, for the provision of corporate advisory services at commercial rates.

MEETINGS OF DIRECTORS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Meetings of Committees Audit & Compliance
Number of meetings held:	7	1
Number of meetings attended:		
M C Hansen	5	-
G E Lambert	-	-
A C Pismiris	7	1
A Rankine-Wilson	-	-
J D Shervington	7	1

All directors were eligible to attend all meetings expect for Mr Hansen who was eligible to attend 5 directors' meetings and Messrs Lambert and Rankine-Wilson who were eligible to attend 2 Directors' meetings.

Committee Membership

As at the date of this report the Company has an Audit & Compliance Committee with Mr Pismiris (Chairman) and Mr Shervington acting as members throughout the financial year.

Other directors may attend meetings of the Audit and Compliance Committee at the invitation of the Chairman. The details of the functions and membership of the Audit and Compliance Committee of the Board are included in the Statement of Corporate Governance Practices.

DIRECTORS' REPORT (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 15 and forms part of this directors' report for the year ended 30 June 2006.

NON-AUDIT SERVICES

The following non-audit services were provided by our auditors, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Taxation Services	\$4,630
Corporate Advisory Services	\$6,000

This report is made out on the 28th day of September 2006 in accordance with a resolution of the directors.

Jeremy David Shervington
Chairman

Dated this 28th day of September 2006
Perth, Western Australia

ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

Auditor's Independence Declaration to the Directors of Prairie Down Metals Limited

In relation to our audit of the financial report of Prairie Down Metals Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
28 September 2006

VT:HG:PRAIRIEDOWNS:006

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the corporate governance of the Company. The Board guides and monitors the business activities and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement is structured with reference to the Australian Stock Exchange Corporate Governance Council's ("Council") "Principles of Good Corporate Governance and Best Practice Recommendations". In accordance with the recommendations of the Council, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Prairie's Corporate Governance Statement has been structured with reference to the Council's principles and recommendations. The following is a summary of Prairie's adherence to the Council's principles and recommendations:

Principle 1. Lay the foundations for management and oversight
Prairie complies with this recommendation.

Principle 2. Structure the Board to add value
Prairie complies with this recommendation.

Principle 3. Promote ethical and responsible decision making
Prairie complies with this recommendation.

Principle 4. Safeguard integrity in financial reporting
Prairie does not comply with this recommendation of having at least three non-executive directors on the Audit Committee. Prairie is a small company with limited resources, that does not have an operating business. Prairie's Audit and Compliance Committee is comprised of an executive director and non executive director.

Principle 5. Make timely and balanced disclosure
Prairie complies with this recommendation.

Principle 6. Respect the rights of shareholders
Prairie complies with this recommendation.

Principle 7. Recognise and manage risk
Prairie complies with this recommendation.

Principle 8. Encourage enhanced performance
Prairie complies with this recommendation.

Principle 9. Remunerate fairly and responsibly
Prairie complies with this recommendation except for the proposed grant of options to a non-executive director. Approval for the grant of options will be sought at the annual general meeting to be held in November 2006. The objective of granting options is to ensure maximum stakeholder benefit is achieved from the retention of a high quality Board and to provide incentive to directors identify new commercial opportunities for the Company.

Principle 10. Recognise the legitimate interests of stakeholders
Prairie complies with this recommendation.

The Prairie Corporate Governance Policies and Procedures are largely consistent with the Council's best practice recommendations. The process to achieve consistency with the Council's recommendations are gradual and where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the scale and nature of the Company's operations.

CORPORATE GOVERNANCE STATEMENT (continued)

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered.

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	Not Applicable
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Securities Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by Company Secretary	1.4.11
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8 and 4
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8 and 4
Recommendation 7.1 Policies on Risk Oversight and Management	2.1
Recommendation 7.2 Attestations by Company Secretary	1.4.11
Recommendation 7.3 Reporting on Principle 7	2.1
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2
Recommendation 9.5 Reporting on Principle 9	2.2
Recommendation 10.1 Company Code of Conduct	2.5

CORPORATE GOVERNANCE STATEMENT (continued)

1. Board of Directors

1.1 Role of the Board

The Board's current role is to collectively govern and manage the Company. The Directors must act in the best interests of the Company as a whole. It is the role of the Board to govern and manage the Company in accordance with the stated objectives of the Company.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors in the performance of their roles.

1.2 Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the directors and their qualifications and experience are stated on page one of the Director's Report. Directors are appointed based on their experience and on the independence of their decision-making and judgment.

The Company's Constitution provides for the appointment of a minimum number of directors as three and up to a maximum of seven. Currently the Company has four directors comprising two executive directors. The Constitution does not require a shareholding qualification for directors.

The Company recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer. Mr Shervington is a Non-Executive Director and meets the following criteria for independence adopted by the Company.
An independent director:

- Is a non-executive director and:
- Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr Hansen holds the position of Managing Director and is responsible for management of the Company, negotiating joint venture and other arrangements with third parties, advising the Board on the strategic direction of the Company, assessing new opportunities and risks and monitoring the operating performance of the Company and therefore does not meet the Company's criteria for independence.

Mr Pismiris is an executive director and also holds the position of Company Secretary. Mr Pismiris is responsible for the overall administration and financial management of the Company and therefore does not meet the Company's criteria for independence.

CORPORATE GOVERNANCE STATEMENT (continued)

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

(i) Leadership of the organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
(ii) Strategy formulation: working to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
(iii) Overseeing planning activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.
(iv) Shareholder liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
(v) Monitoring, compliance and risk management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
(vi) Company finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
(vii) Human resources: appointing, and, where appropriate, removing the Managing Director/Chief Executive Officer and Chief Financial Officer as well as reviewing their performance and monitoring the performance of senior management in their implementation of the Company's strategy.
(viii) Ensuring the health, safety and well-being of employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
(ix) Delegation of authority: where appropriate delegating appropriate powers to the Company's executives to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of any Committees of the Board.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company and if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

CORPORATE GOVERNANCE STATEMENT (continued)

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:
- Concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company is able to publish the information in accordance with this policy.

1.4.5 Education and Induction

New Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:
- Details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- Formal policies on Director appointment as well as conduct and contribution expectations;
- Details of all relevant legal requirements;
- A copy of the Board Charter;
- Guidelines on how the Board processes function;
- Details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- Background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- An analysis of the Company;
- A synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- A copy of the Constitution of the Company.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

CORPORATE GOVERNANCE STATEMENT (continued)

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

(i) Communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
(ii) Giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
(iii) Making it easy for shareholders to participate in general meetings of the Company; and
(iv) Requesting 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 also makes available a telephone number and for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

The Company has a Share Trading Policy under which Directors are required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. Consideration will be given in these discussions to any special circumstances (eg financial hardship).

Directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

The following guidelines are to be observed by Directors and employees of Prairie:

- Securities may be purchased or sold during the two week period immediately following the release of Prairie's, half-yearly and final results ("results announcements") (subject to observing the additional approval requirements set out below).
- Securities should not be purchased or sold during the two week period preceding any results announcements.
- Securities should not be purchased or sold preceding any material ASX announcement by Prairie, if the employee is aware that it is likely that such an announcement will be made.
- Securities should not be purchased or sold for the purpose of short term speculation.
- Securities may be purchased or sold at other times (subject to additional disclosure requirements established by the Board).

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

1.4.10 Performance Review/Evaluation

The Board intends to conduct an evaluation of its performance annually. There was no evaluation conducted during the financial year.

CORPORATE GOVERNANCE STATEMENT (continued)

1.4.11 Attestations by Company Secretary

In accordance with the Board's policy, the Company Secretary is required to make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing this Annual Report.

2. Board Committees

2.1 Audit & Compliance Committee

The Board has adopted an audit and compliance committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company to deal with the effectiveness and efficiency of business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of the internal control framework and ethical standards to the audit and compliance committee. The committee's responsibilities include the following:

- Oversee and appraise the independence, quality and extent of the total audit effort;
- Perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- Evaluate the adequacy and effectiveness of the Company's and the Group's risk management and financial control, and other internal control systems and evaluate the operation thereof; and
- Review and endorse the annual and half year attestation statements in accordance with regulatory requirements.
- The appointment of external auditors.
- Review and implement risk management and internal control structures appropriate to the needs of Prairie.
- Monitor compliance issues applicable laws and regulations, particularly compliance with the Stock Exchange Listing Rules;
- Review all public releases to the ASX of material consequence, prior to release to the market; and
- Review of Corporate Governance Practices.

The members of the audit and compliance committee since its inception were Messrs A C Pismiris J D Shervington. There was one meeting held during the financial year.

The qualifications of audit and compliance committee members are as follows:
Alec Christopher Pismiris (B.Comm, AICSA.) is Chairman of the audit and compliance committee and has significant experience in the management and administration of Prairie Downs Metals Limited since his appointment as a director and company secretary in October 2002. He is also a director and company secretary of a number of public companies where as part of his role, he serves as Financial Controller. Mr Pismiris is an Associate of the Chartered Secretaries & Administrators. He is chairman of the audit and compliance committee.

Jeremy David Shervington (B.Juris. LLB.) has been a practicing lawyer for 25 years and has extensive experience in the area of corporate law. He is also a director of a number of public companies where as part of his role, he serves as a member of audit committee.

2.2 Remuneration Committee

The Directors have elected not to appoint a Remuneration Committee due to the scale and nature of the Company's activities.

CORPORATE GOVERNANCE STATEMENT (continued)

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating directors fairly and appropriately with reference to relevant market conditions. To assist in achieving this objective, the Board attempts to link the nature and amount of directors' emoluments to the Company's performance. The outcome of the remuneration structure is:

- Reward executives for company and individual performance against appropriate benchmarks;
- Align the interests of the executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure remuneration is comparable to market standards.

For details of the amount of remuneration and all monetary and non-monetary components for each of the directors during the financial year, refer to page 12 of the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to directors.

For further information in relation to the remuneration of Directors, refer to the Directors' Report.

2.3 Nomination Committee

The Directors have elected not to appoint a Nomination Committee due to the scale and nature of the Company's activities.

Subject to the provision of the Company's Constitution, the issues of Board composition and selection criteria for directors are dealt with by the full Board. The Board continues to have the mix of skills and experience necessary for the conduct of the Company's activities.

The Constitution provides for events whereby directors may be removed from the Board. Similarly shareholders have the ability to nominate, appoint and remove directors. In addition, the Constitution provides for the regular rotation of directors which ensures that directors seek re-election by shareholders at least once every three years.

Given these existing regulatory requirements, directors are not appointed for a specified term and directors' continuity of service is in the hands of shareholders.

2.4 Company Code Of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This Code includes the following:

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment Practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

CORPORATE GOVERNANCE STATEMENT (continued)

Obligations Relative to Fair Trading and Dealing
The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages it employees to strive to do the same.
Responsibilities to the Community
As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs.
Responsibility to the Individual
The Company is committed to keeping private information collected during the course of its activities, confidential and protected from uses other than those for which it was provided.
Conflicts of Interest
Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.
How the Company Complies with Legislation Affecting its Operations
Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.
How the Company Monitors and Ensures Compliance with its Code
The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

2.5 Company Code Of Conduct

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The Annual Financial Report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the annual report includes relevant information about the operations of the Company during the financial year, changes in the state of affairs of the Company and details of future developments, in addition to other disclosures required by the Corporations Act 2001;
- Release of a Half-Yearly Report to the Australian Stock Exchange Limited; and
- Proposed major changes in the economic entity which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Shareholders are responsible for voting on appointment of directors, appointment of auditors, level of remuneration of Non-Executive Directors and any matters of special business.

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
CONTINUING OPERATIONS					
Revenue	4(a)	**122,392**	41,522	**122,392**	41,522
Other Income	4(b)	**8,014**	9,280	**8,014**	9,280
Accounting and registry fees		**(55,639)**	(9,889)	**(55,639)**	(9,889)
ASX listing fees		**(68,135)**	(25,402)	**(68,135)**	(25,402)
Consultants expenses	4(c)	**(234,426)**	(39,804)	**(234,426)**	(39,804)
Depreciation expense	4(d)	**(18,807)**	-	**(18,807)**	-
Directors' fees		**(124,098)**	(90,055)	**(124,098)**	(90,055)
Directors' superannuation		**(3,879)**	-	**(3,879)**	-
Employee expenses	4(f)	**(133,572)**	-	**(133,572)**	-
Employee superannuation	4(f)	**(6,337)**	(5,945)	**(6,337)**	(5,945)
Legal expenses		**(6,123)**	(40,197)	**(6,123)**	(40,197)
Office accommodation expenses		**(33,248)**	-	**(33,248)**	-
Public relations expenses		**(48,710)**	-	**(48,710)**	-
Travel and accommodation		**(62,674)**	-	**(62,674)**	-
Other expenses from ordinary activities		**(169,733)**	(35,722)	**(169,521)**	(35,722)
LOSS BEFORE INCOME TAX EXPENSE		**(834,975)**	(196,212)	**(834,763)**	(196,212)
Income tax expense	5	**-**	-	**-**	-
LOSS AFTER TAX FROM CONTINUING OPERATIONS		**(834, 974)**	(196,212)	**(834,762)**	(196,212)
NET LOSS FOR THE PERIOD		**(834, 974)**	(196,212)	**(834,762)**	(196,212)
LOSS ATTRIBUTABLE TO MEMBERS OF PARENT	15	**(834, 974)**	(196,212)	**(834,762)**	(196,212)
BASIC EARNINGS PER SHARE	6	**(2.97 cents)**	(2.19 cents)		
DILUTED EARNINGS PER SHARE	6	**(2.97 cents)**	(2.19 cents)		

The above Income Statement is to be read in conjunction with the accompanying notes to the financial statements.

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
CURRENT ASSETS					
Cash and cash equivalents	7	**3,300,261**	679,699	**3,300,161**	679,699
Trade and other receivables	8	**154,980**	3,922	**154,980**	3,922
Prepayments		**11,362**	-	**11,362**	-
TOTAL CURRENT ASSETS		**3,466,603**	683,621	**3,466,503**	683,621
NON-CURRENT ASSETS					
Plant & equipment	10	**253,858**	-	**253,858**	-
Trade and other receivables	8	**10,710**	-	**1,938,370**	-
Investment in controlled entity	9	**-**	-	**1,685,000**	-
Exploration & evaluation	11	**3,612,348**	-	**-**	-
TOTAL NON-CURRENT ASSETS		**3,876,916**	-	**3,877,228**	-
TOTAL ASSETS		**7,343,519**	683,621	**7,343,731**	683,621
CURRENT LIABILITIES					
Trade and other payables	13	**290,958**	69,802	**290,958**	69,802
Accrued Expenses	13	**236,000**	7,000	**236,000**	7,000
Provisions	14	**5,600**	-	**5,600**	-
TOTAL CURRENT LIABILITIES		**532,558**	76,802	**532,558**	76,802
TOTAL LIABILITIES		**532,558**	76,802	**532,558**	76,802
NET ASSETS		**6,810,961**	606,819	**6,811,173**	606,819
EQUITY					
Contributed equity	15	**8,159,399**	1,120,282	**8,159,399**	1,120,282
Accumulated losses	15	**(1,348,438)**	(513,463)	**(1,348,226)**	(513,463)
TOTAL EQUITY		**6,810,961**	606,819	**6,811,173**	606,819

The above Balance Sheet is to be read in conjunction with the accompanying notes to the financial statements.

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Other income		**14**	-	**14**	-
Payments to suppliers and employees		**(1,050,758)**	(228,120)	**(1,050,546)**	(228,120)
NET CASH USED IN OPERATING ACTIVITIES	7	**(1,050,744)**	(228,120)	**(1,050,532)**	(228,120)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		**108,575**	42,425	**108,575**	42,425
Payments for exploration & evaluation		**(1,603,822)**	-	**(1,604,033)**	-
Purchase of plant & equipment		**(272,665)**	-	**(272,665)**	-
Cash balance resulting from acquisition of Mineral Investments Pty Ltd		**100**	-	**-**	-
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**(1,767,812)**	42,425	**(1,768,123)**	42,425
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		**5,701,623**	-	**5,701,623**	-
Transaction costs of issue of shares		**(262,506)**	(38,136)	**(262,506)**	(38,136)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		**5,439,117**	(38,136)	**5,439,117**	(38,136)
Net increase/(decrease) in cash and cash equivalents		**2,620,562**	(223,831)	**2,620,462**	(223,831)
Cash and cash equivalents at the beginning of the period		**679,699**	903,530	**679,699**	903,530
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	7	**3,300,261**	679,699	**3,300,161**	679,699

The above Cash Flow Statement is to be read in conjunction with the accompanying notes to the financial statements.

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

Consolidated	**Note**	**Issued Capital $**	**Accumulated Losses $**	**Total $**
Balance at 1 July 2004		**1,165,643**	**(317,251)**	**848,392**
Total income and expense recognised directly in Equity		-	-	-
Loss for the year		-	(196,212)	(196,212)
Total recognised income and expense for the period		1,165,643	(513,463)	652,180
Dividends paid or provided for		-	-	-
Shares issued during the year				
- Ordinary shares		-	-	-
Costs of issue		(45,361)	-	(45,361)
Balance at 30 June 2005		**1,120,282**	**(513,463)**	**606,819**

Consolidated	**Note**	**Issued Capital $**	**Accumulated Losses $**	**Total $**
Balance at 1 July 2005		**1,120,282**	**(513,463)**	**606,819**
Total income and expense recognised directly in Equity		-	-	-
Loss for the year		-	(834,975)	(834,975)
Total recognised income and expense for the period		1,120,282	(1,348,438)	(228,156)
Dividends paid or provided for		-	-	-
Shares issued during the year				
- Ordinary shares		7,301,623	-	7,301,623
Costs of issue		(262,506)	-	(262,506)
Balance at 30 June 2006		**8,159,399**	**(1,348,438)**	**6,810,961**

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

Parent	Note	Issued Capital $	Accumulated Losses $	Total $
Balance at 1 July 2004		**1,165,643**	**(317,251)**	**848,392**
Total income and expense recognised directly in Equity		-	-	-
Loss for the year		-	(196,212)	(196,212)
Total recognised income and expense for the period		1,165,643	(513,463)	652,180
Dividends paid or provided for		-	-	-
Shares issued during the year				
- Ordinary shares		-	-	-
Costs of issue		(45,361)	-	(45,361)
Balance at 30 June 2005		**1,120,282**	**(513,463)**	**606,819**

Parent	Note	Issued Capital $	Accumulated Losses $	Total $
Balance at 1 July 2005		**1,120,282**	**(513,463)**	**606,819**
Total income and expense recognised directly in Equity		-	-	-
Loss for the year		-	(834,763)	(834,763)
Total recognised income and expense for the period		1,120,282	(1,348,226)	(227,944)
Dividends paid or provided for		-	-	-
Shares issued during the year				
- Ordinary shares		7,301,623	-	7,301,623
Costs of issue		(262,506)	-	(262,506)
Balance at 30 June 2006		**8,159,399**	**(1,348,226)**	**6,811,173**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: CORPORATE INFORMATION

The financial report of Prairie Downs Metals Limited ("the Company") for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 28th September 2006.

Prairie Downs Metals Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange Limited.

The nature of operations and principal activities of the Consolidated Group are described in the Directors Report.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on an historical cost basis.

(b) Statement of Compliance

The financial report was authorised for issue on 28th September 2006.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement.* The Company has not adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative year. Reconciliations of AIFRS equity at 1 July 2004 and 30 June 2005 and loss for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 23.

Australian Accounting Standards that have been recently issued or amended but not yet effective have not been adopted for the annual reporting period ending 30 June 2006.

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2004-3	AASB 1 *First-time adoption of AIFRS* AASB 101 *Presentation of Financial Statements* AASB 124 *Related Party Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 *Business Combinations*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

(b) Statement of Compliance (continued)

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of AIFRS*, AASB 4 *Insurance Contracts*, AASB 1023 *General insurance Contracts* and AASB 1038 *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

New or revised Standard/ UIG Affected Standard (s)	Nature of change to accounting policy	Application date of standard/ interpretation	Application date for Group
AASB 119 *Employee Benefits*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 8 *Scope of AASB 2*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 9 *Reassessment of Embedded Derivatives*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

The following amendments are not relevant or applicable to the Consolidated Group and therefore have no impact.

AASB Amendment	Affected Standard (s)
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time adoption of AIFRS*, AASB 1023 *General insurance Contracts* and AASB 1038 *Life Insurance Contracts*
2005-5	AASB 1 *First-time adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*
2005-9	AASB 4 *Insurance Contracts*, AASB 1023 *General insurance Contracts*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*
2006-1	AASB 121 *The Effects of Change in Foreign Currency Rates*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Prairie Downs Metals Limited and its subsidiary ('the Consolidated Group').

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The subsidiary is consolidated from the date on which control is transferred to the Consolidated and cease to be consolidated from the date on which control is transferred out of the Consolidated.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Prairie has control.

During the financial year Prairie acquired Mineral Investments Pty Ltd. This was an acquisition of a group of net assets that does not constitute a business combination. Accordingly, the cost of Mineral Investments Pty Ltd has been allocated between the individual identifiable assets and liabilities acquired based on their relative fair values at the date of acquisition.

(d) Significant accounting judgments, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting year are:

Impairment of Capitalised Exploration and Evaluation Expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors including whether the group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the levels of reserves and resources future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future. This will reduce profits and net assets in the period in which this determination is made.

In addition exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserve. To the extent that it is determined in the future that the capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

Recoverable Amount of Non –Current Assets

The recoverable amount of non-current assets is reviewed annually to determine whether they exceed their recoverable amount.

The recoverable amounts of all non-current assets have been assessed on the basis of the expected cash flows which will be received from the assets employment and subsequent disposal. The expected cash flows have been discounted to their present values in determining recoverable amounts.

(e) Revenue Recognition

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

(i) Interest income

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases

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

(i) Group as a lessee

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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

(g) Cash and cash equivalents

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

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

(h) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(i) Income tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income tax (continued)

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.
Depreciation is calculated on a diminishing value method over the estimated useful life of the asset as follows:

- Plant and equipment - over 3 to 5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.
For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.
The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.
An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.
Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(l) Mineral exploration and evaluation expenditure

Mining tenements and capitalized exploration expenditure (including acquisition costs) are stated at cost.
The carrying amount of deferred mineral exploration and evaluation expenditure is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets.
Costs arising from the acquisition, exploration and evaluation relating to an area of interest are carried forward provided that rights to tenure of the area of interest are current and provided that at least one of the following conditions is met:

(i) Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by it's sale; or
(ii) Exploration and evaluation activities in the area of interest have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operation in, or in relation to, the area of interest are continuing.

Ultimate recoupment or these costs is dependent on the successful development and commercial exploitation or sale, of the respective areas of interest.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount in accordance with the above policy.
An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.
AASB 6 *Exploration for and Evaluation of Mineral Resources* has been applied from 1 July 2005 and the comparatives have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(ii) Investments in controlled entities

Investments in controlled entities are carried at the lower of cost and recoverable amount.

Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate of 10%.

(n) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and other payables

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

(p) Provisions

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

(q) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and year of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(r) Share-based payment transactions

(i) Equity settled transactions:
The Company provides benefits to employees (including senior executives) of the Company in the form of share and or option-based payments, whereby employees render services in exchange for shares or rights over shares or options (equity-settled transactions).
There is currently a plan in place to provide these benefits:

- the Employee Option Plan (Plan), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.
In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Prairie (market conditions) if applicable.
The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting year).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Share-based payment transactions (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting year has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. 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. The income statement charge or credit for a year represents the movement in cumulative expense recognised as at the beginning and end of that year.

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

If 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 modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If 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 (see Note 6).

(ii) Cash settled transactions:

The Company also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of Prairie.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted (see Note 19). This fair value is expensed over the year until vesting with recognition of a corresponding liability. The liability is re-measured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 6).

(s) Contributed equity

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

(t) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 3. SEGMENT INFORMATION

(a) Geographic Segments

The Consolidated Entity operates predominant in one geographic segment, Australia.

(b) Industry Segments

The Consolidated Entity operates predominant in the mining and exploration industry.

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
NOTE 4. REVENUE AND EXPENSES					
(a) Revenue					
Finance revenue					
Bank interest receivable		**122,392**	41,522	**122,392**	41,522
		122,392	41,522	**122,392**	41,522
(b) Other income					
Forgiveness of debt		**8,000**	9,280	**8,000**	9,280
Interest receivable		**14**	-	**14**	-
		8,014	9,280	**8,014**	9,280
(c) Other expenses					
Consulting		**234,426**	39,804	**234,426**	39,804
		234,426	39,804	**234,426**	39,804
(d) Depreciation and amortisation					
Depreciation		**18,807**	-	**18,807**	-
		18,807	-	**18,807**	-
(e) Lease payments					
Operating lease		**17,345**	-	**17,345**	-
		17,345	-	**17,345**	-
(f) Employee benefits expense					
Wages and salaries		**133,572**	-	**133,572**	-
Workers' compensation costs		**1,278**	-	**1,278**	-
Superannuation		**6,337**	-	**6,337**	-
Annual leave provision		**5,600**	-	**5,600**	-
		146,787	-	**146,787**	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
NOTE 5. INCOME TAX					
The major components of income tax expense are:					
Income Statement					
Current Income Tax					
Current income tax charge		**(836,627)**	(54,863)	**(253,213)**	(54,863)
Current income tax benefit not recognised		**836,267**	54,863	**253,213**	54,863
Deferred Income Tax					
Relating to origination and reversal of temporary differences		**601,135**	5,819	**17,784**	5,819
Deferred income tax charge not recognised		**(601,135)**	(5,819)	**(17,784)**	(5,819)
Income tax expense reported in the income statement		**-**	-	**-**	-
Statement of Changes in Equity					
Deferred income tax related to items charged or credited directly to equity					
Share issue costs		**(78,752)**	(13,608)	**(78,752)**	(13,608)
Deferred income taxes not recognised		**78,752**	13,608	**78,752**	13,608
Income tax expense reported in equity		**-**	-	**-**	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Consolidated Group's applicable income tax rate as follows:					
Accounting profit before tax from continuing operation					
Loss before tax from discontinued operations		**(834,975)**	(196,212)	**(834,763)**	(196,212)
Accounting profit before income tax		**-**	-	**-**	-
		(834,975)	(196,212)	**(834,763)**	(196,212)
At the Consolidated Group's statutory income tax rate of 30%		**(250,492)**	(58,864)	**(250,429)**	(58,864)
Adjustment in respect of current income tax of previous years					
Non-deductible expenses		**15,000**	12,604	**15,000**	12,604
Dividend payable reversal		**-**	(2,784)	**-**	(2,784)
Tax losses not brought to account		**235,492**	49,043	**235,429**	49,043
		-	-	**-**	-
Income tax expense reported in the consolidated income statement		**-**	-	**-**	-
Income tax attributable to discontinued operations		**-**	-	**-**	-
		-	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Balance Sheet		Income Statement	
		2006	2005	**2006**	2005
		$	$	**$**	$
NOTE 5. INCOME TAX (continued)					
Deferred Income Tax					
Deferred income tax at 30 June relates to the following:					
Consolidated					
Deferred tax liabilities					
Exploration tenements		**(583,351)**	-	**583,351**	-
		(583,351)	-		
Deferred tax assets					
Accrued audit fees		**4,500**	2,100	**(2,400)**	(750)
Accrued superannuation		**-**	-	**-**	455
Section 40-880 costs		**77,351**	20,463	**21,864**	6,114
Provision for annual leave		**1,680**	-	**(1,680)**	-
Revenue tax losses		**982,797**	146,170	**(836,627)**	(54,863)
		1,066,329	168,734		
				836,627	54,863
				601,135	5,818
Parent					
Deferred tax liabilities					
Exploration tenements		**-**	-	**-**	-
		-	-		
Deferred tax assets					
Accrued audit fees		**4,500**	2,100	**(2,400)**	(750)
Accrued superannuation		**-**	-	**-**	455
Section 40-880 costs		**77,351**	20,463	**21,864**	6,114
Provision for annual leave		**1,680**	-	**(1,680)**	-
Revenue tax losses		**399,383**	146,170	**(253,213)**	(54,863)
		482,914	168,734		
				253,213	54,863
				17,784	5,818

The Consolidated Group has tax losses of $982,797 (2005: $146,170) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiary, as the Group has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

Prairie and its 100% owned Australian resident subsidiary have not yet elected to form a tax Consolidated Group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 6. EARNINGS PER SHARE

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

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

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

	Note	Consolidated	
		2006	2005
		$	$
Net loss attributable to members of Prairie Downs Metals Limited		**(834,974)**	(196,212)
		Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share.		**28,098,274**	**8,970,163**

Diluted earnings per share has not been calculated as there are no ordinary shares considered to be dilutive.

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
NOTE 7. CASH AND CASH EQUIVALENTS					
Cash at bank and in hand		**112,583**	29,699	**112,483**	29,699
Term deposit		**32,779**	650,000	**32,779**	650,000
Commercial bills		**3,154,899**	-	**3,154,899**	-
		3,300,261	679,699	**3,300,161**	679,699

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

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

The fair value of cash and cash equivalents is $3,300,261 (2005: $679,699).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 7. CASH AND CASH EQUIVALENTS (continued)

Reconciliation of net loss to net cash flow from operations

	Note	Consolidated		Parent	
		2006	2005	**2006**	2005
		$	$	**$**	$
Net loss		**(834,974)**	(196,212)	**(834,762)**	(196,212)
Adjustments for:					
Depreciation		**18,807**	-	**18,807**	-
Non cash items		**(8,000)**	-	**(8,000)**	-
Interest received		**(122,392)**	(42,425)	**(122,392)**	(42,425)
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		**(138,226)**	(1,758)	**(138,226)**	(1,758)
(Increase)/decrease in prepayments		**(11,362)**	12,275	**(11,362)**	12,275
(Decrease)/increase in trade and other payables		**(19,197)**	-	**(19,197)**	-
(Decrease)/increase in provisions		**5,600**	-	**5,600**	-
(Decrease)/increase in other current liabilities		**59,000**	-	**59,000**	-
Net cash used in operating activities		**(1,050,744)**	(228,120)	**(1,050,532)**	(228,120)

NOTE 8. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables (i)	**154,980**	3,922	**154,980**	3,922
	154,980	3,922	**154,980**	3,922
Related party receivables (ii)				
Controlled entity	**-**	-	**1,927,660**	-
Other related parties – Western Uranium Limited	**10,710**	-	**10,710**	-
	165,690	3,922	**2,093,350**	3,922

(i) Trade receivables are non-interest bearing and are generally on 30-90 day terms.

(ii) For terms and conditions relating to related party receivables refer to note 19.

NOTE 9. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investments in controlled entity	**-**	-	**1,685,000**	-
	-	-	**1,685,000**	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 10. PLANT & EQUIPMENT

	Consolidated		Parent	
	Plant and equipment	Total	Plant and equipment	Total
	$	$	$	$
Year ended 30 June 2006				
At 1 July 2005, net of accumulated depreciation and impairment	-	-	-	-
Additions	272,665	272,665	272,665	272,665
Disposals	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Impairment	-	-	-	-
Depreciation charge for the year	(18,807)	(18,807)	(18,807)	(18,807)
As at 30 June 2006, net of accumulated depreciation and impairment	253,858	253,858	253,858	253,858
At 1 July 2005				
Cost or fair value	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net carrying amount	-	-	-	-
At 30 June 2006				
Cost or fair value	272,665	272,665	272,665	272,665
Accumulated depreciation and impairment	(18,807)	(18,807)	(18,807)	(18,807)
Net carrying amount	253,858	253,858	253,858	253,858
	$	$	$	$
Year ended 30 June 2005				
At 1 July 2004, net of accumulated depreciation and impairment	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Impairment	-	-	-	-
Depreciation charge for the year	-	-	-	-
As at 30 June 2005, net of accumulated depreciation and impairment	-	-	-	-
At 1 July 2004				
Cost or fair value	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net carrying amount	-	-	-	-
At 30 June 2005				
Cost or fair value	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net carrying amount	-	-	-	-

The useful life of plant and equipment for the year ended 30 June 2006 was estimated to be 5 to 15 years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 11. EXPLORATION AND EVALUATION

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
At 1 July 2005	-	-	-	-
Additions	3,612,348	-	3,612,348	-
As at 30 June	3,612,348	-	3,612,348	-

Exploration and evaluation costs have been capitalised at cost and have been assessed as having a finite life based on the expected life of the mining project. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternative sale of respective areas of interest.

NOTE 12. SHARE BASED PAYMENTS PLANS

Employee Option Plan
Share options are granted to directors and senior executives. The exercise price of the options is determined by reference to the market price of the shares on the date of grant. The vesting date of the options is determined on the date of grant.

There were no options issued pursuant to the Employee Options Plan during the financial year.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
NOTE 13. TRADE AND OTHER PAYABLES (CURRENT)				
Current				
Trade creditors (i)	**290,958**	69,802	**290,958**	69,802
Accrued expenses	**236,000**	7,000	**236,000**	7,000
	526,958	76,802	**526,958**	76,802

(i) Trade payables are non-interest bearing and are normally settled on 60-day terms.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 14. PROVISIONS

	Annual Leave $	Total $
Consolidated		
At 1 July 2005	-	-
Acquisition of subsidiary	-	-
Arising during the year	5,600	5,600
Utilised	-	-
Unused amounts reversed	-	-
At 30 June 2006	5,600	5,600
Current 2006	5,600	5,600
Non-current 2006	-	-
	5,600	5,600
Current 2005	-	-
Non-current 2005	-	-
	-	-
Parent		
At 1 July 2005	-	-
Acquisition of subsidiary	-	-
Arising during the year	5,600	5,600
Utilised	-	-
Unused amounts reversed	-	-
At 30 June 2006	5,600	5,600
Current 2006	5,600	5,600
Non-current 2006	-	-
	5,600	5,600
Current 2005	-	-
Non-current 2005	-	-
	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
NOTE 15. CONTRIBUTED EQUITY AND RESERVES				
Ordinary shares				
Issued and fully paid	**8,159,399**	1,120,282	**8,159,399**	1,120,282

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Effective from 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares.
Accordingly the parent does not have authorised capital nor par value in respect of its issued shares.

	Consolidated		Parent	
	Number of Shares	$	Number of Shares	$
Movement in ordinary shares on issue				
At 1 July 2004	76,251,898	1,165,643	76,251,898	1,165,643
Transaction costs on share issue		(45,361)		(45,361)
At 1 July 2005	76,251,898	1,120,282	76,251,898	1,120,282
Adjust for Share consolidation	(67,281,735)	-	(67,281,735)	
Issued on 5 October 2005 in exchange of issued capital of Mineral Investments Pty Ltd	8,000,000	1,600,000	8,000,000	1,600,000
Issued on 10 October 2005 for cash	17,500,000	3,500,000	17,500,000	3,500,000
Issued on 25 November 2005 for cash on exercise of options	10,000	2,500	10,000	2,500
Issued on 20 March 2006 for cash on exercise of options	300,321	75,080	300,321	75,080
Issued on 5 June 2006 for cash	3,333,333	2,000,000	3,333,333	2,000,000
Issued on 26 June 2006 for cash on exercise of options	496,173	124,043	496,173	124,043
Transaction costs on share issue		(262,506)		(262,506)
At 30 June 2006	38,609,990	8,159,399	38,609,990	8,159,399
Accumulated Losses				
Balance at 1 July 2005	**(513,463)**	(317,251)	**(513,463)**	(317,251)
Application of AASB 132 and AASB 139	-	-	-	-
Net loss for the year	**(834,975)**	(196,212)	**(834,763)**	(196,212)
Dividends paid or provided for	-	-	-	-
Balance at 30 June 2006	**(1,348,438)**	(513,463)	**(1,348,226)**	(513,463)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 16. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Consolidated Group's principal financial instruments comprise cash, short-term deposits and bank bills.

The main purpose of these financial instruments is to raise finance for the Consolidated Group operations. The Consolidated Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Consolidated Group's policy that no trading in financial instruments shall be undertaken. Being at an exploration stage, the Consolidated Group has limited exposure to risks arising from the Consolidated Group's financial instruments.

As the Consolidated Group moves into a development and production phase the Consolidated Group's exposure to commodity price risk, foreign currency risk and credit risk are expected to increase significantly. The Board will set appropriate policies to manage these risks dependent on market conditions and requirements at that time.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Interest Rate Risk

Consolidated

	Non Bearing Interest Rate	Floating Interest Rate	Total
	2006	**2006**	**2006**
	$	**$**	**$**
Financial assets			
Cash at Bank	**-**	**3,300,261**	**3,300,261**
Receivables	**154,980**	**-**	**154,980**
Total Financial Assets	**154,980**	**3,300,261**	**3,455,241**
Weighted average effective interest rate	**N/A**	**4.24%**	**4.17%**
	2005	2005	2005
	$	$	$
Financial assets			
Cash at Bank	-	679,699	679,699
Receivables	3,922	-	3,922
Total Financial Assets	3,922	679,699	683,621
Weighted average effective interest rate	N/A	4.48%	4.48%

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

NOTE 16. FINANCIAL INSTRUMENTS (continued)

Parent

	Non Bearing Interest Rate	Floating Interest Rate	Total
	2006	**2006**	**2006**
	$	**$**	**$**
Financial assets			
Cash at Bank	**-**	**3,300,161**	**3,300,161**
Receivables	**154,980**	-	**154,980**
Total Financial Assets	**154,980**	**3,300,161**	**3,455,141**
Weighted average effective interest rate			
	N/A	**4.24%**	**4.17%**
	2005	2005	2005
	$	$	$
Financial assets			
Cash at Bank	-	679,699	679,699
Receivables	3,922	-	3,922
Total Financial Assets	3,922	679,699	683,621
Weighted average effective interest rate			
	N/A	4.48%	4.48%

Credit risk exposures

The credit risk on the Group's financial assets and liabilities, which have been recognised on the Statement of Financial Position, is the carrying amount.

Net fair value of financial assets and liabilities

The net fair value of assets and liabilities approximates their carrying value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

NOTE 17. CHANGE IN COMPOSITION OF ENTITY

Acquisition of Mineral Investments Pty Ltd
On 5 October 2005 Prairie acquired 100% of the issued capital of Mineral Investments Pty Ltd, an unlisted private company which owned a portfolio of prospective base metal projects located within Western Australia including:

- Prairie Downs Zinc-Lead-Silver Project
- Coppermine Bore Copper-Gold-Uranium Project
- Longreach Well Zinc-Lead-Silver Project
- Perenjori Copper-Gold-Zinc-Lead-Silver Project

This has not been accounted for as a business combination as it is the acquisition of a group of net assets and not a business.

Pursuant to the acquisition, Prairie issued 8,000,000 ordinary shares with a fair value of 20 cents each based on the issue price of shares offered to public investors under a Prospectus dated 15 August 2005.

From the date of acquisition, Mineral Investments Pty Ltd has not contributed to the net loss of the group.

The fair value of identifiable assets and liabilities of Mineral Investments Pty Ltd as at the date of acquisition are:

	Consolidated	
	Recognised on acquisition $	Carrying value $
Cash and cash equivalents	100	100
Trade receivables	-	-
Exploration and evaluation	1,685,883	18,037
	1,685,983	18,137
Loan advance	983	983
	983	983
Fair value of identifiable net assets	1,685,000	17,154
Cost of the combination		
Shares issued at fair value	1,600,000	
Costs associated with the acquisition	85,000	
	1,685,000	
The cash outflow on acquisition is as follows		
Net cash acquired in subsidiary	100	
Cash paid	-	
	100	

From the date of acquisition, Mineral Investments Pty Ltd has contributed $212 to the net loss of the Consolidated Group.

NOTE 18. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Consolidated Group as lessee

The Group has entered into a commercial lease on its office premises. The lease has a term of 5 years with a renewal option included. The lease includes a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals payable under the operating leases as at 30 June 2006 are as follows:

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
Within one year	**58,473**	-	**58,473**	-
After one year but no more than five years	**149,519**		**149,519**	
More than five years	**-**	-	**-**	-
	207,992	-	**207,992**	-

Other expenditure commitments

The Group minimum expenditure commitments relating to the Company's portfolio of prospective base metal projects. Expenditure commitments at the balance Date but not recognised as liabilities are as follows:

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
Within one year	**79,575**	79,575	**79,575**	79,575
After one year but no more than five years	**318,300**	318,300	**318,300**	318,300
More than five years	**-**	-	**-**	-
	397,875	397,875	**397,875**	397,875

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	**240,125**	200,000	**240,125**	200,000
After one year but no more than five years	-		-	
More than five years	**-**	-	**-**	-
	240,125	200,000	**240,125**	200,000

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in note 22 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

NOTE 19. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Prairie Downs Metals Limited and the subsidiary listed in the following table.

Name	Country of incorporation	% Equity interest		Investment	
		2006	2005	**2006**	2005
				$	$
Mineral Investments Pty Ltd	Australia	**100**	-	**1,685,000**	-
				1,685,000	-

Prairie Downs Metals Limited is the ultimate Australian parent entity.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

Related party	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
	$	$	$	$
Consolidated				
Subsidiary:				
Mineral Investments Pty Ltd	-	-	-	-
Parent				
Subsidiary:				
Mineral Investments Pty Ltd	-	-	1,927,660	-

Subsidiary
During the financial year Prairie advanced $1,927,660 representing expenditure on the Consolidated Group's mining projects and comprised largely of costs associated with exploration and evaluation (2005: $983l).

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured, interest free and repayable on demand.

NOTE 20. EVENTS SUBSEQUENT TO BALANCE DATE

There have been no significant events that have occurred subsequent to Balance Date.

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
NOTE 21. AUDITOR'S REMUNERATION				
Amounts received or due and receivable by Ernst & Young				
- an audit or review of the financial report of the entity and other entity in the Consolidated Group	**32,240**	13,180	**32,240**	13,180
- other services in relation to the entity and other entity in the Consolidated Group				
- tax compliance	**4,630**	2,340	**4,630**	2,340
- corporate advisory services	**6,000**	-	**6,000**	-
	42,870	15,520	**42,870**	15,520

NOTE 22. DIRECTOR DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

J D Shervington	Chairman (non-executive)	
M C Hansen	Managing Director	- appointed 5 October 2005
A C Pismiris	Director	
G E Lambert	Director (non-executive)	- resigned 5 October 2005
A Rankine-Wilson	Director (non-executive)	- resigned 5 October 2005

(i) Executives

D Broomfield	Exploration Geologist

Other than the resignation of Mr Broomfield, there were no other changes to key management personnel after reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

(i) Compensation Policy

The performance of the Company largely depends upon the quality of its directors and executives. To prosper the Company must be able to attract, motivate and retain directors and executives with the appropriate skills. To achieve this, the Company adheres to the following principles in formulating its remuneration framework:

- Provide competitive rewards to attract executives;
- Link executive rewards to shareholder value creation; and
- Establish appropriate performance hurdles in relation to variable executive remuneration.

Remuneration committee

The Board has elected not to appoint a Remuneration Committee due to the scale of the Company's activities.

The Board of Prairie assumes responsibility for assessing the appropriateness of the nature and amount of remuneration of directors and senior executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

(b) Compensation of Key Management Personnel (continued)

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a reasonable cost to shareholders.

Structure

The Constitution specifies that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external sources as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director is entitled to receive a fee for being a director of the Company and may receive an additional fee for serving on committees of the Board.

Non-executive directors are encouraged to hold shares in the Company (acquired by the director on terms comparable to shareholders). It is considered good governance for directors to have a stake in the Company which they have Board membership. The non-executive directors are also entitled to participate in director and executive incentive plans where certain criteria are met.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level of remuneration commensurate with their position and responsibilities within the Company that:

- Reward executives for company and individual performance against appropriate benchmarks;
- Align the interests of the executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure remuneration is comparable to market standards.

In determining executive remuneration, the Board considers advice from external independent sources as well as fees paid for comparable executive when undertaking the review process.

It is the preferred policy of the Board to enter into employment agreements with senior executives.

Remuneration of executives consists of the following key elements:

- fixed remuneration; and
- variable remuneration.

(b) Compensation of Key Management Personnel (continued)

Fixed Remuneration

The level of fixed remuneration is set to provide a level of remuneration that is appropriate to the position and is competitive in the market. The fixed remuneration is reviewed annually by the Board with a review of individual performance, comparative remuneration in the market and external advice where appropriate.

Variable Remuneration

The objective of variable remuneration will be to reward executives in a manner that aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration is made to executives who can influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Variable remuneration to executives is delivered by the grant of options under the Employee Option Plan established during the financial year. During the financial year there were no options granted under the Employee Option Plan. Subsequent to the Balance Date 300,000 options were granted to Mr David Broomfield under the Employee Option Plan.

(ii) Compensation of Key Management Personnel for the year-ended 30 June 2006 (Consolidated)

	Short Term				Post Employment		Share-based Payment	Total
	Salary & Fees	**Cash Bonus**	**Non Cash Benefit**	**Other**	**Super'n**	**Retire-ment Benefit**	**Options**	
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
30 June 2006								
J D Shervington	50,505	-	-	-	495	-	-	51,000
M C Hansen	252,390	-	-	-	2,393	-	-	254,783
A C Pismiris	75,300	-	-	-	-	-	-	75,300
G E Lambert	5,505	-	-	-	495	-	-	6,000
A Rankine-Wilson	5,505	-	-	-	495	-	-	6,000
Executives								
D Broomfield	64,719	-	-	-	5,825	-	-	70,544
	453,924	-	-	-	9,703	-	-	463,627

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

(b) Compensation of Key Management Personnel (continued)

(ii) Compensation of Key Management Personnel for the year-ended 30 June 2006 (Consolidated) (continued)

	Short Term				Post Employment		Share-based Payment	Total
	Salary & Fees	Cash Bonus	Non Cash Benefit	Other	Super'n	Retire-ment Benefit	Options	
	$	$	$	$	$	$	$	$
30 June 2005								
J D Shervington	22,018	-	-	-	1,982	-	-	24,000
M C Hansen	-	-	-	-	-	-	-	-
A C Pismiris	24,000	-	-	10,500	-	-	-	34,500
G E Lambert	22,018	-	-	-	1,982	34,500	-	58,500
A Rankine-Wilson	22,018	-	-	-	1,982	-	-	24,000
Executives								
D Broomfield	-	-	-	-	-	-	-	-
	90,054	-	-	10,500	5,946	34,500	-	141,000

(iii) Compensation by category: Key Management Personnel

	Consolidated		Parent	
	2006	2005	**2006**	2005
	$	$	**$**	$
Short-Term	**459,749**	100,554	**459,749**	100,554
Post Employment	**3,878**	40,446	**3,878**	40,446
Other Long-Term	**-**	-	**-**	-
Termination Benefits	**-**	-	**-**	-
Share-based Payment	**-**	-	**-**	-
	463,627	141,000	**463,627**	141,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

(b) Compensation of Key Management Personnel (continued)

The Company has entered into an Employment Services Agreement with Market Capital Pty Ltd setting out the terms for engaging Mr Hansen to provide services in the capacity as the Company's Managing Director.

The Employment Services Agreement which commenced on 1 May 2005 was for a minimum term of one year and subsequently extended for a further year. The Company has the right to terminate the Employment Services Agreement without notice on the grounds of misconduct with the termination payment payable up to the date of termination.

Other transactions and balances with key management personnel

(i) During the financial year fees of $222,805 (2005: Nil) exclusive of GST were paid and accrued under normal terms and conditions to Market Capital Group Pty Ltd, of which Mr M C Hansen was a partner, for the provision of services at normal commercial rates.

(ii) During the financial year fees of $42,300 (2005: $10,500) exclusive of GST were accrued under normal terms and conditions to Lexcon Services Pty Ltd and Capital Investment Partners Pty Ltd, of which Mr A C Pismiris is a director and shareholder, for the provision of company secretarial services at commercial rates.

(iii) During the financial year fees of $40,000 (2005: Nil) exclusive of GST were accrued under normal terms and conditions to Capital Investment Partners Pty Ltd, of which Mr A C Pismiris is a director and shareholder, for the provision of corporate advisory services at commercial rates.

Amounts recognised at the reporting date in relation to other transactions:

	2006 $	2005 $
Assets and liabilities		
Current assets		
Trade and other receivables	-	-
Non-current assets		
Investments	-	-
Total assets	-	-
Current liabilities		
Trade and other payables	22,000	22,000
Non-current liabilities	-	-
Total liabilities	22,000	22,000
Revenue	-	-
Total revenue	-	-
Purchases		
Total expenses		

(c) Compensation options granted and vested during the year (Consolidated)

During the financial year there were no options granted as equity compensation benefits under the long-term incentive plan to key management personnel.

(d) Option holdings of Key Management Personnel (Consolidated)

30 June 2006	Balance at 1 July 2005	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 June 2006
Directors					
J D Shervington	235,294	-	-	205,524	440,818
M C Hansen	-	-	-	1,780,000	1,780,000
A C Pismiris	235,294	-	-	103,527	338,821
Executive					
D Broomfield	-	-	-	-	-
Total	470,588	-	-	2,089,051	2,559,639

30 June 2005	Balance at 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 June 2005
Directors					
J D Shervington	235,294	-	-	-	235,294
M C Hansen	-	-	-	-	-
A C Pismiris	235,294	-	-	-	235,294
Executive					
D Broomfield	-	-	-	-	-
Total	470,588	-	-	-	470,588

(e) Shareholdings of Key Management Personnel (Consolidated)

Shares held in Prairie Downs Metals Limited (number)

30 June 2006	Balance at 1 July 2005	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 June 2006
Directors					
J D Shervington	411,764	-	-	68,000	479,764
M C Hansen	-	-	-	7,120,000	7,120,000
A C Pismiris	241,435	-	-	23,049	264,484
Executive					
D Broomfield	-	-	-	-	-
Total	653,199			7,211,049	7,864,248

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

(e) Shareholdings of Key Management Personnel (Consolidated) (continued)

30 June 2005	Balance at 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at 30 June 2005
Directors					
J D Shervington	352,941	-	-	58,823	411,764
M C Hansen	-	-	-	-	-
A C Pismiris	211,764	-	-	29,671	241,435
Executive					
D Broomfield	-	-	-	-	-
Total	564,705	-	-	88,494	653,199

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 23. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice ('AGAAP'). These financial statements for the year ended 30 June 2006 are the first the Company is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRS').

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS.*.

This note explains the principal adjustments made by the Company in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Company has taken the following exemptions:

- Exemption from the requirement to restate comparative information for AASB 132 and AASB 139. The Group has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information.
- AASB 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.
- AASB 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Equity reconciliation of adjustments to AIFRS as at 1 July 2004

There is no material impact on equity as a result of AIFRS as at transition on 1 July 2004.

Equity reconciliation of adjustments to AIFRS as at 1 July 2005

There is no material impact on equity as a result of AIFRS as at transition on 1 July 2005.

Income Statement reflecting reconciliation of adjustments to AIFRS for the year ended 30 June 2005

There is no material impacts to the Income Statement presented under AGAAP on adoption of AIFRS.

PRAIRIE DOWNS METALS LIMITED
ABN 23 008 677 852

DIRECTORS' DECLARATION

1. In the opinion of the directors:
   a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
      i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year then ended; and
      ii. complying with Accounting Standards and 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. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

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

Jeremy David Shervington
Chairman

Dated this 28th day of September 2006
Perth, Western Australia

ERNST & YOUNG

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Independent audit report to members of Prairie Down Metals Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Prairie Down Metals Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report 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 as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, 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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations 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.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

ERNST & YOUNG

Independence
We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Audit opinion
In our opinion, the financial report of Prairie Down Metals Limited is in accordance with:

(a) the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the financial position of Prairie Down Metals Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
   (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
28 September 2006

ASX ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 1 September 2006.

(a) Distribution of equity securities

(i) Ordinary share capital

- 38,609,990 fully paid ordinary shares held by 1,281 individual shareholders.
- All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

- 21,683,240 options held by 1,203 individual option holders.
- Options do not carry a right to vote.

The number of security holders, by size and number of holding in each class are:

Range	Fully Paid Ordinary Shares	Number of Shares	Options	Number of Options
1 - 1,000	653	140,242	870	123,583
1,001 - 5,000	162	369,364	51	134,669
5,001 - 10,000	132	1,215,416	81	788,772
10,001 - 100,000	292	10,585,876	159	6,223,163
100,001 - and over	42	26,299,092	42	14,413,053
	1,281	38,609,990	1,203	21,683,240
Holdings less than a marketable parcel	689		901	

(b) Substantial shareholders

The name of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 is:

	Fully Paid Ordinary Shares	
Shareholders	**Number**	**Percentage**
Mr Mark Christian Hansen	7,120,000	18.44
Sempra Metals & Concentrates Corp.	3,333,333	8.63
Perpetual Trustees Nominees Limited	2,500,000	6.48
Mr John Oakley Clinton	2,211,982	5.73
	15,165,315	39.28

ASX ADDITIONAL INFORMATION (CONTINUED)

(c) Twenty largest holders of ordinary fully paid shares

	Fully Paid Ordinary Shares	
Shareholders	**Number**	**Percentage**
Mr Mark Christian Hansen	7,120,000	18.44
Sempra Metals & Concentrates Corp.	3,333,333	8.63
Perpetual Trustees Nominees Limited	2,500,000	6.48
Mr John Oakley Clinton	2,211,982	5.73
Mr William Gordon Martin + Mrs Beverley Michelle Martin	1,139,000	2.95
Colbern Fiduciary Nominees Pty Ltd	987,103	2.56
Mr Glenn Rodrick Styles	880,000	2.28
Bayonet Investments Pty Ltd	761,527	1.97
Mr John Janowski	700,000	1.81
Panga Pty Ltd	391,529	1.01
Mr John Clinton	366,594	0.95
RBC Dexia Investor Services Australia Nominees Pty Limited	366,212	0.95
Connemara Investments Pty Ltd	352,941	0.91
Hyflash Holdings Pty Ltd	275,000	0.71
ACP Investments Pty Ltd	264,484	0.69
Takorin Pty Limited	257,089	0.67
Bayonet Investments Pty Ltd	250,000	0.65
Westpac Custodian Nominees Limited	230,000	0.6
Nicholls Nominees Pty Ltd	221,255	0.57
Allan Dale Holdings Pty Ltd	215,000	0.56
	22,823,049	59.12

ASX ADDITIONAL INFORMATION (CONTINUED)

(d) Twenty largest holders of options

	Fully Paid Ordinary Shares	
Shareholders	**Number**	**Percentage**
Mr Mark Christian Hansen	1,780,000	8.21
Mr John Oakley Clinton <Clinton Trading A/c>	1,230,881	5.68
Mr Timothy Francis Clive Mc Donnell	1,220,000	5.63
Mr William Gordon Martin & Mrs Beverley Michelle Martin <Chemco Super Fund A/c>	1,139,000	5.25
Cheetah Holdings Pty Ltd	950,485	4.38
Clodene Pty Ltd	739,473	3.41
Galtrad Pty Ltd	500,000	2.31
Mr Gregory Peter Pazmandy	362,000	1.67
Mr Ronald Stanley Punch & Mrs Beverley Frances Punch <Westaust A/c>	360,001	1.66
Dr Rosemary Elizabeth Anne Green	340,000	1.57
Colbern Fiduciary Nominees Pty Ltd	330,000	1.52
Finance Associates Pty Ltd <Gregory Family A/c>	300,000	1.38
RBC Securities Nominees Pty Limited	272,082	1.25
Ultranite Pty Ltd,<Love Property A/c>	250,000	1.15
Allan Dale Holdings Pty Ltd	230,000	1.06
Mr Richard Badauskas & Mrs Ramune Badauskas	230,000	1.06
Mr Glenn Rodrick Styles	220,000	1.01
Vallas Investments Pty Limited	211,215	0.97
Panga Pty Ltd	205,254	0.95
T T Nicholls Pty Ltd <Superannuation A/c>	203,565	0.94
	11,073,956	51.06